

# **Township of North Fayette**

Financial Statements and  
Required Supplementary and  
Supplementary Information

Year Ended December 31, 2017  
with Independent Auditor's Report

**MaherDuessel**

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# TOWNSHIP OF NORTH FAYETTE

YEAR ENDED DECEMBER 31, 2017

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YEAR ENDED DECEMBER 31, 2017

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## **Independent Auditor's Report**

### **Board of Township Supervisors Township of North Fayette**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of North Fayette (Township), 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.

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Sewer Fund	Unmodified
Trash Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

## Basis for Qualified Opinion on Governmental Activities

The Township prepares its statement of net position and statement of activities for governmental activities using the modified accrual basis of accounting. Accounting principles generally accepted in the United States of America require the preparation of these government-wide financial statements using the full-accrual basis of accounting, including capitalizing and depreciating capital assets and recognizing long-term debt, net pension liability and post-employment benefit obligations. The amount by which this departure would affect the assets, deferred outflows, liabilities, deferred inflows, net position, and expenses of the governmental activities has not been determined.

## Qualified Opinion

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinion" section, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Township, as of December 31, 2017, and the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the Township, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension information and postemployment benefit information on pages i through xi, and pages 44 through 48, respectively, 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's basic financial statements. The combining and individual other governmental funds financial statements and the statements of changes in assets and liabilities – Developer's Escrows are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual other governmental funds financial statements and the statement of changes in assets and liabilities – Developer's Escrows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Maher Duessel*

Pittsburgh, Pennsylvania

June 29, 2018

## Management's Discussion and Analysis

As management of the Township of North Fayette (Township), Pennsylvania, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2017. Please read this Management's Discussion and Analysis in conjunction with the financial statements that follow in order to obtain a thorough understanding of the Township's financial condition at December 31, 2017.

### Financial Highlights

- The total assets of the Township (governmental activities and business-type activities) exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12,170,813.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$4,457,206.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,142,278.
- An intergovernmental cooperative agreement was signed with the Borough of Oakdale to provide the Borough with trash collection services. Service commenced during the 4<sup>th</sup> quarter of 2017.
- The Board of Supervisors took formal action during the first quarter of 2017 to close the Hankey Farms Pool. The closure and subsequent demolition resulted in \$76,000 net savings to the General Fund.
- Real Estate Transfer Tax revenue exceeded budget estimates by \$242,768. This was due to transfer tax involving the sale of properties by Industrial Scientific, Main Event Entertainment, Levin Family, Aicorn Partners, Joll Development, Kesan Enterprises, T.K. Robinson and 2000 Park Lane.
- The requirements of the following Governmental Accounting Standards Board (GASB) statements were adopted for the year ended December 31, 2017. The statements had no significant impact on the Township's financial statements.
  - Statement No. 74 (OPEB Plans)
  - Statement No. 80 (Component Units)
  - Statement No. 81 (Split-Interest Agreements)
  - Statement No. 82 (Pensions; except requirements of paragraph 7)
- Since the opening of the Community Center, the Recreation Department has experienced steady growth in recreation program participation. Community Center memberships increased by 54%. Recreation revenue increased by \$91,759.
- New internal controls were implemented at the Community Center regarding the payment of all recreation program fees. All program fees are pre-paid prior to registrant participation.
- The Township's real estate levy held steady at 3.29 mills in 2017.
- Township's investments in money markets were rated AAA by Standard & Poor's.
- The Township continues to maintain a strong bond rating of AA- from Standard & Poor's.

## Overview of Financial Statements

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

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide the readers with a broad overview of the Township's finances, in a manner similar to a private sector business; however, the Township has chosen to present the government-wide financial statements on the modified accrual basis of accounting, similar to the fund financial statements.

The statement of net position presents information on all of the Township's assets, liabilities, and deferred outflows of resources, except fiduciary funds. Net Position – the difference between the Township's assets and liabilities and deferred outflows of resources – is one way to measure the Township's financial health or 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 Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows (modified accrual basis of accounting). Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are primarily supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, public works, culture and recreation, and debt service. The business-type activities of the Township include sewer and sanitation.

The government-wide financial statements can be found on pages 1 and 2 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.



*Governmental funds.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains fifteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the Construction Fund, as these funds are considered to be major funds of the Township. Data from the other thirteen funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report and are described in more detail in Note 1 to the financial statements. The basic governmental fund financial statements can be found on pages 3 through 5 of this report.

*Proprietary funds.* The Township maintains two proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses proprietary funds to account for its sewer and solid waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for sewer and sanitation operations, both of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 6 through 8 of this report.

*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. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 9 and 10 of this report.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 11 through 43 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township’s progress in funding its obligation to provide pension benefits to its police officers (presented in the accompanying notes) and a budgetary comparison schedule for the General Fund. Required supplementary information can be found on pages 44 through 48 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual governmental and fiduciary fund statements can be found on pages 49 through 51 of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Township, assets exceeded liabilities and deferred inflows of resources by \$12,170,813 at the close of the most recent fiscal year.

### Township of North Fayette’s Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other	\$5,213,509	\$5,103,020	\$6,197,018	\$6,971,886	\$11,410,527	\$12,074,906
Capital assets	-	-	5,781,638	5,400,163	5,781,638	5,400,163
<b>Total assets</b>	5,213,509	5,103,020	11,978,656	12,372,049	17,192,165	17,475,069
Current and other liabilities	433,172	581,777	630,765	582,921	1,063,937	1,164,698
Long-term liabilities	-	-	3,634,284	3,668,408	3,634,284	3,668,408
<b>Total liabilities</b>	433,172	581,777	4,265,049	4,251,329	4,698,221	4,833,106
<b>Deferred Inflows of Resources</b>	323,131	327,455	-	-	323,131	327,455

<b>Net Position:</b>						
Net investment in capital assets	-	-	4,373,706	4,398,681	4,373,706	4,398,681
Restricted	1,145,039	1,259,682	-	-	1,145,039	1,259,682
Unrestricted	3,312,167	2,934,106	3,339,901	3,722,039	6,652,068	6,656,145
<b>Total net position</b>	<b>\$4,457,206</b>	<b>\$4,193,788</b>	<b>\$7,713,607</b>	<b>\$8,120,720</b>	<b>\$12,170,813</b>	<b>\$12,314,508</b>

The balance of unrestricted net position, \$6,652,068, may be used to meet the Township's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net position, for the Township as a whole, as well as for its separate governmental and business-type activities.

**Governmental Activities.** Governmental activities increased the Township's net position by \$263,418. Business-type activities decreased the Township's net position by (\$407,113). Key elements of these increases are as follows:

#### Township of North Fayette's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program revenues:						
Charges for services	\$1,517,365	\$1,394,513	\$3,808,535	\$3,867,465	\$5,325,900	\$5,261,978
Operating grants	1,037,961	926,954	-	-	1,037,961	926,954
Capital grants	162,570	-	26,799	24,194	189,369	24,194
General revenues:						
Property taxes	4,879,240	4,717,989	-	-	4,879,240	4,717,989
Earned income taxes	2,785,339	2,646,634	-	-	2,785,339	2,646,634

Other taxes	790,625	755,429	-	-	790,625	755,429
Interest and rents	33,429	18,187	45,909	17,444	79,338	35,631
Other	374,131	599,916	10,774	4,559	384,005	604,475
Transfers	654,536	912,000	(654,536)	(912,000)	-	-
<b>Total revenues</b>	<b>\$12,235,196</b>	<b>\$11,971,622</b>	<b>\$3,237,481</b>	<b>\$3,001,662</b>	<b>\$15,472,677</b>	<b>\$14,973,284</b>

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Expenses</b>						
General government	\$1,976,886	\$2,437,757	\$ -	\$ -	\$1,976,886	\$2,437,757
Public safety	4,917,396	4,806,362	-	-	4,917,396	4,806,362
Public	2,792,766	2,723,285	-	-	2,792,766	2,723,285
Culture and recreation	1,274,428	3,364,629	-	-	1,274,428	3,364,629
Debt service	1,010,302	1,187,454	-	-	1,010,302	1,187,454
Sewer	-	-	2,491,489	1,828,719	2,491,489	1,828,719
Trash	-	-	1,153,105	945,756	1,153,105	945,756
<b>Total Expenses</b>	<b>11,971,778</b>	<b>14,519,487</b>	<b>3,644,594</b>	<b>2,774,475</b>	<b>15,616,372</b>	<b>17,293,962</b>
Change in net position	263,418	(2,547,865)	(407,113)	227,187	(143,695)	(2,320,678)
Net position - beginning	4,193,788	6,741,653	8,120,720	7,893,533	12,314,508	14,635,186
Net position - ending	<b>\$4,457,206</b>	<b>\$4,193,788</b>	<b>\$7,713,607</b>	<b>\$8,120,720</b>	<b>\$12,170,813</b>	<b>\$12,314,508</b>

The following table depicts revenues by source for governmental activities in 2017:

**Revenues by Source - Governmental Activities**

Charges for services	12.5%
Operating grants	8.5%
Capital grants	1%
Property taxes	40%
Earned income taxes	23%
Other taxes	6.5%
Other revenues	8.5%
<b>Total</b>	<b>100%</b>

Government-wide revenues were primarily derived from property taxes at 40%, earned income taxes at 23%, other revenue at 8.5%, and charges for services at 12.5%.

The following table depicts expenses by programs for governmental activities in 2017:

**Expenses by Program - Governmental Activities**

General government	17%
Public safety	41%
Public works	23%
Culture and recreation	11%
Debt service	8%
<b>Total</b>	<b>100%</b>

Total expenses for all programs in 2017 were \$11,971,778. The expenses reflect the delivery of a wide range of services, with the largest being public safety at 41%. The second largest program is public works at 23%. The program ranked third is general government at 17%.

The following table depicts the net program expenses/revenues by function/program for governmental activities for the period ending December 31, 2017:

**Net Program Expenses/Revenues**

General government	\$(1,182,099)
Public safety	(4,459,059)
Public works	(2,084,121)
Culture and recreation	(554,301)
Debt service	(1,010,302)
<b>Total</b>	<b>\$(9,253,882)</b>

Net program expenses/revenues indicate the amount of support required from taxes and other general revenues for the year. Public safety expenses required the most General Fund revenue for support, needing approximately \$4.45 million in 2017. Public works expenses required approximately \$2.08 million in general revenues for support. General government expenses required approximately \$1.18 million in general revenues.

**Business-type Activities.** Business-type activities decreased the Township’s net position by (\$407,113). This was the result of system rehabilitation and maintenance of sewer infrastructure as well as the addition of a fifth full-time sanitation worker. The Township’s customer base for sewer and trash continues to grow.

- 97% of sewer revenues come from charges for services and 3% from tap-in fees, operating grants and contributions, and capital grants and contributions.

