

Township of Shaler

Financial Statements and Required Supplementary and Supplementary Information

**Year Ended December 31, 2018 with
Independent Auditor's Report**

MaherDuessel

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TOWNSHIP OF SHALER

YEAR ENDED DECEMBER 31, 2018

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TOWNSHIP OF SHALER

YEAR ENDED DECEMBER 31, 2018

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Independent Auditor's Report

**Board of Commissioners
Township of Shaler,
Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Shaler (Township), Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Township adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*," which requires the Township to record its total other postemployment benefit liability and related items on the government-wide financial statements. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and other post-employment benefit plan information on pages i through xiii, page 50, and pages 51 through 58, 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 response 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 pension trust fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining pension trust fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 26, 2019

**TOWNSHIP OF SHALER
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2018**

As management of the Township of Shaler (Township), we offer our residents, elected officials, employees, and other interested parties, this narrative overview and analysis of the financial activities of the Township for the fiscal year, which ended December 31, 2018. The goal of this Management's Discussion and Analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the Township's financial activity, (3) identify changes in financial position, (4) identify any material deviations from the approved budget, and (5) identify individual fund issues or concerns.

The Township's management encourages all readers to consider the information presented here in conjunction with the accompanying notes that follow, in order to obtain a thorough understanding of the Township's financial condition as of December 31, 2018.

FINANCIAL HIGHLIGHTS:

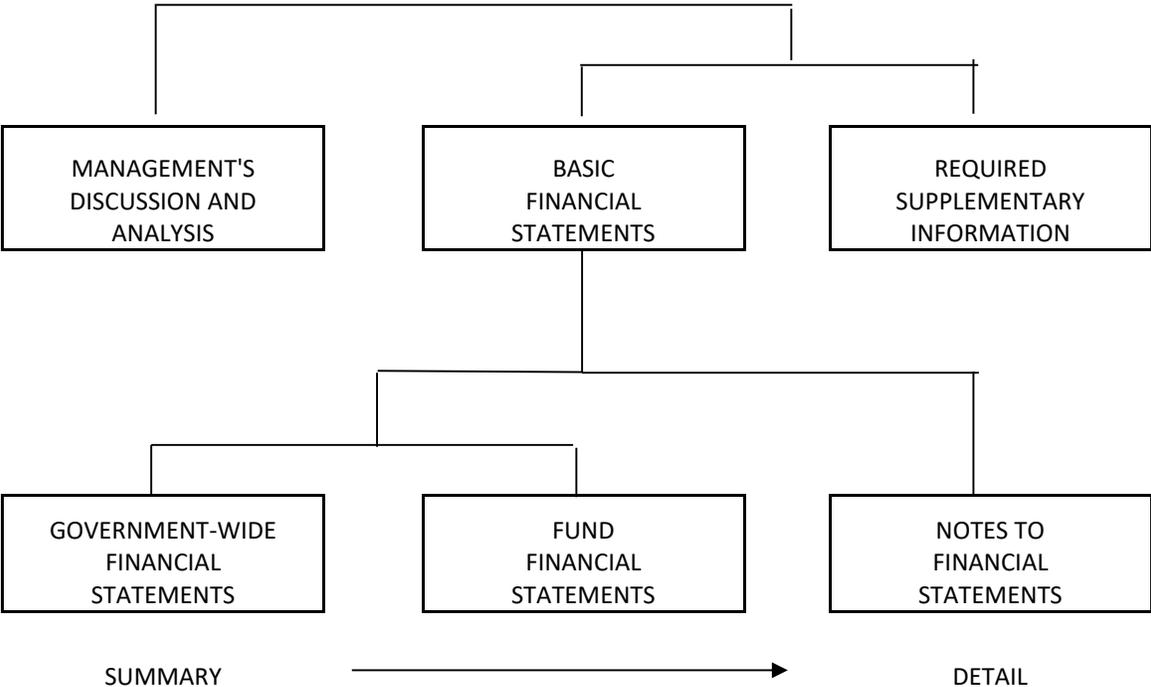
- The primary government's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources \$14,173,174 (net position). Of this amount, \$2,206,168 (unrestricted net position) may be used to meet the Township's ongoing obligations to creditors in which to provide services to Township residents. Net position has decreased \$969,739 from the December 31, 2017 financial statements, primarily due to changes in the net pension asset and liability and related deferred outflows and inflows of resources.
- The Township's real estate property tax rate for 2018 was 2.49 mills. This amount remains unchanged since 2013 when it was reduced from 3.05 mills.
- At December 31, 2018, the Township had no long-term debt outstanding.
- The total fund balance of the General Fund on December 31, 2018 was \$4,567,878. The unassigned portion of the fund balance was \$4,446,120. This amount is available for spending at the Township's discretion.
- During 2018, the Township implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*" As a result of this implementation, the government-wide net position as of January 1, 2018 was restated with a decrease of \$1,842,139 to record the Township's OPEB liability as it relates to its postemployment benefits plan.

