NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Capital Assets

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

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

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

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

Asset Category	*Estimated Lives*
Building Improvements	25 - 30
Buildings	50
Equipment	10
Furniture	20
Infrastructure	50
Land Improvements	20
Vehicles	8

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. No deferred inflows of resources affect the financial statements at December 31, 2016.

Net Position

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

> *Net Investment in Capital Assets:* This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of debt that is attributable to the acquisition, construction, and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
>
> *Restricted Net Position*: This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
>
> *Unrestricted*: This consists of all other net position that does not meet the definition of net investment in capital assets or restricted net position.

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

Fund Equity

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

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

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

> *Restricted:* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
>
> *Committed:* These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Township's board, the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Township's board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
>
> *Assigned:* This classification reflects the amounts constrained by the Township's "intent" to be used for specific purposes, but are neither restricted nor committed. The Township's Manager has the authority to assign the amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
>
> *Unassigned:* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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

Interfund Activity

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

Pension

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

Estimates

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

Recently Issued and Adopted Accounting Pronouncements

In February 2015, GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and for enhancing disclosures around fair value measurements.

Subsequent Events

Management has evaluated subsequent events through June 14, 2017, the date on which the financial statements were available to be issued.

NOTE C – CASH AND CASH EQUIVALENTS

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

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

NOTE C – CASH AND CASH EQUIVALENTS (CONTINUED)

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. As of December 31, 2016, the carrying amount of the Township's deposits at year-end with financial institutions was $8,626,898 with the corresponding bank balance of $8,675,992.

Additionally, the Township had cash and cash equivalents maintained as fiduciary funds. As of December 31, 2016, the carrying amount of these deposits was $1,266,093 with the corresponding bank balance of $1,286,571.

Of the bank balances at year end, $500,000 was covered by federal depository insurance and $9,462,563 was held in collateral by the depository's agent but not in the Township's name.

NOTE D – FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments made by the Police and Non-uniformed Pension Plan Trust Funds are held by investment firms in trust for the Township. The Plans are authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. As of December 31, 2016, the Township's Police Pension Plan and Non-Uniformed Pension Plan invested in equity mutual funds, stocks, and money market funds. These assets have a market value of $7,341,838 and $575,214, respectively, at December 31, 2016. The Police Pension Plan and Non-Uniformed Pension Plan also have cash deposits with local financial institutions in the amount of $840,161 and $749, respectively, at December 31, 2016.

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

NOTE D – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Plans categorizes there fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plans have the following recurring fair value measurements as of December 31, 2016:

		Fair Value Measurements Using		
	12/31/2016	*Quoted Prices in Active Markets for Indentical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Investments by fair value level				
Police Pension Fund investments	$ 7,341,838	$ 7,341,838	$ -	$ -
Non-Uniformed Pension Fund investments	575,214	575,214	-	-
	$ 7,917,052	$ 7,917,052	$ -	$ -

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

NOTE E – TAXES

The Elected Tax Collector collects property taxes on behalf of the Township. The Elected Tax Collector periodically remits to the Township its portion of the taxes collected. The Township rate levied on January 1 was 4.48 mills ($4.48 per $1,000 of assessed valuation). Property taxes receivable represents real estate taxes and outstanding delinquencies measurable as of December 31, 2016, and for which there is an enforceable legal claim. Taxes are levied on January 1 and payable at 2% discount to May 31, at face from June 1 to July 31 and at a penalty of 10% thereafter. In the governmental funds, the portion of the collectible taxes that is collected beyond sixty days is reported as deferred tax revenue. On a full accrual basis, delinquent property taxes have been recorded as revenue.

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

NOTE E – TAXES (CONTINUED)

The balances at December 31, 2016 are as follows:

	Collectible	*Recognized*	*Unavailable Taxes*
Real Estate	$ 501,633	$ 128,009	$ 373,624
Real Estate Transfer	44,150	44,150	-
Earned Income	576,528	576,528	-
Total	$ 1,122,311	$ 748,687	$ 373,624