**Expenses and Program Revenues - Business-type Activities**

<b>Program</b>	<b>Program Revenues</b>	<b>Expenses*</b>
Sewer	\$2,815,227	\$2,102,961
Trash	1,020,107	997,878

\* depreciation removed

**Financial Analysis of the Township’s Funds**

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

*Governmental funds.* The focus of the Township’s governmental funds 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 fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of approximately \$4.46 million.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,142,278.

*Proprietary funds.* The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Sewer Fund at the end of the year amounted to \$ 3,002,678 and the Trash Fund \$337,223. Other factors concerning the finances of these funds have already been addressed in the discussion of the Township's business-type activities.

### **General Fund Budgetary Highlights**

Revenue fell short of expectations. Specifically, the earned income tax line item continued to not follow prior year trends and held flat, contradicting population growth. Management worked closely with Jordan Tax Service to better understand the variance from prior years. After careful examination, management discovered that collection efforts fell short with residents living at specific rental properties throughout the Township. Management also discovered a reduction in non-resident earned income tax collection. Management has addressed these issues through an amendment to the tenant reporting ordinance as well as sharing utility account information with Jordan Tax Service to insure that they have the most up-to-date information as possible.

Another area of concern was a reduction in real estate tax. Through discussion with the Real Estate Tax Collector and the Building Code offices, management discovered that new construction additions are taking approximately 18 months from the time an occupancy permit is issued and Allegheny County assesses the property to be included in the Township's Total Assessed Valuation. Management attempted to resolve through correspondence, but has yet to receive a reply.

Expenditures were 1% under budget. A deficit was realized as actual expenditures exceeded revenues by \$265,640. There was a need to draw upon existing fund balance to cover the earned income tax and real estate tax revenue shortfalls; otherwise, management remained fiscally responsible with regard to departmental budgets.

### **Capital Assets and Debt Administration**

**Capital Assets.** The Township currently tracks asset activity relative only to its business-type activities. The Township is currently preparing an inventory of its governmental activities.

The Township’s investment in capital assets for its business-type activities, as of December 31, 2017, amounts to \$5,781,638 (net of accumulated depreciation). This investment in capital assets includes equipment and infrastructure. More detailed information about the Township’s capital assets can be found in Note 6 of the notes to financial statements.

**Long-Term Debt.** At the end of the current fiscal year, the Township had total debt outstanding of \$22,142,624. The Township’s bond rating is AA- by Standard & Poor’s.

**Township of North Fayette’s Outstanding Debt**

	<b>Governmental Activities 2017</b>	<b>Business-type Activities 2017</b>	<b>Total</b>
General Obligation Bonds	\$17,508,000	\$2,992,000	\$20,500,000
Revenue Note	310,970	-	310,970
Capital Leases	222,777	573,816	796,593
PENNVEST	-	309,060	309,060
<b>Total</b>	<b>\$18,041,747</b>	<b>\$3,874,876</b>	<b>\$21,916,623</b>

More detailed information about the Township’s long-term debt can be found in Note 7 of the notes to financial statements.

**Economic Factors**

The Township’s population has more than doubled since 1970, increasing 123% from 6,148 residents in 1970 to 13,680 residents in 2011. By 1990, the Township had 9,537 residents. Between 1990 and 2011, the Township’s population increased over 43% to 13,680 and continues to grow. The population estimate for 2017 is 14,500. Moderate commercial growth continues to occur along Interstate 376, Rt. 978, and the Steubenville Pike corridor. Twenty-four non-residential permits were issued in 2017. Residential growth continues throughout the Township. In 2017, forty-six new housing units were built.

Employment opportunities are derived from within the Township as well as from the City of Pittsburgh (less than a half an hour from North Fayette). North Fayette is home to the Pointe at North Fayette shopping area, the Imperial Business Park, RIDC Park West, the Montour West Industrial Park, the Imperial Industrial Park, and several plazas and businesses along Steubenville Pike. The Township is home to three colleges and trade schools. The Community College of Allegheny County West Hills Campus, Pittsburgh Technical College, and Parkway West Career and Technology Center are all located within the Township. The Township has 258



commercial establishments. Approximately 3,900 people work in the Township. The Township's two largest employers are Cigna and Walmart/Sam's Club. In addition, the Pittsburgh area contains many corporate headquarters, colleges, universities, and major health care facilities. The demographics of the Township are skewed toward a younger, healthier, better educated, and more prosperous population than in most of Western Pennsylvania.

### **2018 Budget Highlights**

The 2018 General Fund budget represents approximately 4% increase in operating expenses and maintains the same level of services for an increasing population and increased business presence. The Township was able to accomplish this by budgeting these expenses in other funds and expensing them in those funds as they are incurred rather than reimbursing the General Fund through interfund transfers. The General Fund budget maintains the current real estate tax rate of 3.29 mills. Activities funded by the Township's General Fund budget will focus on Police, Planning and Development, Public Works, and Parks and Recreation, as well as Customer Service. Specific projects will include continuing transportation improvements, technology enhancements, and recreation improvements. The Sewer Fund expenses will focus on extensions to the Logan and Bateman Road sanitary sewer lines, continuation of the Montour Run Interceptor Cleaning Program, and maintenance and treatment at ALCOSAN and Moon Township Municipal Authority. Planning efforts are in place for a sustainable future. The Township wants to promote volunteerism as well as partnerships with its community organizations. The Township will also aggressively pursue all state and federal funding opportunities to enhance those initiatives. The Township will continue the implementation of the North Fayette Township Comprehensive Plan. The Township has taken steps for the adoption of a Stormwater Fee to provide a much-needed new revenue source for the MS4 unfunded mandate.

As for the Township's business-type activities, at the time of budget preparation, there were no rate increases anticipated for sewer or trash service. The sewer collection system rehabilitation program continues to be funded to reduce infiltration and inflow to reduce operating costs with ALCOSAN. An intergovernmental cooperative agreement was signed with the Borough of Oakdale (Borough) to provide trash collection services in 2017. Service commenced during the 4<sup>th</sup> quarter. The addition of the Borough's customer base is estimated to result in an increase to the Sanitation Fund's net position.

### **Requests for Information**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Finance Department, 400 North Branch Road, Oakdale, PA 15071.

# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF NET POSITION

DECEMBER 31, 2017

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 4,116,808	\$ 2,971,181	\$ 7,087,989
Investments	16,335	2,466,944	2,483,279
Internal balances	93,674	(93,674)	-
Taxes receivable	779,888	-	779,888
Utilities receivable	-	852,567	852,567
Other accounts receivable, net	191,051	-	191,051
Inventory fuel surplus	15,753	-	15,753
Total current assets	5,213,509	6,197,018	11,410,527
Noncurrent assets:			
Capital assets not being depreciated:			
Construction in progress	-	416,774	416,774
Capital assets, net of accumulated depreciation:			
Sewer system improvements	-	4,373,290	4,373,290
Machinery and equipment	-	991,574	991,574
Total noncurrent assets	-	5,781,638	5,781,638
<b>Total Assets</b>	5,213,509	11,978,656	17,192,165
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	233,745	389,313	623,058
Accrued payroll	134,159	860	135,019
Unearned revenue	1,809	-	1,809
Current portion of long-term debt	-	240,592	240,592
Other current liabilities	63,459	-	63,459
Total current liabilities	433,172	630,765	1,063,937
Noncurrent liabilities:			
Bonds payable	-	2,992,000	2,992,000
Notes payable	-	245,587	245,587
Leases payable	-	396,697	396,697
Total noncurrent liabilities	-	3,634,284	3,634,284
<b>Total Liabilities</b>	433,172	4,265,049	4,698,221
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	168,050	-	168,050
Unavailable revenue - earned income taxes	155,081	-	155,081
Total Deferred Inflows of Resources	323,131	-	323,131
<b>Net Position</b>			
Net investment in capital assets	-	4,373,706	4,373,706
Restricted	1,145,039	-	1,145,039
Unrestricted	3,312,167	3,339,901	6,652,068
<b>Total Net Position</b>	\$ 4,457,206	\$ 7,713,607	\$ 12,170,813

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 1,976,886	\$ 407,927	\$ 386,860	\$ -	\$ (1,182,099)	\$ -	\$ (1,182,099)
Public safety	4,917,396	367,593	90,744	-	(4,459,059)	-	(4,459,059)
Public works	2,792,766	271,631	473,014	-	(2,048,121)	-	(2,048,121)
Culture and recreation	1,274,428	470,214	87,343	162,570	(554,301)	-	(554,301)
Debt service	1,010,302	-	-	-	(1,010,302)	-	(1,010,302)
Total governmental activities	11,971,778	1,517,365	1,037,961	162,570	(9,253,882)	-	(9,253,882)
<b>Business-type activities:</b>							
Sewer	2,491,489	2,788,428	-	26,799	-	323,738	323,738
Trash	1,153,105	1,020,107	-	-	-	(132,998)	(132,998)
Total business-type activities	3,644,594	3,808,535	-	26,799	-	190,740	190,740
Total primary government	\$ 15,616,372	\$ 5,325,900	\$ 1,037,961	\$ 189,369	(9,253,882)	190,740	(9,063,142)
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes, levied for general purposes, net					4,879,240	-	4,879,240
Earned income taxes					2,785,339	-	2,785,339
Other taxes					790,625	-	790,625
Investment earnings					33,429	45,909	79,338
Miscellaneous					110,807	10,774	121,581
Sale of property					7,887	-	7,887
Net bond proceeds					255,437	-	255,437
Transfers					654,536	(654,536)	-
Total general revenues and transfers					9,517,300	(597,853)	8,919,447
<b>Change in Net Position</b>					263,418	(407,113)	(143,695)
Net Position - Beginning					4,193,788	8,120,720	12,314,508
Net Position - Ending					\$ 4,457,206	\$ 7,713,607	\$ 12,170,813

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 2,196,666	\$ 1,920,142	\$ 4,116,808
Investments	-	16,335	16,335
Due from other funds	775,199	229,997	1,005,196
Taxes receivable	779,888	-	779,888
Other accounts receivable, net	191,051	-	191,051
Inventory fuel surplus	15,753	-	15,753
<b>Total Assets</b>	<b>\$ 3,958,557</b>	<b>\$ 2,166,474</b>	<b>\$ 6,125,031</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 208,037	\$ 25,708	\$ 233,745
Due to other funds	95,893	815,629	911,522
Accrued payroll	133,273	886	134,159
Unearned revenue	1,809	-	1,809
Other current liabilities	63,459	-	63,459
<b>Total Liabilities</b>	<b>502,471</b>	<b>842,223</b>	<b>1,344,694</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable revenue - property taxes	168,050	-	168,050
Unavailable revenue - earned income taxes	155,081	-	155,081
<b>Total Deferred Inflows of Resources</b>	<b>323,131</b>	<b>-</b>	<b>323,131</b>
<b>Fund Balance:</b>			
<b>Nonspendable:</b>			
Inventory fuel surplus	15,753	-	15,753
<b>Restricted:</b>			
Capital improvements	-	81,864	81,864
Highway aid	-	263,545	263,545
Traffic impact fee	-	572,624	572,624
Road improvements	-	116,665	116,665
Sidewalk maintenance	-	12,367	12,367
Community programs	-	97,974	97,974
Committed for stabilization	974,924	-	974,924
Assigned for capital projects	-	352,194	352,194
Unassigned	2,142,278	(172,982)	1,969,296
<b>Total Fund Balance</b>	<b>3,132,955</b>	<b>1,324,251</b>	<b>4,457,206</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 3,958,557</b>	<b>\$ 2,166,474</b>	<b>\$ 6,125,031</b>

See accompanying notes to financial statements.