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 financial statements are comprised of

three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements present two different views of the Township through the use of government-wide financial statements and fund financial statements. In addition to these required elements, a section with combined statements provides details about the other government funds that are presented in a single column in the basic financial statements. The following diagram illustrates how the required parts of this annual report are arranged and relate to one another.



(1) Government-Wide Financial Statements – The government-wide financial statements are designed to provide all interested parties with a broad overview of the Township, in a manner similar to a private-sector business.

- The Statement of Net Position – This report presents information on all of the Township’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The Statement of Activities – This report 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 occurs giving rise to the changes, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally 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 economic development. The business-type activity of the Township includes sanitary sewer.

The government-wide financial statements include not only the Township itself, but the Shaler North Hills Library as well. The Township provides for approximately 50% of the funding for Shaler North Hills Library. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

(2) 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 governmental agencies, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

The fund financial statements can be found on pages 3 through 11 of this report.

- 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.

The Township maintains three governmental funds: the General Fund, Capital Projects, and Liquid Fuels Fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund and Capital Projects Fund, both of which are considered major funds. Data from the other governmental fund is combined into a single, aggregated presentation.

The Township adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to determine compliance with actual revenues/expenditures to budgeted amounts.

The basic government fund financial statements can be found on pages 3 through 6 of this report.

- Proprietary Funds – The Township maintains one proprietary fund, the sanitary sewer fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer operation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer operations, which is considered to be a major fund of the Township. The basic proprietary fund financial statements can be found on pages 7 through 9 of this report.

- Fiduciary Funds – The Township is the trustee, or fiduciary, for three single-employer defined benefit pension plans covering substantially all full-time employees: (1) the Police Plan, (2) the Union Plan, and (3) the Non-Union Plan. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to finance the operations for the Township. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found on pages 10 and 11 of this report.

(3) Notes to Financial Statements – The notes to financial statements 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 12 through 49 of this report.

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 and other postemployment benefits to its employees.

The required supplementary information can be found on pages 50 through 57 of this report.

The combining statements, referred to earlier in connection with other governmental funds and internal service funds, are presented immediately preceding the required supplementary information.

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, entity-wide assets exceed liabilities by \$14,173,174 and \$15,142,913 as of December 31, 2018 and 2017, respectively.

TOWNSHIP OF SHALER
CONDENSED STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018 AND 2017

			Primary Government		2018 Total	2017 Total
	2018 Governmental Activities	2017 Governmental Activities	2018 Business-Type Activities	2017 Business-Type Activities		
Assets						
Cash and cash equivalents	\$ 6,830,109	\$ 6,134,965	\$ 878,692	\$ 1,081,710	\$ 7,708,801	\$ 7,216,675
Accounts receivable	1,048,636	1,235,267	1,296,254	1,317,859	2,344,890	2,553,126
Other	8,306,607	10,175,543	1,908,619	2,072,318	10,215,226	12,247,861
Total Assets	16,185,352	17,545,775	4,083,565	4,471,887	20,268,917	22,017,662
Deferred Outflows of Resources	5,333,904	2,566,982	-	-	5,333,904	2,566,982
Liabilities:						
Accounts payable	189,336	111,753	517,950	484,171	707,286	595,924
Accrued payroll/benefits	201,923	175,417	7,899	3,590	209,822	179,007
Other liabilities	15,017	10,844	-	2,001	15,017	12,845
Long-term obligations	8,507,634	5,873,494	12,656	48,406	8,520,290	5,921,900
Total Liabilities	8,913,910	6,171,508	538,505	538,168	9,452,415	6,709,676
Deferred Inflows of Resources	1,977,232	2,732,055	-	-	1,977,232	2,732,055
Net Position:						
Net investment in capital assets	7,890,428	7,772,905	1,904,341	2,060,022	9,794,769	9,832,927
Restricted	531,518	2,386,429	-	-	531,518	2,386,429
Unrestricted net position*	2,206,168	1,049,860	1,640,719	1,873,697	3,846,887	2,923,557
Total Net Position	\$ 10,628,114	\$ 11,209,194	\$ 3,545,060	\$ 3,933,719	\$ 14,173,174	\$ 15,142,913

*As noted in the Financial Highlights section, net position was restated for 2017 due to the cumulative effect of implementation of GASB Statement No. 75. Please see Note 7 for more information.

The balance of unrestricted net position as of December 31, 2018 was \$3,846,887 and may be used to meet the government's ongoing obligations to its citizens and creditors.

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

Governmental Activities – Governmental activities decreased the Township's net position by \$581,080, primarily due to changes in the net pension asset and liability and related deferred outflows and inflows of resources.

Business-Type Activities – Business-type activities decreased the Township's net position by \$388,659, primarily due to increased line maintenance expenses.