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

NOTE F – CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	*Additions*	*Reductions*	*Ending Balance*
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 2,166,062	$ 43,494	$ -	$ 2,209,556
Construction in progress	-	820,054	-	820,054
Total capital assets not being depreciated	2,166,062	863,548	-	3,029,610
Capital assets being depreciated:				
Land improvements	1,504,798	-	-	1,504,798
Buildings and improvements	5,268,762	-	-	5,268,762
Furniture and equipment	687,932	78,138	-	766,070
Vehicles	2,560,588	214,765	(224,282)	2,551,071
Infrastructure	1,910,410	-	-	1,910,410
Total capital assets, depreciated	11,932,490	292,903	(224,282)	12,001,111
Less accumulated depreciation for:				
Land improvements	(640,059)	(46,568)	-	(686,627)
Buildings and improvements	(1,479,843)	(233,351)	-	(1,713,194)
Furniture and equipment	(465,133)	(32,179)	-	(497,312)
Vehicles	(2,093,230)	(120,105)	200,248	(2,013,087)
Infrastructure	(349,808)	(38,208)	-	(388,016)
Total accumulated depreciation	(5,028,073)	(470,411)	200,248	(5,298,236)
Total capital assets, depreciated, net	6,904,417	(177,508)	(24,034)	6,702,875
Governmental Activities, capital assets, net	$ 9,070,479	$ 686,040	$ (24,034)	$ 9,732,485

NOTE F – CHANGES IN CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:	
General government	$ 234,795
Public safety	58,052
Public works and streets	133,876
Culture and recreation	43,688
Total Depreciation Expense	$ 470,411

NOTE G – NONCURRENT LIABILITIES

During the year ended December 31, 2016, the Township's long-term debt changed as follows:

	Outstanding January 1,	*Additions*	*Reductions*	*Outstanding December 31,*	*Due Within One Year*
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 6,765,000	$ 6,670,000	$ (6,900,000)	$ 6,535,000	$ 420,000
Less: Bond Discount	(52,675)	52,675	-	-	-
Plus: Bond Premium	-	37,206	(230)	36,976	-
Total Bonds Payable	6,712,325	6,759,881	(6,900,230)	6,571,976	420,000
Compensated Absences	556,712	37,889	-	594,601	-
Other Post Employment Benefits	24,887	9,238	-	34,125	-
Governmental Activities Long-term Liabilities	$ 7,293,924	$ 6,807,008	$ (6,900,230)	$ 7,200,702	$ 420,000

General Obligation Bonds, Series of 2009

In 2009, the Township issued $8,040,000 of general obligation bonds. The bonds bear rates ranging from 2% to 5.125% and mature June 1, 2034. During 2016, these bonds were refunded with the issuance of General Obligation Bonds, Series of 2016. For financial reporting purposes, the debt has fees considered deferred and therefore removed as a liability from the Township's financial statements. During 2016, the amount of defeased debt was $6,530,000.

General Obligation Bonds, Series of 2016

During 2016, the Township issued general obligation bonds in the amount of $6,670,000. The purpose of the bonds was to refund General Obligation Bonds, Series of 2009, pay the costs of the issuance of the bond, and take advantage of more favorable interest rates. The bond bears interest of 0.70% - 2.05% and matures June 1, 2030. At December 31, 2016, the balance outstanding on this bond is $6,535,000.

NOTE G – NONCURRENT LIABILITIES (CONTINUED)

The future annual payments required to amortize the outstanding debt as of December 31, 2016 are as follows:

Year Ended December 31,	*Principal*	*Interest*	*Total*
2017	$ 420,000	$ 125,240	$ 545,240
2018	425,000	119,520	544,520
2019	435,000	110,920	545,920
2020	445,000	102,120	547,120
2021	450,000	93,170	543,170
2022-2026	2,410,000	324,058	2,734,058
2027-2030	1,950,000	75,748	2,025,748
	$ 6,535,000	$ 950,776	$ 7,485,776

Compensated Absences

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

NOTE H – INTERFUND TRANSFERS

The composition of and purpose of transfers between funds during the December 31, 2016 year-end is as follows:

Recipient Fund	*Payee Fund*	*Purpose*	*Amount*
Capital Projects	General Fund	Capital projects	$ 2,065,662

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

NOTE I – PENSION PLANS

A. Police Pension Plan

Plan Description

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

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

Significant Accounting Policies

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

Membership of the Plan consisted of the following at January 1, 2015, the date of the latest actuarial valuation:

Active participants	16
Retired and beneficiaries currently receiving benefits	12
Terminated employees entitled to benefits but not yet receiving them	0
	28

Investments For the year ended December 31, 2016, the annual money weighted rate of return on pension plan investments, net of investment expense was 5.56%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Assumptions Total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date, utilizing the Entry Age Normal actuarial funding method and the following actuarial assumptions applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	5.5% including inflation
Investment rate of return	7.5% applied to all periods

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

NOTE I – PENSION PLANS (CONTINUED)

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

Asset Class	*Long-term Expected Real Rate of Return*
Equities	6.30%
Fixed income	2.00%
Cash and cash equivalents	0.00%

Funding The Plan is funded on an annual basis pursuant to the provisions of the Municipal Pension Plan Funding Standard and Recovery Act of December 18, 1984, P.L. 1005 no. 205, as amended, 53 P.S. 895 101, et seq. ("Act 205"). Act 205 requires that annual employer contributions be based upon the plan's Minimum Municipal Obligation (MMO). The MMO is based upon the plan's most recent biennial actuarial valuation. The MMO includes normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state contributions must be funded by the employer. Employees are required to contribute 5% of covered payroll to the Plan. This contribution is governed by the Plan's governing ordinances and collective bargaining. The actuarial determined contribution to the plan for 2016 was $540,026 computed through an actuarial valuation performed January 1, 2015 and represented 32.67% of covered payroll.

Net pension liability of the pension plan The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of December 31, 2016 is as follows:

Total pension liability	$ 10,289,101
Pension plan net position	8,178,056
Net pension liability	$ 2,111,045

The pension plan's net position as a percentage of total pension liability is 79.48%.

NOTE I – PENSION PLANS (CONTINUED)

Discount Rate The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Township contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Schedule of Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/2015	$ 9,810,851	$ 7,645,730	$ 2,165,121
Changes for the year:			
Service cost	223,381	-	223,381
Interest	734,892	-	734,892
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	540,372	(540,372)
Contributions - employee	-	77,345	(77,345)
Net investment income	-	466,851	(466,851)
Benefit payments	(480,023)	(480,023)	-
Administrative expense	-	(72,219)	72,219
Other changes	-	-	-
Net changes	478,250	532,326	(54,076)
Balances at 12/31/2016	$ 10,289,101	$ 8,178,056	$ 2,111,045

Sensitivity of the net pension liability to change in the discount rate The following presents the net pension liability of the plan, calculated using the discount rate of 7.50% as well as what the plan's net position liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1.0% Decrease 6.50%	*Current Rate 7.50%*	*1.0% Increase 8.50%*
Net pension liability	$ 3,361,963	$ 2,111,045	$ 1,056,588

NOTE I – PENSION PLANS (CONTINUED)

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

For the year ended December 31, 2016, the Township recognized pension expense of $560,555. At December 31, 2016, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 38,380	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	511,364	-
	$ 549,744	$ -

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

Year ended December 31:	
2017	$ 173,219
2018	173,219
2019	173,217
2020	29,153
2021	936
Thereafter	-
	$ 549,744

B. Non-Uniformed Pension Plan

<u>*Non-Union Employees' Pension Plan*</u>

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

NOTE I – PENSION PLANS (CONTINUED)

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

The contributions to the Plan for the year ending December 31, 2016 consisted of employer contributions of $35,595. The Plan is a money purchase plan, qualified under Section 401(a) of the Internal Revenue Code.

Union Employees' Pension Plan (Public Works)

The Township's Union Employees' Pension Plan is a defined benefit plan. In a defined benefit plan, participants receive benefits as defined in the plan documents, upon meeting eligibility requirements. The Plan is administered by the Western Pennsylvania Teamsters and Employer's Pension Fund. The Township has no responsibility or authority for the operation and administration of the pension program. Contributions required of the Township are based upon an agreement between the Township and Teamsters Local Union No. 205. The contribution to the plan for the year 2016 was $102,052. There are no required employee contributions.