## TOWNSHIP OF NORTH FAYETTE

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 8,136,576	\$ -	\$ 8,136,576
Licenses and permits	351,624	-	351,624
Fines and forfeits	42,623	-	42,623
Interest and rents	61,528	16,505	78,033
Intergovernmental	801,618	630,198	1,431,816
Charges for services	885,371	2,900	888,271
Donations/fundraising	-	87,343	87,343
Assessments	-	190,243	190,243
Miscellaneous	93,601	17,206	110,807
<b>Total revenues</b>	<b>10,372,941</b>	<b>944,395</b>	<b>11,317,336</b>
<b>Expenditures:</b>			
Current:			
General government	1,665,007	298,096	1,963,103
Public safety	4,875,753	41,643	4,917,396
Public works	2,046,065	746,701	2,792,766
Culture and recreation	1,208,896	43,079	1,251,975
Capital outlay:			
General government	-	13,783	13,783
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	22,453	22,453
Debt service:			
Principal	405,000	71,437	476,437
Interest	437,860	2,699	440,559
Issuance costs	-	93,306	93,306
<b>Total expenditures</b>	<b>10,638,581</b>	<b>1,333,197</b>	<b>11,971,778</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(265,640)</b>	<b>(388,802)</b>	<b>(654,442)</b>
<b>Other Financing Sources (Uses):</b>			
Sale of Township property	7,887	-	7,887
Transfers in	1,209,763	474,044	1,683,807
Transfers out	(305,000)	(724,271)	(1,029,271)
Bond proceeds	-	4,875,000	4,875,000
Payment to refunded bond escrow agent	-	(4,553,854)	(4,553,854)
Bond discount	-	(65,709)	(65,709)
<b>Total other financing sources (uses)</b>	<b>912,650</b>	<b>5,210</b>	<b>917,860</b>
<b>Net Change in Fund Balance</b>	<b>647,010</b>	<b>(383,592)</b>	<b>263,418</b>
<b>Fund Balance:</b>			
Beginning of year	2,485,945	1,707,843	4,193,788
End of year	<u>\$ 3,132,955</u>	<u>\$ 1,324,251</u>	<u>\$ 4,457,206</u>

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

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

YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Taxes	\$ 8,457,600	\$ 8,457,600	\$ 8,136,576	\$ (321,024)
Licenses and permits	339,600	339,600	351,624	12,024
Fines and forfeits	50,800	50,800	42,623	(8,177)
Interest and rents	42,800	42,800	61,528	18,728
Intergovernmental	835,475	835,475	801,618	(33,857)
Charges for services	962,900	962,900	885,371	(77,529)
Miscellaneous	55,400	55,400	93,601	38,201
<b>Total revenues</b>	<b>10,744,575</b>	<b>10,744,575</b>	<b>10,372,941</b>	<b>(371,634)</b>
<b>Expenditures:</b>				
General government	1,696,310	1,696,310	1,665,007	31,303
Public safety	5,035,777	5,035,777	4,875,753	160,024
Public works	1,851,632	1,851,632	2,046,065	(194,433)
Culture and recreation	1,492,089	1,492,089	1,208,896	283,193
Debt service	642,721	642,721	842,860	(200,139)
<b>Total expenditures</b>	<b>10,718,529</b>	<b>10,718,529</b>	<b>10,638,581</b>	<b>79,948</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>26,046</b>	<b>26,046</b>	<b>(265,640)</b>	<b>(291,686)</b>
<b>Other Financing Sources (Uses):</b>				
Sale of Township property	5,000	5,000	7,887	2,887
Transfers in	-	-	1,209,763	1,209,763
Transfers out	(31,046)	(31,046)	(305,000)	(273,954)
<b>Net other financing sources (uses)</b>	<b>(26,046)</b>	<b>(26,046)</b>	<b>912,650</b>	<b>938,696</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 647,010</b>	<b>\$ 647,010</b>

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2017

	Sewer Fund	Trash Fund	Total
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 2,682,827	\$ 288,354	\$ 2,971,181
Investments	2,466,944	-	2,466,944
Due from other funds	95,893	-	95,893
Sewer receivable	573,362	-	573,362
Refuse receivable	-	279,205	279,205
Total current assets	5,819,026	567,559	6,386,585
<b>Noncurrent assets:</b>			
Sewer system improvements	11,347,753	-	11,347,753
Machinery and equipment	398,833	1,639,949	2,038,782
Construction in progress	416,774	-	416,774
Accumulated depreciation	(7,346,489)	(675,182)	(8,021,671)
Total noncurrent assets	4,816,871	964,767	5,781,638
<b>Total Assets</b>	\$ 10,635,897	\$ 1,532,326	\$ 12,168,223
<b>Liabilities and Net Position</b>			
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 348,751	\$ 40,562	\$ 389,313
Due to other funds	-	189,567	189,567
Accrued payroll	653	207	860
Current portion - bonds payable	-	-	-
Current portion - notes payable	63,473	-	63,473
Current portion - leases payable	-	177,119	177,119
Total current liabilities	412,877	407,455	820,332
<b>Noncurrent liabilities:</b>			
Bonds payable	2,992,000	-	2,992,000
Notes payable	245,587	-	245,587
Leases payable	-	396,697	396,697
Total noncurrent liabilities	3,237,587	396,697	3,634,284
Total Liabilities	3,650,464	804,152	4,454,616
<b>Net Position:</b>			
Net investment in capital assets	3,982,755	390,951	4,373,706
Unrestricted	3,002,678	337,223	3,339,901
Total Net Position	6,985,433	728,174	7,713,607
<b>Total Liabilities and Net Position</b>	\$ 10,635,897	\$ 1,532,326	\$ 12,168,223

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF CHANGES IN NET POSITION PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2017

	Sewer Fund	Trash Fund	Total
<b>Operating Revenues:</b>			
Sewer rentals	\$ 2,711,634	\$ -	\$ 2,711,634
Tap-in fees	76,794	-	76,794
Solid waste collection	-	1,020,107	1,020,107
Miscellaneous	7,595	3,179	10,774
Total operating revenues	2,796,023	1,023,286	3,819,309
<b>Operating Expenses:</b>			
Personnel	371,756	571,809	943,565
Materials and supplies	61,405	143,045	204,450
Contractual	1,666,823	280,467	1,947,290
Depreciation	145,261	142,921	288,182
Miscellaneous	2,977	2,557	5,534
Total operating expenses	2,248,222	1,140,799	3,389,021
Total operating income (loss)	547,801	(117,513)	430,288
<b>Non-operating Revenues (Expenses):</b>			
Interest income	43,688	2,221	45,909
Intergovernmental	-	26,799	26,799
Interest expense	(243,267)	(12,306)	(255,573)
Total non-operating revenues (expenses)	(199,579)	16,714	(182,865)
Interfund transfers in	72,575	-	72,575
Interfund transfers out	(727,111)	-	(727,111)
<b>Change in Net Position</b>	(306,314)	(100,799)	(407,113)
<b>Net Position:</b>			
Beginning of year	7,291,747	828,973	8,120,720
End of year	\$ 6,985,433	\$ 728,174	\$ 7,713,607

See accompanying notes to financial statements.



# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2017

	Sewer Fund	Trash Fund	Total
<b>Cash Flows From Operating Activities:</b>			
Receipts from customers	\$ 2,845,154	\$ 1,002,114	\$ 3,847,268
Other receipts	7,595	3,179	10,774
Payments to suppliers and service providers	(1,735,925)	(380,408)	(2,116,333)
Payments to employees for salaries and benefits	(371,103)	(571,272)	(942,375)
Net cash provided by (used in) operating activities	745,721	53,613	799,334
<b>Cash Flows From Non-Capital and Related Financial Activities:</b>			
Interfund receipts (payments)	(221,921)	-	(221,921)
<b>Cash Flows From Capital and Related Financial Activities:</b>			
Capital construction and purchases	(416,774)	(252,883)	(669,657)
Principal paid on capital debt	(61,714)	(181,059)	(242,773)
Capital lease proceeds	-	252,883	252,883
Capital grants	-	26,799	26,799
Interest payments on debt	(243,267)	(12,306)	(255,573)
Net cash provided by (used in) capital and related financial activities	(721,755)	(166,566)	(888,321)
<b>Cash Flows From Investing Activities:</b>			
Interest income	20,635	2,221	22,856
Sale of investments	419,393	-	419,393
Net cash provided by (used in) investing activities	440,028	2,221	442,249
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	242,073	(110,732)	131,341
<b>Cash and Cash Equivalents:</b>			
Beginning of year	2,440,754	399,086	2,839,840
End of year	\$ 2,682,827	\$ 288,354	\$ 2,971,181
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:</b>			
Operating income (loss)	\$ 547,801	\$ (117,513)	\$ 430,288
Adjustments to reconcile operating income provided by (used in) operating activities:			
Depreciation	145,261	142,921	288,182
Change in:			
Accounts receivables	56,726	(17,993)	38,733
Accounts payable	(4,720)	7,140	2,420
Accrued payroll	653	537	1,190
Due to other funds	-	38,521	38,521
Net cash provided by (used in) operating activities	\$ 745,721	\$ 53,613	\$ 799,334

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2017

<b>Assets</b>	Police Pension Fund	Non-Uniform Pension Fund	Agency Escrow Fund
Cash and cash equivalents	\$ 389,389	\$ 301,280	\$ 76,899
Investments at fair value:			
Mutual funds	10,419,366	3,879,129	-
<b>Total Assets</b>	<b>\$ 10,808,755</b>	<b>\$ 4,180,409</b>	<b>\$ 76,899</b>
<b>Liabilities and Net Position</b>			
Liabilities:			
Due to developers	\$ -	\$ -	\$ 76,899
Net Position:			
Restricted for pension benefits	10,808,755	4,180,409	
<b>Total Liabilities and Net Position</b>	<b>\$ 10,808,755</b>	<b>\$ 4,180,409</b>	

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF CHANGES IN NET POSITION FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2017

	Police Pension Fund	Non-Uniform Pension Fund
<b>Additions:</b>		
<hr/>		
Contributions:		
Employer	\$ 438,959	\$ 179,844
Employee	119,586	86,772
	<hr/>	<hr/>
Total contributions	558,545	266,616
	<hr/>	<hr/>
Investment earnings:		
Net increase (decrease) in fair value of investments	1,049,681	366,153
Interest and dividends	381,181	150,974
	<hr/>	<hr/>
Total investment income (loss)	1,430,862	517,127
	<hr/>	<hr/>
Less investment expense	34,181	12,686
	<hr/>	<hr/>
Net investment earnings	1,396,681	504,441
	<hr/>	<hr/>
Total additions	1,955,226	771,057
	<hr/>	<hr/>
<b>Deductions:</b>		
<hr/>		
Benefits	503,921	1,159
	<hr/>	<hr/>
<b>Change in Net Position</b>	1,451,305	769,898
	<hr/>	<hr/>
Net position - beginning of year	9,357,450	3,410,511
	<hr/>	<hr/>
Net position - end of year	\$ 10,808,755	\$ 4,180,409

See accompanying notes to financial statements.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### 1. Summary of Significant Accounting Policies

The Township of North Fayette (Township) was created and organized under the provision governing the creation of municipal corporations by the Commonwealth of Pennsylvania. Township Supervisors are elected by the voting public. The Supervisors have complete authority over the operations and administration of the Township's activities. The major functions of the Township include public safety, maintenance of Township infrastructure (roads), sanitation and sewage control, maintenance of parks and other recreational facilities for use by Township residents, and general administrative functions necessary to facilitate Township resident needs and responsibilities.