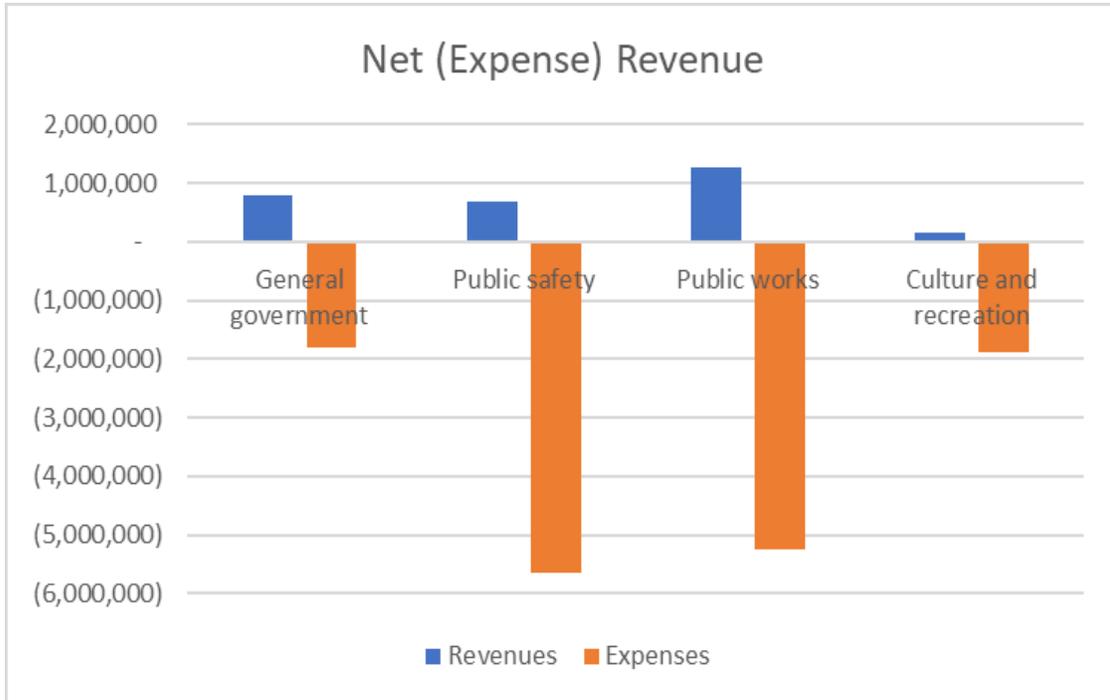
TOWNSHIP OF SHALER
CONDENSED CHANGE IN NET POSITION
NET (EXPENSES) REVENUES
YEAR ENDED DECEMBER 31, 2018 AND 2017

Details of these increases for the governmental activities are as follows:

	2018 Governmental Activities	2017 Governmental Activities	2018 Business-Type Activities	2017 Business-Type Activities	2018 Total	2017 Total
Net (expenses) revenues:						
Primary government:						
General government	\$ (998,917)	\$ (838,575)	\$ -	\$ -	\$ (998,917)	\$ (838,575)
Public safety	(4,947,500)	(4,541,831)	-	-	(4,947,500)	(4,541,831)
Public works	(3,981,792)	(3,433,914)	-	-	(3,981,792)	(3,433,914)
Culture and recreation	(1,714,050)	(1,769,465)	-	-	(1,714,050)	(1,769,465)
Interest	-	(2,747)	-	-	-	(2,747)
Total primary government	<u>(11,642,259)</u>	<u>(10,586,532)</u>	<u>-</u>	<u>-</u>	<u>(11,642,259)</u>	<u>(10,586,532)</u>
Business-type activities:						
Sewer operations	-	-	(306,513)	(177,018)	(306,513)	(177,018)
Total business-type activities	<u>-</u>	<u>-</u>	<u>(306,513)</u>	<u>(177,018)</u>	<u>(306,513)</u>	<u>(177,018)</u>
Total net (expenses) revenues	<u>(11,642,259)</u>	<u>(10,586,532)</u>	<u>(306,513)</u>	<u>(177,018)</u>	<u>(11,948,772)</u>	<u>(10,763,550)</u>
General revenues:						
Taxes:						
Real estate	4,378,203	4,231,051	-	-	4,378,203	4,231,051
Earned income	4,195,502	4,134,770	-	-	4,195,502	4,134,770
Real estate transfer	487,120	465,832	-	-	487,120	465,832
Local service	184,689	235,631	-	-	184,689	235,631
Mechanical device	24,200	18,750	-	-	24,200	18,750
Sales tax	504,737	494,681	-	-	504,737	494,681
Investment income, rents, and royalties	482,440	285,933	6,925	966	489,365	286,899
Loss on disposal of capital asses	-	(2,168,996)	165,220	(2,424,403)	165,220	(4,593,399)
Intergovernmental	13,332	13,324	-	6,017	13,332	19,341
Refunds from prior year expenses	466,146	758,225	-	-	466,146	758,225
Miscellaneous	55,869	99,643	14,650	43,710	70,519	143,353
Transfers	268,941	356,542	(268,941)	(356,542)	-	-
Total general revenues	<u>11,061,179</u>	<u>8,925,386</u>	<u>(82,146)</u>	<u>(2,730,252)</u>	<u>10,979,033</u>	<u>6,195,134</u>
Change in Net Position	(581,080)	(1,661,146)	(388,659)	(2,907,270)	(969,739)	(4,568,416)
Net Position - beginning of year, as restated	11,209,194	12,870,340	3,933,719	6,840,989	15,142,913	19,711,329
Net Position - end of year	<u>\$ 10,628,114</u>	<u>\$ 11,209,194</u>	<u>\$ 3,545,060</u>	<u>\$ 3,933,719</u>	<u>\$ 14,173,174</u>	<u>\$ 15,142,913</u>