NOTE J – POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

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

Funding Policy

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

The benefits are as follows:

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

NOTE J – POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	$ 46,220
Interest on Net OPEB Obligation	995
Adjustment to Annual Required Contribution	(3,068)
Annual OPEB Cost (Expense)	44,147
Contributions Made	(34,909)
	9,238
Net OPEB Obligation - Beginning of Year	24,887
Net OPEB Obligation - End of Year	$ 34,125

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

Year Ended	*Annual OPEB Cost*	*Percentage of Annual OPEB Cost Contributed*	*Net OPEB Obligation*
12/31/2012	$ 23,160	62.18%	$ 23,888
12/31/2013	22,724	117.57%	19,896
12/31/2014	22,923	106.23%	18,468
12/31/2015	44,682	85.63%	24,887
12/31/2016	44,147	79.07%	34,125

NOTE J – POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

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

NOTE K – COMMITMENTS AND CONTINGENCIES

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

NOTE L – SETTLEMENT AGREEMENT

During 2016, the Township entered into a settlement agreement resolving pending litigation in the Court of Common Pleas of Allegheny County. The settlement paid by the Township was $50,000. The agreement stipulates the recipient of the payment will drop their case and not pursue any further legal action.

Required Supplementary Information

Township of South Fayette

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund

Year ended December 31, 2016

	Original and Final Budget	*Actual*	*Variance Favorable (Unfavorable)*
Revenues			
Taxes	$ 8,999,703	$ 10,126,283	$ 1,126,580
Licenses and permits	360,000	421,106	61,106
Fines and violations	21,000	34,718	13,718
Government grants and subsidies	325,725	367,158	41,433
Charges for services	350,300	652,671	302,371
Interest earnings	2,889	3,426	537
Contributions	-	34,960	34,960
Miscellaneous	-	13,495	13,495
Total revenues	10,059,617	11,653,817	1,594,200
Expenditures			
General government	1,326,331	1,362,512	(36,181)
Public safety	3,362,345	3,326,140	36,205
Highways and streets	2,045,308	2,103,466	(58,158)
Culture and recreation	531,930	552,923	(20,993)
Health and sanitation	1,118,964	993,964	125,000
Insurance	201,100	186,453	14,647
Miscellaneous	45,072	49,537	(4,465)
Debt service:			
Principal	235,000	370,000	(135,000)
Interest and issuance costs on long-term debt	312,943	220,019	92,924
Total expenditures	9,178,993	9,165,014	13,979
Excess of Revenues Over (Under) Expenditures	880,624	2,488,803	1,608,179
Other Financing Sources (Uses)			
Proceeds from refunding bonds issued	-	6,670,000	6,670,000
Payment to refunded bond escrow agent	-	(6,646,725)	(6,646,725)
Discounts/premiums on bonds issued	-	37,206	37,206
Insurance proceeds	-	25,000	25,000
Proceeds from sales of capital assets	2,000	27,967	25,967
Refund of prior year's receipts	(5,000)	(14,799)	(9,799)
Transfers to other funds	(877,624)	(2,067,311)	(1,189,687)
Total other financing uses	(880,624)	(1,968,662)	(1,088,038)
Net Changes in Fund Balances	-	520,141	520,141
Fund Balances, Beginning of Year	-	2,015,096	2,015,096
Fund Balances, End of Year	$ -	$ 2,535,237	$ 2,535,237

See accompanying notes.

Township of South Fayette

Schedule of Changes in Police Employees' Pension Fund
Net Pension Liability and Related Ratios
Last Ten Fiscal Years

	2016	*2015*	*2014*
Total Pension Liability:			
Service cost	$ 223,381	$ 211,736	$ 200,338
Interest	734,892	712,440	684,399
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	57,102	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(480,023)	(787,351)	(378,741)
Net Change in Total Pension Liability	478,250	193,927	505,996
Total Pension Liability, Beginning	9,810,851	9,616,924	9,110,928
Total Pension Liability, Ending (a)	$ 10,289,101	$ 9,810,851	$ 9,616,924
Plan Fiduciary Net Position:			
Contributions - employer	$ 540,372	$ 488,219	$ 474,992
Contributions - employee	77,345	67,581	60,298
Net investment income	466,851	(135,345)	439,329
Benefit payments, including refunds of employee contributions	(480,023)	(787,351)	(378,741)
Administrative expense	(72,219)	(78,265)	(78,040)
Other	-	18,074	-
Net Change in Plan Fiduciary Net Position	532,326	(427,087)	517,838
Plan Fiduciary Net Position, Beginning	7,645,730	8,072,817	7,554,979
Plan Fiduciary Net Position, Ending (b)	$ 8,178,056	$ 7,645,730	$ 8,072,817
Township's Net Pension Liability, Ending (a) - (b)	$ 2,111,045	$ 2,165,121	$ 1,544,107
Plan fiduciary net position as a percentage of total pension liability	79.48%	77.93%	83.94%
Covered employee payroll	$ 1,654,191	$ 1,425,129	$ 1,193,858
Net liability as a percentage of covered payroll	127.62%	151.92%	129.34%

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

See accompanying notes.