The financial statements of the Township have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, except for the statement of net position and statement of activities for its governmental activities (See GASB Statement Implementation below). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Township are discussed below.

#### Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Township consists of all funds, departments, boards, and agencies that are not legally separate from the Township. As defined by GASB, component units are legally separate entities that are included in the Township's reporting entity because of the significance of their operating or financial relationships with the Township. The Township has no component units.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Township. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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

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

The business-type information on the government-wide financial statements is reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements and the governmental-type activities on the government-wide statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Governmental-type activities reported under this focus and basis of accounting are not in accordance with GAAP as they are not reported using the *economic resources measurement focus* and the *accrual basis of accounting* as described above. Under the reporting used, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within sixty days from the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions, other post-employment benefits and claims and judgments, are recorded only when payment is due.

Property taxes, earned income taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they have been collected within sixty days of year-end.

The Township reports the following major governmental fund:

The *General Fund* is the Township's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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The Township reports the following major proprietary funds:

The *Sewer Fund* and the *Trash Fund* are responsible for receipting charges for sewage and sanitation services, respectively, rendered to the Township's residents and using these funds to defray the cost of maintaining these systems of service.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Township's proprietary funds are charges to customers for sales and services.

Additionally, the Township reports the following fiduciary funds:

The *Police and Non-Uniform Pension Trust Funds* are used to account for assets held by the Township in a trustee capacity for employee retirement. These funds were established to provide pension benefits for the Township's eligible policemen and service employees.

The *Agency (Escrow) Fund* is used to account for assets held by the Township in a trustee capacity for developer's escrows. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### Revenue Classification on the Government-Wide Statement of Activities

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers for services provided and rents, 2) operating grants, and 3) capital grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

### Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposit accounts and all highly liquid short-term investments with original maturity terms of less than three months.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Investments and Fair Value Measurement

Investments are reported at fair value. The Township categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

### Inventory

Inventory represents the cost value of vehicle gasoline purchased by the Township on hand at December 31, 2017. The Township uses the first-in, first-out method for costing inventory consumption.

### Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### Capital Assets and Depreciation

All capital assets of the Township's business-type activities are recorded at cost (or estimated historical cost). Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are defined by the Township as land, buildings, equipment, and infrastructure valued at more than \$5,000 and an estimated useful life of more than one year. The cost of infrastructure is included in the government-wide statement of net position for business-type activities and the proprietary fund financial statements. Routine repair and maintenance costs that do not add to the value of the asset or extend its useful life are charged as an expense.

All reported capital assets for business-type activities, except land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Office equipment	5-7
Vehicles	5-15
Infrastructure	50

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Long-term Obligations

In the business-type activities on the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type statements of net position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements and governmental-type activities on the government-wide statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The amount of long-term obligations related to governmental activities, while not reported on the government-wide statements, are included in Note 7.

### Compensated Absences

Sick leave, vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned. The Township employees accrue vacation and sick time in accordance with their respective collective bargaining agreements or the Township's Personnel Policy.

The Township may compensate eligible employees for the benefits through cash payments conditioned on the employees' termination or retirement ("termination payments") as authorized through the respective collective bargaining agreements or the Township's Personnel Policy manual.

The General Fund and Sanitation Funds are used to liquidate the liability for termination payments depending on which department the employee was assigned.

### Fund Balances

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

- Nonspendable – This category represents funds that are not in spendable form.



# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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- Restricted - This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed – This category represents funds that are constrained to specific purposes by the Township itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned - This category represents intentions of the Township to use the funds for specific purposes. The authority to make assignments of fund balance may be made by the Township Manager or the Township Supervisors and remains in place until released. The assignment cannot exceed the available spendable unassigned fund balance in any particular category. The authority granted to the Township Manager to make assignments became effective upon adoption of this policy in 2012 and remains in effect until rescinded by resolution of the Township Supervisors.
- Unassigned - This category represents all other funds not otherwise defined.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

### Deficit Fund Balance

The Stormwater Maintenance Fund, a non-major governmental fund, has a deficit fund balance at December 31, 2017. This was the result of expenditures exceeding revenues and prior year fund balance during the year ended December 31, 2017. The deficit was caused by the postponement of the adoption and implementation of an anticipated Stormwater Maintenance Fee. This fee was budgeted as the primary source of revenue for the fund. The fee is scheduled to be adopted in June 2018 with implementation commencing at the start of the third quarter 2018. The Stormwater Fund deficit was covered by a loan from the General Fund. Management is committed to repaying the loan and will propose a repayment plan with the adoption of the 2019 budget.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Fund Balance Policy

The Township's fund balance policy provides for the following stabilization reserves:

The Emergency Reserve as of December 31, 2017 is 2.5% of the average General Fund revenues for the previous five years. Any usage of emergency reserves must be appropriated by the Board of Supervisors. However, the Township Manager may utilize these funds when immediate action must be taken to protect the health and safety of residents. When this occurs, the Township Manager shall provide a summary report to the Board of Supervisors as soon as practical on the usage of these funds. At December 31, 2017, the balance was \$243,731.

The Operating Reserve as of December 31, 2017 is 5.0% of the average General Fund revenues for the previous five years. The Operating Reserve is intended to be a reserve for unexpected events whose impact exceeds \$500,000 such as failure of the State to remit revenues to the Township, unexpected mandates, unexpected loss of State shared revenues, continuance of critical Township services due to unanticipated events, or to offset the unexpected loss of a significant funding source for the remainder of the fiscal year. Any use of the Operating Reserve funds must be approved by the Board of Supervisors and include a repayment plan that projects to restore the Operating Reserve to the five percent (5%) level within two fiscal years following the fiscal year in which the event occurred. At December 31, 2017, the balance was \$487,462.

The Township will maintain an additional General Fund "Budget Stabilization Reserve" with an upper goal of an additional two and one-half percent (2.5%) of the average actual General Fund revenues for the preceding five fiscal years. The Budget Stabilization Reserve may be used to provide funding to deal with fluctuations in fiscal cycles and operating requirements that exceed \$250,000. The reserve funds will provide time for the township to restructure its operations in a deliberate manner to ensure continuance of critical township activities. Any use of the Budget Stabilization Reserve funds must be approved by the Board of Supervisors and include a repayment plan, based on a multi-year financial projection, that plans to restore the Budget Stabilization Reserve to the two and one-half percent (2.5%) level within the three fiscal years following the fiscal year in which the event occurred. At December 31, 2017, the balance was \$243,731.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ than those estimates.

### Budgets

Formal budgetary accounting is employed as a management control for all funds. Annual operating budgets are adopted each fiscal year through the passage of an annual budget ordinance. The same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a GAAP basis.

The Township may, in its reasonable discretion, modify the budget after its final adoption provided such modifications are within the current year's revenues or such additional monies as required therefore are promptly made available through borrowing as allowed by law. All annual appropriations lapse at year-end. The level of control (level at which expenditures cannot legally exceed appropriations) over expenditures in budgeted funds is by department.

### Deferred Inflows of Resources

In addition to liabilities, the statement of net position 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 that time. The government has only one type of item, which arises under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue related to taxes, is reported in the governmental funds balance sheet and governmental activities statement of net position. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

### Net Position

The Township classifies net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

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

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted - This component of net position consists of constraints placed on net position use through external restrictions. The Township has funds restricted as presented on the governmental funds balance sheet.
- Unrestricted - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### Adoption of Pronouncements

The following Governmental Accounting Standards Board (GASB) statements were adopted for the year ended December 31, 2017: Statement Nos. 74 (OPEB Plans), 80 (Component Units), 81 (Split-Interest Agreements), 82 (Pensions; except requirements of paragraph 7). The statements had no significant impact on the Township’s financial statements for the year ended December 31, 2017.

### Pending Pronouncements

GASB has issued several statements that will become effective in future years including Statement Nos. 75 (OPEBs), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Omnibus), 86 (Certain Debt Extinguishment issues), 87 (Leases), and 88 (Certain Disclosures Related to Debt). Management has not yet determined the impact of these statements on the Township’s financial statements.

## **2. Deposits and Investments**

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, short-term commercial paper issued by a public corporation, banker’s acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes. Fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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The Township does not have a formal deposit and investment policy; as such, the Township has no policy on custodial credit risk, credit risk, interest rate risk, or concentration of credit risk. The Township adheres to state statutes and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits or savings accounts. There were no deposit or investment transactions during the year that were in violation of state statutes.

The following is a description of the Township's deposit and investment risks:

### Deposits

*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 to it. As of December 31, 2017, \$7,143,897 of the Township's bank balance of \$7,393,897 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. As of December 31, 2017, the carrying amounts of the Township's deposits were \$7,087,989.

### Investments

The following represents the fair value of the Township's investments at December 31, 2017:

<u>Investment Type</u>	<u>Fair Value</u>
<u>Governmental and Business-Type Activities:</u>	
Money market	\$ 2,483,279
<u>Pension Trust Funds:</u>	
Cash	\$ 690,669
<u>Mutual Funds:</u>	
Equity	9,141,729
Fixed Income	4,456,196
Real Estate	700,570
Total Mutual Funds	14,298,495
Total Pension Trust Fund Assets	\$ 14,989,164

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# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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At December 31, 2017, all of the Township's pension investments are considered Level 1. Money market, equity, fixed income, and real estate funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those funds.