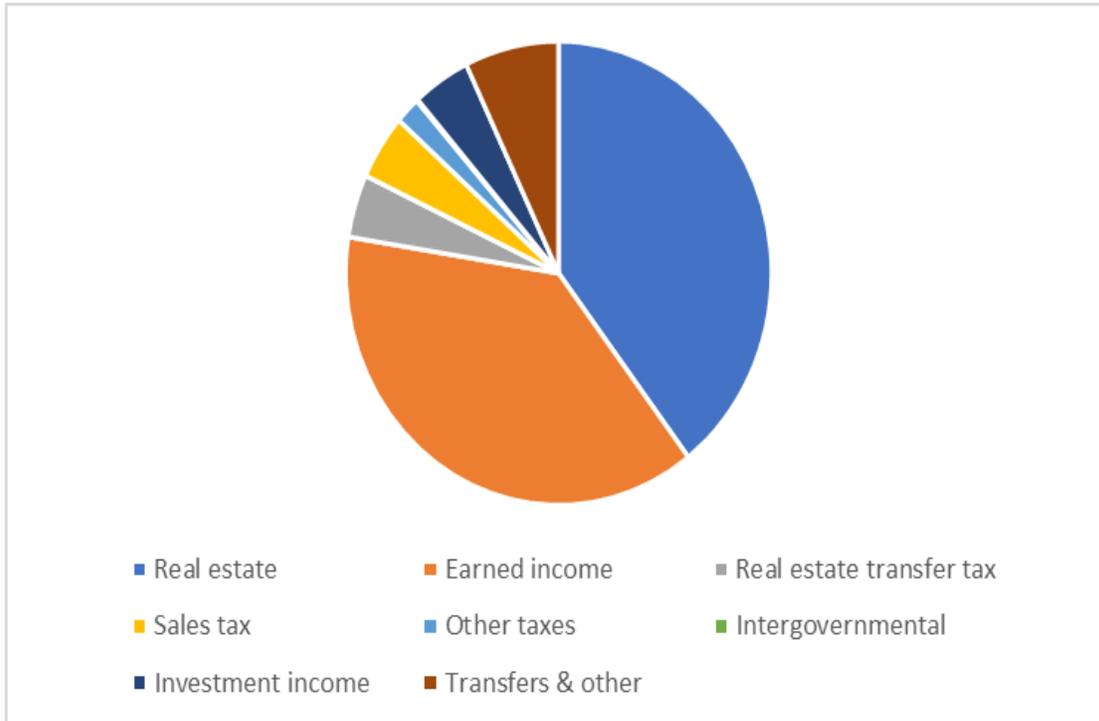
**TOWNSHIP OF SHALER
NET (EXPENSE) REVENUE
AND CHANGE IN NET POSITION
AS OF DECEMBER 31, 2018**

The following chart reflects the net expense, by budget category for the calendar year 2018. Offsetting revenues include all charges for services by department and operating grants. This includes such revenues as Liquid Fuels Tax, Foreign Fire Insurance Payments, and all state and local grants.



Total general revenues and transfers for the year 2018 were \$11,061,179 for governmental activities. The following chart details such by percentage of this total amount. Consistent with past history, property tax and earned income tax are equally important to support the activities of the General Fund. This equalization is common in municipalities with the demographics of the Township with a high percentage of elderly population and primarily residential tax base. Supporting documentation is available in the following financial reports.

**TOWNSHIP OF SHALER
REVENUES BY CATEGORY
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2018
REVENUES BY CATEGORY**



FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

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

Governmental Funds – The focus of the Township’s governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the Township’s financial requirements. In particular, unreserved 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 a combined ending fund balance for capital projects of \$2,142,866. Monies in this category of fund balance have been assigned for replacement of the public works garage roof, improvement of the Canyon River Trail in Fawcett Fields, replacement of the wall supporting East Elfinwild Road in conjunction with the replacement of the bridge owned by Allegheny County, as well as other small recreation facilities improvements.

The General Fund is the chief operating fund of the Township. Total unassigned governmental fund balance as of December 31, 2018 is \$4,446,120. This is an increase of \$175,382 from the previous year, attributable to increased tax revenue in 2018.

**TOWNSHIP OF SHALER
CONDENSED STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2018 AND 2017**

Proprietary Funds – The Township’s proprietary funds provide the same type of information found in the government-wide financial statements. They are reported separately as they are business-type funds and revenues and expenditures must be recorded separately to demonstrate the profits and losses of the business.

The following charts provide the detail of the information contained on page 7 of this report regarding the business-type activities of the Township.