Township of South Fayette
Schedule of Police Employees' Pension Fund Employer Contributions
Last Ten Fiscal Years

	2016	*2015*	*2014*
Actuarially determined contribution	$ 540,026	$ 488,219	$ 474,992
Contributions in relation to the actuarially determined contribution	540,372	488,219	474,992
Contribution deficiency (excess)	$ (346)	$ -	$ -
Covered employee payroll	$ 1,654,191	$ 1,425,129	$ 1,193,858
Contributions as a percentage of covered employee payroll	32.67%	34.26%	39.79%

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

See accompanying notes.

Township of South Fayette

Schedule of Changes in Police Employees' Pension Fund
Investment Returns
Last Ten Fiscal Years

	2016	*2015*	*2014*
Annual money-weighted rate of return, net of investment expense	6.13%	-1.48%	5.56%

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

See accompanying notes.

Township of South Fayette
Schedule of Funding Progress for the Retiree Health Plan
December 31, 2016

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability (AAL)*	*Unfunded AAL (UAAL)*	*Funded Ratio*	*Covered Payroll*	*UAAL as a Percentage of Covered Payroll*
1/1/2009	$ -	$ 222,870	$ 222,870	0.0%	$ 2,883,309	7.73%
1/1/2012	-	225,803	225,803	0.0%	2,795,003	8.08%
1/1/2015	-	346,444	346,444	0.0%	3,239,297	10.70%

See accompanying notes.

Township of South Fayette
Notes to Required Supplementary Information
Year ended December 31, 2016

NOTE A – BUDGETARY INFORMATION

Budget Process

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

Excess of expenditures over appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in five functions by approximately $255,000. These over-expenditures were funded by greater than anticipated revenues, mainly tax revenue.

NOTE B – PENSION INFORMATION – ACTUARIAL METHODS AND ASSUMPTIONS

Methods and assumptions used to determine contribution rates for the Police Pension Fund under Act 205 for the year ended December 31, 2016 are as follows:

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

Supplementary Information

Township of South Fayette

Combining Schedule of Balance Sheet
Nonmajor Governmental Funds
December 31, 2016

	Fuel Tax	*Hickory Heights*	*Traffic Impact Fee Fund*	*Total Nonmajor Funds*
ASSETS				
Cash and cash equivalents	$ 74,470	$ 30,091	$ 735,498	$ 840,059
LIABILITIES				
Accounts payable	$ 17,742	$ -	$ 7,496	$ 25,238
FUND BALANCES				
Restricted:				
Street expenditures	56,728	30,091	-	86,819
Assigned:				
Traffic impact fees	-	-	728,002	728,002
Total fund balances	56,728	30,091	728,002	814,821
Total liabilities and fund balances	$ 74,470	$ 30,091	$ 735,498	$ 840,059

Township of South Fayette

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds

Year ended December 31, 2016

	Fuel Tax	*Hickory Heights*	*Traffic Impact Fee Fund*	*Total Nonmajor Funds*
Revenues				
Government grants and subsidies	$ 460,779	$ -	$ -	$ 460,779
Charges for services	-	-	361,365	361,365
Interest earnings	764	45	636	1,445
Total revenues	461,543	45	362,001	823,589
Expenditures				
Public works and streets	437,711	-	9,892	447,603
Excess of Revenues Over Expenditures	23,832	45	352,109	375,986
Other Financing Source				
Transfer from other fund	-	-	1,649	1,649
Net Changes in Fund Balances	23,832	45	353,758	377,635
Fund Balances, Beginning of Year	32,896	30,046	374,244	437,186
Fund Balances, End of Year	$ 56,728	$ 30,091	$ 728,002	$ 814,821