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

Pension Trust Fund cash is uninsured and uncollateralized and consists of cash, demand accounts, and savings accounts. Money market and mutual fund investments are not exposed to custodial credit risk because they are not evidenced by securities in physical or book entry form.

*Credit Risk* - For investments, the risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. As of December 31, 2017, the Township's investments in money markets were rated AAA by Standard & Poor's and the mutual funds were not rated.

*Interest Rate Risk* – The risk that changes in interest rates will adversely affect the fair value of an investment.

*Concentration of Credit Risk* – The risk of loss attributable to the magnitude of a government's investment in a single issuer. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investments will occur in the near-term and that such changes could materially affect the amount reported on the combining statement of fiduciary net position.

### Agency Fund

The Township maintains bank accounts for the various developers' escrow accounts. The balance of these accounts is reflected in the statement of changes in assets and liabilities agency fund. The carrying amount of deposits for the developers' escrow accounts was \$76,899 and the bank balance was \$81,801. The entire bank balance was covered by federal depository insurance.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### 3. Property Taxes

The Township levies property taxes May 1st of each calendar year. The calendar dates for payment of these taxes is as follows:

#### PAYMENT PERIOD

May 1 - June 30, 2017	(Discount period)
July 1-August 31, 2017	(Face period)
September 1 and after	(Penalty period)

Taxpayers are entitled to a 2% discount if taxes are paid prior to June 30. Collections after August 31st are assessed a 10% penalty. Taxes unpaid as of November 1 of the year following levy are liened through Allegheny County.

The Commonwealth of Pennsylvania Second Class Township Code allows a maximum millage rate of 14 for general operating purposes. The Township's tax millage assessment for general purposes is 3.136 mills and for fire protection is .154 mills for a total for the 2017 calendar year of 3.29 (mills on the assessed value of land and buildings (\$1,292,381,998) assessment for 2017, which represents approximately \$3.29 of revenue for every \$1000 of assessed value. The Township recognized property tax revenue when received during the fiscal year.

No provision has been made for amounts estimated to be uncollectable.

### 4. Taxes Receivable

Taxes receivable are comprised of the following:

Earned income tax	\$ 669,449
Real estate tax	110,439
Total	<u>\$ 779,888</u>

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

### 5. Interfunds Receivable, Payable, and Interfund Transfers

Transactions between funds which are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts. When repayment is not expected to be made within the next fiscal year, the transactions are accounted for through advances receivable and advances payable.

Interfund receivables, payables, and transfers at December 31, 2017 are summarized below:

Fund	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General	\$ 775,199	\$ 95,893
Other Governmental Funds	229,997	815,629
Proprietary Funds:		
Sewer	95,893	-
Trash	-	189,567
Total	\$ 1,101,089	\$ 1,101,089

Due to due from balances primarily represent 1) reimbursement of expenses incurred by other funds and 2) a loan between the General Fund and Stormwater Maintenance Fund to cover deficit fund balance.

Fund	Transfers In	Transfers Out
Governmental Funds:		
General	\$ 1,209,763	\$ 305,000
Other governmental	474,044	724,271
Proprietary Funds:		
Sewer	72,575	727,111
Total	\$ 1,756,382	\$ 1,756,382

Transfers primarily relate to 1) moving funds from the General Fund to other funds for specific projects, 2) moving funds from capital projects funds to the General Fund related to reimbursement of capital expenditures paid in previous years, and 3) a transfer of funds from the Sewer Fund to the General Fund related to changes made to the timing of debt service payments due from each fund.



# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

### 6. Capital Assets

#### Sewer Fund

A summary of the Sewer Fund capital asset activity for the 2017 calendar year was as follows:

	Balance at January 1, 2017	Additions/ Transfers	Deletions/ Transfers	Balance at December 31, 2017
Sewer system	\$ 11,272,228	\$ 75,525	\$ -	\$ 11,347,753
Equipment	398,833	-	-	398,833
Construction in progress	75,525	416,774	(75,525)	416,774
	<u>11,746,586</u>	<u>492,299</u>	<u>(75,525)</u>	<u>12,163,360</u>
Less: accumulated depreciation	<u>7,201,228</u>	<u>145,261</u>	<u>-</u>	<u>7,346,489</u>
Total	<u>\$ 4,545,358</u>	<u>\$ 347,038</u>	<u>\$ (75,525)</u>	<u>\$ 4,816,871</u>

#### Trash Fund

A summary of the Trash Fund capital asset activity for the 2017 calendar year was as follows:

	Balance at January 1, 2017	Additions	Deletions	Balance at December 31, 2017
Equipment	\$ 1,387,066	\$ 252,883	\$ -	\$ 1,639,949
Less: accumulated depreciation	<u>532,261</u>	<u>142,921</u>	<u>-</u>	<u>675,182</u>
Total	<u>\$ 854,805</u>	<u>\$ 109,962</u>	<u>\$ -</u>	<u>\$ 964,767</u>

Included in equipment above is \$1,163,641 of assets purchased under a capital lease. These assets have a net value of \$826,207 at December 31, 2017.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### 7. Long-Term Debt

#### Proprietary Funds

#### General Obligation Bonds

In March of 2014, the Township issued General Obligation Bonds, Series of 2014 in the amount of \$8,025,000. The purpose of the issue was (1) to currently refund a portion of the outstanding balance of the Township's General Obligation Bonds - Refunding Series of 2009 and (2) for various capital projects. The bonds were issued in denominations of \$5,000, dated April 15, 2014. Interest payments are made semi-annually on April 15 and October 15 at rates ranging between 2.0% and 4.20%. The bonds provide for early redemption options as more fully described in the Official Statement of Issue. The bonds are scheduled to mature on April 15, 2044.

A summary of the Township's Proprietary Fund (Business-Type Activity) portion of the outstanding general obligation bonds at December 31, 2017 is as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 244,692
2019	-	241,280
2020	-	245,661
2021	112,319	132,839
2022	167,563	95,794
2023-2027	1,036,494	399,594
2028-2032	730,094	240,682
2033-2037	337,519	162,547
2038-2042	416,513	85,339
2043-2044	191,498	8,143
Total	<u>\$ 2,992,000</u>	<u>\$ 1,856,571</u>

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### PENNVEST

On July 18, 2001, the Township received approval from the Pennsylvania Infrastructure Investment Authority (PENNVEST) for a \$1,413,600 loan to assist the Township in the enhancement of its sewer system. The terms of the loan call for interest to be paid on the unpaid balance for the first five years at 2.623%, and at a rate of 3.392% for the remaining twenty (20) years. The loan was final amortized as of December 31, 2007 with monthly payments of \$6,082 and is scheduled to mature on July 1, 2022.

A summary of the Township's Proprietary Fund (Business-Type Activity) outstanding general note obligations at December 31, 2017 is as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 63,473	\$ 9,515
2019	65,660	7,328
2020	67,922	5,066
2021	70,262	2,726
2022	41,743	477
Total	<u>\$ 309,060</u>	<u>\$ 25,112</u>

### Capital Lease Agreements

In March of 2014, the Township entered into a lease agreement with Huntington Bank for the purchase of a garbage truck. The terms of the lease call for annual principal and interest payments totaling \$43,297.72, with the last payment due on March 14, 2019. The interest rate on the lease is 5.21%.

In October of 2015, the Township entered into a lease agreement for the purchase of two garbage trucks. The terms of the lease call for monthly principal and interest payments totaling \$8,667.24, through October 1, 2020. The interest rate on the lease is 2.2576%.

In October of 2017, the Township entered into a lease agreement for the purchase of a garbage truck. The terms of the lease call for annual principal and interest payments totaling \$46,060 due through October 31, 2022. The interest rate on the lease is 3.695%.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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A summary of the Township's Proprietary Fund (Business-Type Activity) outstanding capital lease agreements at December 31, 2017 is as follows:

	<u>2014 Principal</u>	<u>2015 Principal</u>	<u>2017 Principal</u>	<u>Interest</u>
2018	\$ 40,116	\$ 98,584	\$ 38,419	\$ 16,246
2019	41,676	100,833	39,838	11,017
2020	-	85,784	41,310	5,639
2021	-	-	42,836	3,224
2022	-	-	44,420	1,641
Total	<u>\$ 81,792</u>	<u>\$ 285,201</u>	<u>\$ 206,823</u>	<u>\$ 37,767</u>

### Governmental Funds

#### Revenue Note – PennWorks

On December 18, 2007, the Commonwealth of Pennsylvania, acting through the Department of Community and Economic Development (DCED), awarded the Township a revenue note in the amount of \$1,457,625. The purpose of the note is to allow the Imperial Business Park, located in the township, to construct a water and sewer line along Route 978. The state required the Township to be involved for the money to be passed through to the Imperial Business Park. The Township applied for a DCED grant of \$784,875 in addition to the revenue note, as the total project cost is \$2,242,500. The Township entered into a loan reimbursement agreement with Imperial Business Park to pay the monthly interest on the note and the principal balance which is due on or before January 1, 2028. Interest payments on the principal balance are at a rate of 2% per annum.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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A summary of the Township's governmental fund outstanding revenue note obligations at December 31, 2017 is as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 28,329	\$ 6,007
2019	28,900	5,436
2020	29,484	4,852
2021	30,079	4,257
2022	30,686	3,650
2023-2027	162,974	8,707
2028	518	5
Total	<u>\$ 310,970</u>	<u>\$ 32,914</u>

### General Obligation Bonds

In March of 2014, the Township issued General Obligation Bonds, Series of 2014 in the amount of \$8,025,000. The purpose of the issue was (1) to currently refund a portion of the outstanding balance of the Township's General Obligation Bonds - Refunding Series of 2009 and (2) for various capital projects. The bonds were issued in denominations of \$5,000, dated April 15, 2014. Interest payments are made semi-annually on April 15 and October 15 at rates ranging between 2.0% and 4.20%. The bonds provide for early redemption options as more fully described in the Official Statement of Issue. The bonds are scheduled to mature on April 15, 2044.

In October of 2015, the Township issued General Obligation Bonds, Series of 2015 in the amount of \$3,035,000. The purpose of the issue was for various capital projects. Interest payments are made semi-annually on April 15 and October 15 at rates ranging between .75% and 4.00%. The bonds provide for early redemption options as more fully described in the Official Statement of Issue. The bonds are scheduled to mature on April 15, 2045.

In September of 2016, the Township issued General Obligation Bonds, Refunding Series of 2016 in the amount of \$5,540,000. The purpose of the issue was (1) to advance refund a portion of the Township's General Obligation Bonds, Series of 2012, (2) to pay the costs of various capital improvements to Township facilities, and (3) to pay the costs of issuing the Bonds. The bonds were issued in denominations of \$5,000, dated September 14, 2016. Interest payments are made semi-annually on April 15 and October 15 at rates ranging between 1.375% and 3.0%. The bonds provide for early redemption options as more fully

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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described in the Official Statement of Issue. The bonds are scheduled to mature on April 15, 2042. Part of the proceeds was placed in an irrevocable trust to provide for future debt service of part of the General Obligation Bonds, Series of 2012. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Township's statements. The refunding resulted in an economic gain and cash flow savings of approximately \$400,000.