	<u>2018</u> Sanitary Sewer	<u>2017</u> Sanitary Sewer
Assets		
Cash and cash equivalents	\$ 878,692	\$ 1,081,710
Accounts receivable	1,296,254	1,317,859
Prepaid expenses	4,278	12,296
Non-current assets	<u>1,904,341</u>	<u>2,060,022</u>
Total Assets	<u>\$ 4,083,565</u>	<u>\$ 4,471,887</u>
Liabilities and Net Position		
Liabilities:		
Current liabilities	\$ 525,849	\$ 487,761
Long-term liabilities	<u>12,656</u>	<u>50,407</u>
Total Liabilities	<u>538,505</u>	<u>538,168</u>
Net Position:		
Net investment in capital assets	1,904,341	2,060,022
Unrestricted	<u>1,640,719</u>	<u>1,873,697</u>
Total Net Position	<u>3,545,060</u>	<u>3,933,719</u>
Total Liabilities and Net Position	<u>\$ 4,083,565</u>	<u>\$ 4,471,887</u>

During 2018, the most significant decrease in the sanitary sewer fund was a decreased in cash from increased expenses.

**TOWNSHIP OF SHALER
CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018 AND 2017**

Below is the detail of revenues and expenditures of the business-type activities:

	2018 Sanitary Sewer	2017 Sanitary Sewer
	<u> </u>	<u> </u>
<u>Operating revenues</u>	\$ 6,121,955	\$ 5,986,632
<u>Operating expenses</u>	6,413,818	6,119,940
Operating Income (Loss)	(291,863)	(133,308)
<u>Non-operating revenues (expenses)</u>	(119,718)	(2,417,420)
Net Income (Loss) Before Transfers	<u>(119,718)</u>	<u>(2,550,728)</u>
Transfers in	6,399	-
Transfers out	<u>(275,340)</u>	<u>(356,542)</u>
Change in Net Position	(388,659)	(2,907,270)
Net Position - beginning of year	<u>3,933,719</u>	<u>6,840,989</u>
Net Position - end of year	<u><u>\$ 3,545,060</u></u>	<u><u>\$ 3,933,719</u></u>

During the year ended December 31, 2018, there was an increase in operating revenues due to rate increases and an increase in operating expenses as a result of increased infrastructure work on the sanitary sewer lines and increased treatment charges.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the General Fund's original budget and the final actual revenues were \$675,015 more than anticipated. The largest increases were in real estate and earned income taxes.

The difference between original budget and final actual expenditures totaled \$362,774 less than budget. The public safety department was less than budget by \$308,977 due to less than anticipated wages for uniformed patrol. This reduction was attributed to a favorable arbitration award for the contract year 2018 that was not awarded until April 2018. Wages for the 2018 budget were estimated based on surrounding contract awards.

The Township's management utilizes the budget process and budget document as an accurate projection of expected revenues and expenditures. As is often the case, the Township's management encounters issues and problems throughout the year that have not been

accounted for in the budget document; however, expenditures must be approved to correct the problem. Conversely, the Township also received unanticipated revenues throughout the year. These revenues are deposited into the General Fund and applied to the unanticipated projects that occur throughout the year.

CAPITAL ASSETS

Capital Assets – The Township’s investment in capital assets as of December 31, 2017 for its governmental activities totals \$7,890,428 and business-type activities amounts to \$1,904,341. These numbers are net of accumulated depreciation. This investment in capital assets includes land, building and system, improvements, machinery and equipment, park facilities, storm, road, bridges, public works infrastructure, and sanitary sewer infrastructure. A complete breakdown of the Township’s capital assets can be found on pages 29 and 30 of this report.

ECONOMIC FACTORS AND PROJECTED 2019 BUDGET AND RATES

The Township is a suburban community located in the North Hills of Pittsburgh. It is surrounded by Hampton, Reserve, Ross, O’Hara, and Indiana Townships and Millvale, Etna, and Sharpsburg Boroughs. Primarily a bedroom community, there is very little commercial and industrial development. The commercial and retail development is concentrated along the three main corridors, Route 8, Mt. Royal Boulevard, and Babcock/Evergreen Avenues. The following is a brief description of the housing values, population, and economics which have a direct impact on the Township.

PROPERTY TAXES

The average 2018 Allegheny County assessment of a residential home in the Township is \$127,249. This value is well below the average housing value in the North Hills. The Township lacks a heavily concentrated commercial corridor such as McKnight Road in Ross and McCandless Townships. The Township is primarily a residential community with small to moderate housing stock and very affordable housing for first-time home buyers and “downsizing” seniors. Current housing plans consist of homes built in the 1940-50’s with two to three bedrooms and single-car garages or on-street parking. Many of these homes have been selling quite quickly if they are priced within market range as “affordable housing.” A positive trend for homes for sale in the Township are that they are only on the market for a short period of time and are often selling at a price that is higher than the asking price. This is a very promising sign to Township management. Minimal new housing plans have been developed over the past 20 years; however, vacant, buildable land is difficult to acquire and most new developments consist of only 2-5 new homes. Most building permits issued throughout the Township are for single lot developments, renovations, or small additions.

MERCANTILE TAX

Due to the lack of a robust commercial corridor, the Township did not implement a mercantile tax. The ability to impose this tax has “sun set” and the potential for this tax is no longer

available. Neighboring communities realize additional revenues of approximately \$3/\$3.5 million for General Fund use purposes including public safety expenses.