In November of 2017, the Township issued General Obligation Bonds, Refunding Series of 2017 in the amount of \$4,875,000. The purpose of the issue was (1) to currently refund all of the Township's remaining outstanding General Obligation Bonds, Series of 2012 and (2) to pay the costs of various capital improvements to Township facilities. The bonds were issued in denominations of \$5,000, dated November 28, 2017. Interest payments are made semi-annually on April 15 and October 15 at rates ranging between 2.0% and 3.0%. The bonds provide for early redemption options as more fully described in the Official Statement of Issue. The refunding resulted in an economic gain of \$161,030 including refunding funds on hand and cash flow savings of \$264.

A summary of the Township's governmental fund portion of outstanding general obligation bonds at December 31, 2017 is as follows:

	Principal	Interest
	<u>                    </u>	<u>                    </u>
2018	\$ 440,000	\$ 385,478
2019	440,000	399,495
2020	445,000	396,545
2021	347,681	501,767
2022	332,438	495,612
2023-2027	1,963,506	2,344,610
2028-2032	2,734,906	2,028,833
2033-2037	3,712,481	1,527,741
2038-2042	4,343,488	901,553
2043-2045	2,748,500	159,061
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 17,508,000</u>	<u>\$ 9,140,696</u>

### Capital Lease Agreements

In April of 2015, the Township entered into a lease agreement for the purchase of a dump truck. The terms of the lease call for annual principal and interest payments totaling \$43,727, through April 2020. The interest rate on the lease is 4.35%.

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# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

In September of 2015, the Township entered into a lease agreement for the purchase of a backhoe. The terms of the lease call for semi-annual principal and interest payments totaling \$17,383, through September 2020. The interest rate on the lease is 32.25%.

A summary of the Township's Governmental Activity outstanding lease agreements at December 31, 2017 is as follows:

	Principal		
	Dump Truck	Backhoe	Interest
2018	\$ 39,186	\$ 32,642	\$ 6,317
2019	40,645	33,516	4,109
2020	42,158	34,630	1,827
Total	\$ 121,989	\$ 100,788	\$ 12,253

Long-term debt activity for the year ended December 31, 2017 was as follows:

	January 1, 2017	Additions	Repayments/ Refundings	Transfer	December 31, 2017	Due Within One Year
<b>Governmental activities:</b>						
Revenue note	\$ 341,077	\$ -	\$ (30,107)	\$ -	\$ 310,970	\$ 28,329
G.O. Bonds - 2012	4,620,000	-	(4,620,000)	-	-	-
G.O. Bonds - 2014	4,473,000	-	(275,000)	-	4,198,000	285,000
G.O. Bonds - 2015	3,005,000	-	(15,000)	-	2,990,000	15,000
G.O. Bonds - 2016	5,475,000	-	(30,000)	-	5,445,000	85,000
G.O. Bonds - 2017	-	4,875,000	-	-	4,875,000	55,000
Capital leases	363,781	-	(141,004)	-	222,777	71,828
<b>Governmental activities long-term liabilities</b>	<b>\$ 18,277,858</b>	<b>\$ 4,875,000</b>	<b>\$ (5,111,111)</b>	<b>\$ -</b>	<b>\$ 18,041,747</b>	<b>\$ 540,157</b>
<b>Business-type activities:</b>						
G.O. Bonds - 2014	\$ 2,992,000	\$ -	\$ -	\$ -	\$ 2,992,000	\$ -
Pennvest	370,774	-	(61,714)	-	309,060	63,473
Capital leases	501,992	252,883	(181,059)	-	573,816	177,119
<b>Business-type activities long-term liabilities</b>	<b>\$ 3,864,766</b>	<b>\$ 252,883</b>	<b>\$ (242,773)</b>	<b>\$ -</b>	<b>\$ 3,874,876</b>	<b>\$ 240,592</b>

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### 8. Police Pension Plan

#### Plan Description

The Police Pension Plan is a single-employer defined benefit pension plan (plan) that covers all full-time police officers of North Fayette Township and which is controlled by the provisions of Ordinance No. 395, as amended, adopted pursuant to Act 600. The plan is governed by the Township Board of Supervisors, which is responsible for the management of plan assets. The Township Board of Supervisors has appointed the Pension Board as the official body to which all related investment matters of the Pension Trust Fund are delegated. The Pension Board consists of five members, who may consist of elected officials, management, and/or members of the plan. The Township Board of Supervisors has delegated the authority to manage certain plan assets to TCG Investment Advisory, Inc., with MG Trust Company as custodian. The plan does not issue a separate report.

At December 31, 2017, participants in the plans were as follows:

Inactive plan members or beneficiaries currently receiving benefits	11
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>20</u>
Total plan members	<u><u>31</u></u>

#### Summary of Significant Accounting Policies

Financial information of the Township's plans is presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due as required by Act 600. Benefits and refunds are recognized when due and payable in accordance with the terms of the individual plan. Investments of the plans are reported at fair value. Short-term investments are reported at market value. Securities traded on national exchanges are valued at the last reported sales price.

#### Benefits Provided

*Retirement Benefit* – Normal retirement for participants hired before January 1, 2012 is age 50 and 25 years of service and for participants hired on or after January 1, 2012 is age 55 and 25 years of service. Participants are 100% vested after 12 years of service. The monthly pension shall be 50% of the average monthly compensation over the participant's last 36 months of employment.



# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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*Disability Benefit* - The monthly disability pension benefit shall be calculated equal to 50% of the member's salary at the time the disability was incurred. Said pension shall be reduced by any benefits received for the same injuries under the Social Security Act.

*Survivor Benefit* – A pension benefit shall be automatically provided to a retired officer's spouse or to the spouse of an officer eligible to retire, equal to 50% of the eligible pension. If no spouse, or if spouse subsequently dies, the benefit shall apply to children under age 18, or if attending college, under or attaining age 23.

### Contributions and Funding Policy

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

Under the terms of the plan, police employees contribute 5.0% of their monthly compensation, with interest credited at 5.0% per year. Covered payroll was \$1,908,878 for the police plan.

The Township contributed the funds necessary to meet the MMO obligations for the plan in the amount of \$438,959.

### Net Pension Liability

The components of the net pension liability of the plan at December 31, 2017 were as follows:

Total pension liability	\$ 11,907,563
Plan fiduciary net position	<u>(10,808,755)</u>
Net pension liability (asset)	<u>\$ 1,098,808</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>90.77%</u>

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# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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*Actuarial Assumptions* - The total pension liability was determined by an actuarial valuation performed on January 1, 2017, and rolled forward to December 31, 2017, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	7.0%, net of pension plan investment expense, including inflation
Projected salary increases	4.75% including inflation
Underlying inflation rate	3.0%

The actuarial assumptions used in the December 31, 2017 valuation were based on the same assumptions as the actuarial experience study as of January 1, 2017.

Mortality rates were based on the RP2000 Table for Males or Females, as appropriate, projected to 2017 using Scale AA; termination rates were based on Scale T1, and disability rates were based on the 60% of APT Table for Males or Females, as appropriate.

*Changes in Actuarial Assumptions* – Based upon an actuarial valuation performed as of January 1, 2017, the mortality assumption was changed from the RP-2000 Table to the RP-2000 Table projected to 2017 using Scale AA. This assumption change increased the total pension liability by \$249,300.

*Investment Policy* – The Pension Board, with the assistance of TCG Investment Advisory, Inc., shall select the appropriate asset weighting percentage to be allocated to each specific asset class. Each asset class shall consist of a combination of investment options that have been made available to obtain the absolute investment objective of the fund. Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in investment funds specializing in individual issues, issuers, countries, governments, or industries.

It is not expected that the Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the Investment Policy Statement. However, any changes to the asset allocation model will only be implemented in accordance with formal authorization and instructions given by the Pension Board.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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*Long-Term Expected Rate of Return* – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of December 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	52.0%	8.67%
International equity	11.0%	8.75%
Fixed income	30.0%	4.40%
Real estate	4.0%	8.75%
Cash	3.0%	2.10%
	<u>100.0%</u>	

*Rate of Return* – For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 15.93%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changes in amounts actually invested.

*Concentrations* – Except for any holdings in the specialty sectors, not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation, and not more than 25% of stock valued at market may be held in any one industry category. Also, the fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. This does not apply to issues of the U.S. Treasury or other federal agencies.

*Discount Rate* - The discount rate used to measure the total pension liability was 7.00 percent. This discount rate is based on the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits. The plan’s fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

return. The employer must meet the funding requirements of Act 205 on an annual basis or be subject to an interest penalty as required. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

*Changes in Net Pension Liability* – Changes in the Township’s net pension liability are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at 12/31/16	\$ 11,252,166	\$ 9,392,358	\$ 1,859,808
Changes for the year:			
Service cost	282,446	-	282,446
Interest	797,328	-	797,328
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(113,346)	-	(113,346)
Changes of assumptions	249,300	-	249,300
Contributions - employer	-	58,134	(58,134)
Contributions - state aid	-	380,825	(380,825)
Contributions - employee	-	107,072	(107,072)
Net investment income	-	1,465,673	(1,465,673)
Benefit payments and refunds of employee contributions	(560,331)	(560,331)	-
Administrative expense	-	(324)	324
Other changes	-	(34,652)	34,652
	655,397	1,416,397	(761,000)
Net changes	655,397	1,416,397	(761,000)
Balances at 12/31/17	\$ 11,907,563	\$ 10,808,755	\$ 1,098,808

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	\$ 2,548,796	\$ 1,098,808	\$ (200,416)

### Deferred Retirement Option Plan

On January 12, 2010, the Township enacted Ordinance No. 399, which created a Deferred Retirement Option Plan (DROP) for all full-time police officers of the Township. The DROP provides an optional form of benefit to members of this plan who have met the age and service eligibility requirements to retire. Any eligible member may elect to participate in the DROP by retiring for pension purposes, and specifying a future termination date not less than one year nor more than three years from the effective date of the DROP election. The monthly pension benefit is calculated at the date of election and credited to a separate ledger account for the period of DROP participation along with interest at a rate earned by the Plan that shall be not less than 0% nor more than 4.5% per year until participation ends. Certain other provisions of the DROP are detailed in Ordinance 399. As of December 31, 2017, there were no eligible plan members in the DROP program.