EARNED INCOME TAX

The senior citizen population of the Township is approximately 18%. This high percentage greatly affects the earned income tax revenues of the Township. Although the 2018 actual revenues exceeded budget projections by approximately \$160,000, Township management attributes this to the implementation of the state-wide collection system. As the older population is selling their homes, younger families are moving into the Township; however, the senior citizen population in Shaler Township is well above surrounding communities.

LOCAL SERVICES TAX

The Township implemented the increase of the Local Service Tax from \$10 to \$52 in 2009. 2018 revenues from this line item totaled \$183,261. The Township utilizes Keystone Collections for this tax. Collection costs are minimal for this revenue.

TOWNSHIP REVENUES/EXPENDITURES

The two primary sources of revenue for the Township are property and earned income tax. Both of these revenue sources have remained relatively flat for a ten-year period. The Township is required, with the passage of state law, to merge the earned income tax collection with the northern area of Allegheny County; this will have significant impact on cash flow for a major funding source.

The public safety budget for 2019 totals \$5,235,045, primarily representing the police department. Public safety consumes 42% of the total General Fund expenditures budget. The 2019 allocation to the public works department totals \$3,891,469, which represents 31% of the total budget. All other municipal departments including administration, parks, and recreation have a total budget allocation of \$3,201,163 for the remaining 27% of the total budget.

ECONOMIC OUTLOOK

Once again for 2019, the Board of Commissioners and Township management are concerned about the ever-increasing personnel costs for all employees. The Township has one of the highest monthly premium rates for employee healthcare in the MBS consortium. The movement of a self-insured trust has helped limit the increase in annual health care costs. The monthly family rate of \$1,929 continues to be one of the highest expenses in the Township of Shaler's annual budget. Township leadership has undertaken many aggressive cost-cutting measures with regard to employee and retiree benefits. The January 1, 2018 police contract was settled with binding arbitration and the proposed drastic changes to retiree health care were not awarded as hoped. The Teamsters 205 contract expired as of December 31, 2018 and health care contributions will be a focus point of these negotiations. Employees contribute an estimated \$61,825 towards the cost of health care. Township leadership is to be commended for this aggressive action and progressive thinking for the future.

Any emergency that presents itself throughout the year must be addressed without regard to the cost of addressing the emergency. This includes potential flooding in low laying areas, snow storms that require extraordinary personnel, and supply costs. The Township is in the business of providing public services, and all of these issues must be addressed immediately to ensure the safety of all residents. Each of these events has an impact on the municipal budget and the governing Board of Commissioners and management must find funding for these events, regardless of costs.

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 financial affairs of the Township. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Director of Finance and Administration, Shaler Township, 300 Wetzel Road, Glenshaw, PA 15116 or Jkording@shaler.org.

TOWNSHIP OF SHALER

STATEMENT OF NET POSITION

DECEMBER 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Shaler North Hills Library
Assets				
Cash and cash equivalents	\$ 6,830,109	\$ 878,692	\$ 7,708,801	\$ 712,978
Accounts receivable:				
Taxes, net of allowance of \$747,886	637,586	-	637,586	-
Sewer, net of allowance of \$303,614	-	1,296,254	1,296,254	-
Other	411,050	-	411,050	-
Prepaid expenses	109,332	4,278	113,610	-
Net pension asset	306,847	-	306,847	-
Capital assets not being depreciated	1,476,514	-	1,476,514	-
Capital assets, net of accumulated depreciation	6,413,914	1,904,341	8,318,255	431,459
Total Assets	16,185,352	4,083,565	20,268,917	1,144,437
Deferred Outflows of Resources				
Deferred outflows of resources for pension	5,333,904	-	5,333,904	-
Liabilities				
Accounts payable	189,336	517,950	707,286	4,793
Accrued payroll and related benefits	201,923	7,899	209,822	-
Other liabilities	15,017	-	15,017	-
Compensated absences	450,667	12,656	463,323	-
Net pension liability	2,651,339	-	2,651,339	-
Other post-employment benefits liability	5,405,628	-	5,405,628	-
Total Liabilities	8,913,910	538,505	9,452,415	4,793
Deferred Inflows of Resources				
Deferred inflows of resources for pension	1,977,232	-	1,977,232	-
Net Position				
Net investment in capital assets	7,890,428	1,904,341	9,794,769	431,459
Restricted for:				
State Liquid Fuels	224,671	-	224,671	-
Pension	306,847	-	306,847	-
Unrestricted	2,206,168	1,640,719	3,846,887	708,185
Total Net Position	\$ 10,628,114	\$ 3,545,060	\$ 14,173,174	\$ 1,139,644