## 9. Non-Uniformed Pension Plan

### Plan Description

The North Fayette Township Non-Uniformed Pension Plan (DC Plan) is a single-employer defined contribution pension plan that covers all full-time, non-uniformed employees of North Fayette Township and which is controlled by the provisions of Ordinance No. 394, as amended, adopted pursuant to Act 69. The DC Plan is governed by the Township Board of Supervisors, which is responsible for the management of plan assets. The Township Board of Supervisors may appoint a Pension Board or an individual to serve as the DC Plan Administrator. The Township Board of Supervisors has delegated the authority to manage certain plan assets to TCG Investment Advisory, Inc., with MG Trust Company as custodian. The DC Plan does not issue a separate report.

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# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Benefits Provided

Employees are eligible on the first day of full-time employment with the Township.

### Eligibility

- Normal Retirement - Age 65.
- Early Retirement - Age 60.
- Vesting - 20% after two years, 40% after four years, 60% after six years, 80% after eight years, and 100% after ten full years.

*Retirement Benefit* - The fair market value of the participant's account at the time of retirement, adjusted according to the vesting schedule.

*Survivor Benefit* – The fair market value of the participant's account at the time of death payable to the participant's designated beneficiary, adjusted according to the vesting schedule.

*Disability Benefit* - Same as Survivor Benefit for both Service and Nonservice Related.

### Contributions and Funding Policy

On December 18, 1984, Act 205 (Act) was passed into law, and is known as the "Municipal Pension Plan Funding Standard and Recovery Act." The Act mandates actuarial funding standards, establishes a recovery program for financially distressed pension plans, and provides for the distribution of the tax on the premiums of foreign fire insurance companies.

The Act requires minimum funding standards based on the most recent actuarial valuation report, including normal cost and administrative expense requirements and an amortization contribution of the unfunded actuarial accrued liability.

The DC Plan's governing document provides the Township with the authority to establish and amend contribution requirements. For the year ended December 31, 2017, active members were required to contribute 2.5% of monthly compensation to the DC Plan. The municipality is required to contribute 7% of each participant's total compensation. Forfeitures shall be used to reduce the Township's contribution requirements in the year of the forfeiture.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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The DC Plan may also receive an annual allocation from the General Municipal Pension System State Aid Program, which must be used for pension plan funding. Any funding requirements in excess of members' contributions and state aid must be paid by the municipality in accordance with the Act.

The Township contributed \$179,844 to the DC Plan during the year ended December 31, 2017.

### Forfeitures

On an annual basis, the accumulated members' accounts are reconciled to the annual financial statements. Any terminated members that are not fully vested will have all or a portion of their municipal account treated as a forfeiture. These amounts are then returned to the employer after year-end. During the year ended December 31, 2017, no forfeitures were included in pension expense.

## **10. Deferred Compensation Plan**

In March of 1997, the Township established a deferred compensation plan through the Allegheny League of Municipalities and administered by the Prudential Asset Management Company. In accordance with Internal Revenue Code Section 457, assets in the deferred compensation plan remain the property of the Township until paid or made available to the participants, subject only to the claims of the Township's general creditors. Employee contributions totaled \$140,318 for the year ended December 31, 2017.

## **11. Other Postemployment Benefits (OPEBs)**

### Plan Description

In addition to the pension benefits described in Note 8, the Township provides and administers varying levels of medical, dental and vision coverage to police retirees of the Township.

The benefit limits and employee and employer contributions are established through the police union contract. The OPEB is not accounted for as a Trust Fund, an irrevocable trust has not been established, the OPEB does not issue a separate report, and activity of the OPEB is reported in the General Fund.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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Details of the benefits provided are as follows:

### Police Eligibility Requirements

Police officers retiring after attaining age 50 and completing 25 years of services are eligible for OPEBs. Coverage is available for the retired police officer, spouse and eligible children. Covered individuals receive medical, dental and vision coverage provided by the Township until the earliest of the retiree's death, eligibility for comparable coverage from another source at no cost to the retiree, or Medicare eligibility. Upon death of the covered retiree, his or her spouse and eligible children may remain on the Township's coverage until the date the retiree would have been eligible for Medicare. Retirees are not required to contribute except for those who participate in DROP. Upon termination of DROP, the retiree would contribute \$200 per month until Medicare eligibility.

### Funding Policy

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. For the year ended December 31, 2017, the Township incurred \$97,392 in contribution expense.



# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Annual OPEB Cost and Net OPEB Obligation

The Township's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess). The following table shows the component of the Township's annual OPEB cost for the year, the amount actually contributed, and changes in the Township's net OPEB obligation:

Annual required contribution	\$	296,846
Interest on beginning of year net OPEB obligation		77,246
Adjustment to ARC		<u>(67,494)</u>
Annual OPEB cost		306,598
Contributions made		<u>97,392</u>
Increase in net OPEB obligation		209,206
Net OPEB obligation - beginning of year		<u>1,716,586</u>
Net OPEB obligation - end of year	\$	<u><u>1,925,792</u></u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
December 31, 2015	\$ 287,180	24.32%	\$ 1,506,836
December 31, 2016	297,160	29.42%	1,716,586
December 31, 2017	306,598	31.77%	1,925,792

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

### Funded Status and Funding Progress

The schedule of funding progress for the postemployment medical insurance benefits as of the most recent valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-PUC (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll {(b)-(a)}/(c)
1/1/12	\$ -	\$ 2,782,538	\$ 2,782,538	0%	\$ 1,682,992	165.33%

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. Healthcare cost trend assumptions are based on recent experience and anticipated future cost increases under the Township's medical plans. Amounts determined regarding the funded status 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 schedules of funding progress reported as Required Supplementary Information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### 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 the long-term perspective of the calculations.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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The ARC for the current year was computed as of January 1, 2012 using the following actuarial assumptions and methods:

- actuarial cost method – entry age normal;
- amortization method – level dollar;
- amortization period - 30 years;
- Interest rate of 4.5%;
- The RP 2000 Combined Healthy Mortality Table with Blue Collar Adjustment;
- Police were assumed to retire at age 51 and 25 years of service;
- Medical rate trend of 5% increase per year; Dental and Vision rate trend at 3% increase per year.

### 12. Risk Management

The Township is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

### 13. Commitments and Contingent Liabilities

#### Legal Matters

The Township is a party to various legal actions normally associated with municipalities, the aggregate effect of which, in management's opinion, would not be material to the financial position of the Township.

#### Federal and State Funding

The Township's state and federally funded programs are subject to audit by various governmental agencies. The Township is potentially liable for any expenditures disallowed by the results of these audits. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

# TOWNSHIP OF NORTH FAYETTE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### **14. Tax Abatements**

The Township offers temporary exemption from real property taxation for industrial and commercial improvements and construction under the Local Economic Revitalization Tax Assistance Act (LERTA). The tax exemption is for 100% for 3 years.

During 2017, the Township's real estate tax abatements were \$6,669,200 of assessed value and \$219,417 of taxable revenues at face.

### **15. Subsequent Event**

During January 2018, the Township received \$1,000,000 for a short-term tax and revenue anticipation note (TRAN) bearing an interest rate of 2.25%. The note proceeds are to be used for Township operations prior to collection of real estate tax revenues and have a term to December 31, 2018.

**REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION TRUST FUND DISCLOSURES –  
GASB STATEMENT NO. 67**

## TOWNSHIP OF NORTH FAYETTE

### SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

#### SCHEDULES OF CHANGES IN THE TOWNSHIP'S NET PENSION LIABILITY AND RELATED RATIOS

##### POLICE PLAN

YEARS ENDED DECEMBER 31,  
(Dollar Amounts in Thousands)

	2017	2016	2015	2014
<b>Total Pension Liability:</b>				
Service cost	\$ 282,446	\$ 280,297	\$ 267,587	\$ 263,344
Interest	797,328	757,774	722,886	669,948
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(113,346)	-	166,364	-
Changes of assumptions	249,300	-	-	-
Benefit payments, including refunds of member contributions	(560,331)	(661,915)	(347,640)	(347,640)
<b>Net Changes in Total Pension Liability</b>	<b>655,397</b>	<b>376,156</b>	<b>809,197</b>	<b>585,652</b>
<b>Total Pension Liability - Beginning</b>	<b>11,252,166</b>	<b>10,876,010</b>	<b>10,066,813</b>	<b>9,481,161</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 11,907,563</b>	<b>\$ 11,252,166</b>	<b>\$ 10,876,010</b>	<b>\$ 10,066,813</b>
<b>Plan Fiduciary Net Position:</b>				
Contributions - employer	\$ 438,959	\$ 415,652	\$ 479,169	\$ 560,959
Contributions - member	107,072	100,665	94,278	88,924
Net investment income	1,465,673	602,588	(51,201)	510,157
Benefit payments, including refunds of member contributions	(560,331)	(661,915)	(347,640)	(347,640)
Administrative expense	(324)	(1,779)	(5,869)	(297)
Other	(34,652)	12,513	12,642	13,024
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,416,397</b>	<b>467,724</b>	<b>181,379</b>	<b>825,127</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>9,392,358</b>	<b>8,924,634</b>	<b>8,743,255</b>	<b>7,918,128</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 10,808,755</b>	<b>\$ 9,392,358</b>	<b>\$ 8,924,634</b>	<b>\$ 8,743,255</b>
<b>Net Pension Liability - Ending (a-b)</b>	<b>\$ 1,098,808</b>	<b>\$ 1,859,808</b>	<b>\$ 1,951,376</b>	<b>\$ 1,323,558</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>90.77%</b>	<b>83.47%</b>	<b>82.06%</b>	<b>86.85%</b>
<b>Covered Payroll</b>	<b>\$ 1,908,878</b>	<b>\$ 1,676,856</b>	<b>\$ 1,673,190</b>	<b>\$ 1,575,867</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>57.56%</b>	<b>110.91%</b>	<b>116.63%</b>	<b>83.99%</b>

Note: Information prior to 2014 is not available

See accompanying note to required supplementary pension schedules.

# TOWNSHIP OF NORTH FAYETTE

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

### SCHEDULES OF THE TOWNSHIP'S CONTRIBUTIONS AND INVESTMENT RETURNS

YEARS ENDED DECEMBER 31,

<b>POLICE PLAN:</b>	2017	2016	2015	2014
<b>Schedule of Township Contributions</b>				
Contribution required under Act 205	\$ 438,959	\$ 415,652	\$ 479,169	\$ 560,959
Contributions in relation to the actuarially determined contribution	438,959	415,652	479,169	560,959
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,908,878	\$ 1,676,856	\$ 1,673,190	\$ 1,575,867
Contributions as a percentage of covered payroll	23.00%	24.79%	28.64%	35.60%
<b>Investment Returns</b>				
Annual money-weighted rate of return, net of investment expense	15.93%	6.96%	-0.59%	n/a

Note: Information prior to 2014 is not available

See accompanying note to required supplementary pension schedules.

# TOWNSHIP OF NORTH FAYETTE

## NOTE TO REQUIRED SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2017

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Actuarially determined contribution rates are calculated based on the plan's most recent available Act 205 actuarial valuation report. The January 1, 2015 actuarial valuation report was utilized for the 2017 Minimum Municipal Obligation calculation. The following actuarial methods and assumptions were used to determine contribution rates.

Actuarial valuation date	1/1/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Asset valuation method	Market Value
Amortization period	11 Years
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	4.75%

### Changes in Benefit Terms

There were no changes in benefit terms.

### Changes in Assumptions

There were no changes in assumptions.



**REQUIRED SUPPLEMENTARY INFORMATION –  
OPEB DISCLOSURES**

# TOWNSHIP OF NORTH FAYETTE

## POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs) SCHEDULE OF FUNDING PROGRESS

YEAR ENDED DECEMBER 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/12	\$ -	\$ 2,782,538	\$ 2,782,538	0%	\$ 1,682,992	165.33%
1/1/09	-	3,175,853	3,175,853	0%	1,545,377	205.51%

Note - Township's initial valuation performed as of 1/1/09

# TOWNSHIP OF NORTH FAYETTE

## POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs) FACTORS AND TRENDS USED IN ACTUARIAL VALUATION

YEAR ENDED DECEMBER 31, 2017

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

Actuarial valuation date	1/1/2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.50%
Mortality	The RP 2000 Healthy Combined Mortality Table with Blue Collar Adjustment
Age adjusted premium	Police were assumed to retire at age 51 and 25 years of service
Annual trend rates for OPEB Costs	Medical 5% increase per year; Dental and Vision 3% increase per year.

## **SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF NORTH FAYETTE**

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	Special Revenue Funds									Capital Projects Funds				Total	
	Liquid Fuels Fund	Community Park Fund	Canine Fund	P.A.L.S. Fund	Department of Justice Fund	DARE Fund	Special Fund	Stormwater Maintenance Fund	Sidewalks Fund	Road Improvement Fund	Traffic Impact Fee Fund	Construction Fund	Capital Improvement Fund		Capital Reserve Fund
<b>Assets</b>															
Cash and cash equivalents	\$ 270,814	\$ 15,003	\$ 33,219	\$ 30,802	\$ 635	\$ 35,492	\$ 579	\$ 18,613	\$ 12,367	\$ 116,724	\$ 572,624	\$ -	\$ 231,076	\$ 582,194	\$ 1,920,142
Investments	-	-	-	-	-	-	-	-	-	-	-	16,335	-	-	16,335
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	229,997	-	229,997
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepays	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 270,814</b>	<b>\$ 15,003</b>	<b>\$ 33,219</b>	<b>\$ 30,802</b>	<b>\$ 635</b>	<b>\$ 35,492</b>	<b>\$ 579</b>	<b>\$ 18,613</b>	<b>\$ 12,367</b>	<b>\$ 116,724</b>	<b>\$ 572,624</b>	<b>\$ 16,335</b>	<b>\$ 461,073</b>	<b>\$ 582,194</b>	<b>\$ 2,166,474</b>
<b>Liabilities and Fund Balance</b>															
<b>Liabilities:</b>															
Accounts payable	\$ 7,269	\$ 10,296	\$ -	\$ 493	\$ -	\$ 6,886	\$ 81	\$ 624	\$ -	\$ 59	\$ -	\$ -	\$ -	\$ -	\$ 25,708
Accrued payroll	-	-	-	-	-	-	-	886	-	-	-	-	-	-	886
Due to other funds	-	-	-	-	-	-	-	190,085	-	-	-	-	395,544	230,000	815,629
<b>Total Liabilities</b>	<b>7,269</b>	<b>10,296</b>	<b>-</b>	<b>493</b>	<b>-</b>	<b>6,886</b>	<b>81</b>	<b>191,595</b>	<b>-</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>395,544</b>	<b>230,000</b>	<b>842,223</b>
<b>Fund Balance:</b>															
Restricted	263,545	4,707	33,219	30,309	635	28,606	498	-	12,367	116,665	572,624	16,335	65,529	-	1,145,039
Assigned	-	-	-	-	-	-	-	-	-	-	-	-	-	352,194	352,194
Unassigned	-	-	-	-	-	-	-	(172,982)	-	-	-	-	-	-	(172,982)
<b>Total Fund Balance</b>	<b>263,545</b>	<b>4,707</b>	<b>33,219</b>	<b>30,309</b>	<b>635</b>	<b>28,606</b>	<b>498</b>	<b>(172,982)</b>	<b>12,367</b>	<b>116,665</b>	<b>572,624</b>	<b>16,335</b>	<b>65,529</b>	<b>352,194</b>	<b>1,324,251</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 270,814</b>	<b>\$ 15,003</b>	<b>\$ 33,219</b>	<b>\$ 30,802</b>	<b>\$ 635</b>	<b>\$ 35,492</b>	<b>\$ 579</b>	<b>\$ 18,613</b>	<b>\$ 12,367</b>	<b>\$ 116,724</b>	<b>\$ 572,624</b>	<b>\$ 16,335</b>	<b>\$ 461,073</b>	<b>\$ 582,194</b>	<b>\$ 2,166,474</b>

**TOWNSHIP OF NORTH FAYETTE**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
OTHER GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2017

	Special Revenue Funds							Capital Projects Funds						Total	
	Liquid Fuels Fund	Community Park Fund	Canine Fund	P.A.L.S. Fund	Department of Justice Fund	DARE Fund	Special Fund	Stormwater Maintenance Fund	Sidewalks Fund	Road Improvement Fund	Traffic Impact Fee Fund	Construction Fund	Capital Improvement Fund		Capital Reserve Fund
<b>Revenues:</b>															
Intergovernmental	\$ 467,628	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,570	\$ 630,198
Donations/fundraising	-	-	2,035	31,233	-	53,230	845	-	-	-	-	-	-	-	87,343
Charges for services	-	2,900	-	-	-	-	-	-	-	-	-	-	-	-	2,900
Assessments	-	-	-	-	-	-	-	45,243	-	25,000	120,000	-	-	-	190,243
Interest	2,746	104	283	311	15	145	7	558	108	1,059	4,040	380	3,692	3,057	16,505
Miscellaneous	-	2,500	-	-	-	-	-	-	-	-	-	14,706	-	-	17,206
<b>Total revenues</b>	<b>470,374</b>	<b>5,504</b>	<b>2,318</b>	<b>31,544</b>	<b>15</b>	<b>53,375</b>	<b>852</b>	<b>45,801</b>	<b>108</b>	<b>26,059</b>	<b>124,040</b>	<b>15,086</b>	<b>3,692</b>	<b>165,627</b>	<b>944,395</b>
<b>Expenditures:</b>															
Current:															
General government	-	50	50	50	-	50	-	124,144	50	50	50	-	250	173,352	298,096
Public safety	-	-	-	-	2,300	39,343	-	-	-	-	-	-	-	-	41,643
Public works	270,004	-	-	-	-	-	-	350,146	-	29,847	-	-	96,704	-	746,701
Culture and recreation	-	10,595	-	31,390	-	-	1,094	-	-	-	-	-	-	-	43,079
Capital outlay:															
General government	-	-	-	-	-	-	-	-	-	-	-	-	13,333	450	13,783
Culture and recreation	-	-	-	-	-	-	-	-	-	-	15,175	7,278	-	-	22,453
Debt service:															
Principal	-	-	-	-	-	-	-	-	-	-	-	-	71,437	-	71,437
Interest	-	-	-	-	-	-	-	-	-	-	-	-	2,699	-	2,699
Issuance costs	-	-	-	-	-	-	-	-	-	-	-	-	93,306	-	93,306
<b>Total expenditures</b>	<b>270,004</b>	<b>10,645</b>	<b>50</b>	<b>31,440</b>	<b>2,300</b>	<b>39,393</b>	<b>1,094</b>	<b>474,290</b>	<b>50</b>	<b>29,897</b>	<b>50</b>	<b>15,175</b>	<b>285,007</b>	<b>173,802</b>	<b>1,333,197</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>200,370</b>	<b>(5,141)</b>	<b>2,268</b>	<b>104</b>	<b>(2,285)</b>	<b>13,982</b>	<b>(242)</b>	<b>(428,489)</b>	<b>58</b>	<b>(3,838)</b>	<b>123,990</b>	<b>(89)</b>	<b>(281,315)</b>	<b>(8,175)</b>	<b>(388,802)</b>
<b>Other Financing Sources (Uses):</b>															
Interfund transfer out	-	-	-	-	-	-	-	-	-	-	-	-	(407,166)	(317,105)	(724,271)
Interfund transfer in	-	-	-	-	-	-	-	-	-	-	(72,575)	304,997	241,622	474,044	
Bond proceeds	-	-	-	-	-	-	-	-	-	-	-	4,875,000	-	4,875,000	
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	-	-	-	(4,553,854)	-	(4,553,854)	
Bond discount	-	-	-	-	-	-	-	-	-	-	-	(65,709)	-	(65,709)	
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72,575)</b>	<b>153,268</b>	<b>(75,483)</b>	<b>5,210</b>	
<b>Net Change in Fund Balance</b>	<b>200,370</b>	<b>(5,141)</b>	<b>2,268</b>	<b>104</b>	<b>(2,285)</b>	<b>13,982</b>	<b>(242)</b>	<b>(428,489)</b>	<b>58</b>	<b>(3,838)</b>	<b>123,990</b>	<b>(72,664)</b>	<b>(128,047)</b>	<b>(83,658)</b>	<b>(383,592)</b>
<b>Fund Balance:</b>															
Beginning of year	63,175	9,848	30,951	30,205	2,920	14,624	740	255,507	12,309	120,503	448,634	88,999	193,576	435,852	1,707,843
End of year	\$ 263,545	\$ 4,707	\$ 33,219	\$ 30,309	\$ 635	\$ 28,606	\$ 498	\$ (172,982)	\$ 12,367	\$ 116,665	\$ 572,624	\$ 16,335	\$ 65,529	\$ 352,194	\$ 1,324,251

# TOWNSHIP OF NORTH FAYETTE

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND - DEVELOPER'S ESCROWS

YEAR ENDED DECEMBER 31, 2017

**HOLDING TANK:**

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Withdrawals</u>	<u>December 31, 2017</u>
<hr/> <b>Assets</b> <hr/>				
Cash and cash equivalents	<u>\$ 10,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,902</u>
<hr/> <b>Liabilities</b> <hr/>				
Due to developers	<u>\$ 10,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,902</u>

**DEVELOPER'S ESCROW:**

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Withdrawals</u>	<u>December 31, 2017</u>
<hr/> <b>Assets</b> <hr/>				
Cash and cash equivalents	<u>\$ 70,820</u>	<u>\$ 92,797</u>	<u>\$ (97,620)</u>	<u>\$ 65,997</u>
<hr/> <b>Liabilities</b> <hr/>				
Due to developers	<u>\$ 70,820</u>	<u>\$ 92,797</u>	<u>\$ (97,620)</u>	<u>\$ 65,997</u>