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Net (Expense) Revenue and Changes in Net Position							Component Unit Shaler North Hills Library
	Program Revenues				Primary Government			
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 1,797,323	\$ 747,019	\$ 51,387	\$ -	\$ (998,917)	\$ -	\$ (998,917)	\$ -
Public safety	5,632,580	191,176	493,904	-	(4,947,500)	-	(4,947,500)	-
Public works	5,246,077	114,217	890,068	260,000	(3,981,792)	-	(3,981,792)	-
Culture and recreation	1,876,570	162,520	-	-	(1,714,050)	-	(1,714,050)	-
Total governmental activities	<u>14,552,550</u>	<u>1,214,932</u>	<u>1,435,359</u>	<u>260,000</u>	<u>(11,642,259)</u>	<u>-</u>	<u>(11,642,259)</u>	<u>-</u>
Business-type activities:								
Sewer	6,413,818	6,107,305	-	-	-	(306,513)	(306,513)	-
Total business-type activities	<u>6,413,818</u>	<u>6,107,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(306,513)</u>	<u>(306,513)</u>	<u>-</u>
Total primary government	<u>\$ 20,966,368</u>	<u>\$ 7,322,237</u>	<u>\$ 1,435,359</u>	<u>\$ 260,000</u>	<u>(11,642,259)</u>	<u>(306,513)</u>	<u>(11,948,772)</u>	<u>-</u>
Component Units:								
Shaler North Hills Library	<u>\$ 1,204,520</u>	<u>\$ 34,512</u>	<u>\$ 1,139,262</u>	<u>\$ 15,937</u>				<u>(14,809)</u>
General revenues:								
Taxes:								
Real estate					4,378,203	-	4,378,203	-
Earned income					4,195,502	-	4,195,502	-
Real estate transfer					487,120	-	487,120	-
Local service					184,689	-	184,689	-
Mechanical device					24,200	-	24,200	-
Sales					504,737	-	504,737	-
Investment income, rents, and royalties					482,440	6,925	489,365	4,700
Intergovernmental					13,332	165,220	178,552	-
Refunds from prior year expenses					466,146	-	466,146	-
Miscellaneous					55,869	14,650	70,519	19,986
Transfers					268,941	(268,941)	-	-
Total general revenues and transfers					<u>11,061,179</u>	<u>(82,146)</u>	<u>10,979,033</u>	<u>24,686</u>
Change in Net Position					(581,080)	(388,659)	(969,739)	9,877
Net Position - beginning of year, as restated					<u>11,209,194</u>	<u>3,933,719</u>	<u>15,142,913</u>	<u>1,129,767</u>
Net Position - end of year					<u>\$ 10,628,114</u>	<u>\$ 3,545,060</u>	<u>\$ 14,173,174</u>	<u>\$ 1,139,644</u>

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General Fund	Capital Projects Fund	Non-major Special Revenue Fund: Liquid Fuels	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,482,572	\$ 2,122,866	\$ 224,671	\$ 6,830,109
Accounts receivable:				
Taxes, net of allowance of \$747,886	637,586	-	-	637,586
Other	382,250	28,800	-	411,050
Prepaid expenditures	109,332	-	-	109,332
Total Assets	\$ 5,611,740	\$ 2,151,666	\$ 224,671	\$ 7,988,077
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 189,336	\$ -	\$ -	\$ 189,336
Accrued payroll and related benefits	201,923	-	-	201,923
Other liabilities	15,017	-	-	15,017
Total Liabilities	406,276	-	-	406,276
Deferred Inflows of Resources:				
Unavailable revenue - taxes	637,586	-	-	637,586
Fund Balance:				
Nonspendable:				
Prepays	109,332	-	-	109,332
Restricted:				
Liquid Fuels	-	-	224,671	224,671
Committed:				
Loans	12,426	8,800	-	21,226
Assigned:				
Capital improvements	-	2,142,866	-	2,142,866
Unassigned	4,446,120	-	-	4,446,120
Total Fund Balance	4,567,878	2,151,666	224,671	6,944,215
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 5,611,740	\$ 2,151,666	\$ 224,671	\$ 7,988,077

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2018

Total Fund Balance - Governmental Funds			\$ 6,944,215
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			7,890,428
Certain taxes are not available to pay for current-period expenditures and, therefore, are shown as unavailable in the funds.			637,586
Deferred outflows and inflows of resources for pension are recorded and amortized in the statement of net position and are not recorded on the fund financial statements.			3,356,672
The net pension asset is not a current financial resource and, therefore, is not reported in the fund financial statements.			306,847
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:			
Compensated absences	\$ (450,667)		
Net pension liability	(2,651,339)		
Other post-employment benefits liability	<u>(5,405,628)</u>	<u>(8,507,634)</u>	
Total Net Position - Governmental Activities			<u>\$ 10,628,114</u>

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2017

	General Fund	Capital Projects Fund	Non-major Special Revenue Fund: Liquid Fuels	Total Governmental Funds
Revenues:				
Taxes:				
Real estate	\$ 4,562,513	\$ -	\$ -	\$ 4,562,513
Earned income	4,222,864	-	-	4,222,864
Real estate transfer	487,120	-	-	487,120
Local service	183,261	-	-	183,261
Mechanical device	24,200	-	-	24,200
Sales	504,737	-	-	504,737
Total taxes	9,984,695	-	-	9,984,695
Licenses, permits, and fees	697,163	-	-	697,163
Fines, forfeitures, and penalties	68,939	-	-	68,939
Investment income, rents, and royalties	233,775	243,944	4,721	482,440
Intergovernmental	558,623	260,000	890,068	1,708,691
Charges for services	448,830	-	-	448,830
Miscellaneous	55,869	-	-	55,869
Total revenues	12,047,894	503,944	894,789	13,446,627
Expenditures:				
Current:				
General government	1,296,963	-	-	1,296,963
Public safety	5,006,161	-	-	5,006,161
Public works	4,153,979	-	780,554	4,934,533
Culture and recreation	1,053,730	-	-	1,053,730
Miscellaneous	209,783	-	-	209,783
Contribution to component units	599,992	120,000	-	719,992
Capital outlay	-	367,370	-	367,370
Total expenditures	12,320,608	487,370	780,554	13,588,532
Excess (Deficiency) of Revenues over Expenditures	(272,714)	16,574	114,235	(141,905)
Other Financing Sources (Uses):				
Refunds of prior years expenditures	264,498	201,648	-	466,146
Transfers in	307,093	132,932	-	440,025
Transfers out	(171,084)	-	-	(171,084)
Total other financing sources (uses)	400,507	334,580	-	735,087
Net Change in Fund Balance	127,793	351,154	114,235	593,182
Fund Balance:				
Beginning of year	4,440,085	1,800,512	110,436	6,351,033
End of year	<u>\$ 4,567,878</u>	<u>\$ 2,151,666</u>	<u>\$ 224,671</u>	<u>\$ 6,944,215</u>

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balance - Governmental Funds \$ 593,182

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.

Capital outlays	\$ 699,538	
Depreciation expense	<u>(582,015)</u>	117,523

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (210,244)

Changes in the net pension asset and liability and related deferred outflows and inflows of resources do not affect current financial resources and, therefore, are not reflected on the fund statements. (1,098,740)

Amounts to fund compensated absences and other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds. 17,199

Change in Net Position of Governmental Activities \$ (581,080)

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

STATEMENT OF NET POSITION

PROPRIETARY FUND

DECEMBER 31, 2018

	Business-Type Activities Enterprise Fund	
	Sanitary Sewer	
<hr/>		
Assets		
<hr/>		
Current assets:		
Cash and cash equivalents	\$	878,692
Accounts receivable, net of allowance of \$303,614		1,296,254
Prepaid expenses		4,278
Total current assets		<hr/> 2,179,224 <hr/>
Non-current assets:		
Capital assets, net of accumulated depreciation		<hr/> 1,904,341 <hr/>
Total Assets		<hr/> 4,083,565 <hr/>
<hr/>		
Liabilities		
<hr/>		
Current liabilities:		
Accounts payable		517,950
Accrued payroll liabilities		7,899
Total current liabilities		<hr/> 525,849 <hr/>
Long-term liabilities:		
Compensated absences		<hr/> 12,656 <hr/>
Total Liabilities		<hr/> 538,505 <hr/>
<hr/>		
Net Position		
<hr/>		
Net investment in capital assets		1,904,341
Unrestricted		<hr/> 1,640,719 <hr/>
Total Net Position	\$	<hr/> 3,545,060 <hr/>

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2018

	Business-Type Activities Enterprise Fund
	Sanitary Sewer
Operating Revenues:	
Charges for services, net	\$ 6,107,305
Miscellaneous	14,650
Total operating revenues	6,121,955
Operating Expenses:	
Personnel expenses	254,452
Treatment charges	4,945,869
Other operating expenses	1,057,816
Depreciation expense	155,681
Total operating expenses	6,413,818
Operating Income (Loss)	(291,863)
Non-Operating Revenues (Expenses):	
Investment income	6,925
Intergovernmental	165,220
Total non-operating revenues (expenses)	172,145
Net income (loss) before transfers	(119,718)
Transfers in	6,399
Transfers out	(275,340)
Total transfers in (out)	(268,941)
Change in Net Position	(388,659)
Net Position:	
Beginning of year	3,933,719
End of year	\$ 3,545,060

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2018

	Business-Type Activities Enterprise Fund
	Sanitary Sewer
Cash Flows From Operating Activities:	
Receipts from customers and users	\$ 6,128,910
Payments to employees	(287,894)
Payments for treatment charges	(4,904,072)
Other payments	(1,043,166)
	(106,222)
Cash Flows From Non-Capital Financing Activities:	
Intergovernmental grants	165,220
Transfer (to) from other funds	(268,941)
	(103,721)
Cash Flows From Investing Activities:	
Investment income	6,925
Net Increase (Decrease) in Cash and Cash Equivalents	(203,018)
Cash and Cash Equivalents:	
Beginning of year	1,081,710
End of year	\$ 878,692
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ (291,863)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	155,681
Change in:	
Accounts receivable	21,605
Prepaid expenses	8,018
Accounts payable	33,779
Accrued payroll liabilities	4,309
Net other post-employment benefits obligation	(48,406)
Accrued compensated absences	10,655
Total adjustments	185,641
Net cash provided by (used in) operating activities	\$ (106,222)

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2018

Assets	Pension Trust Funds
Cash and cash equivalents	\$ 1,350,294
Investments (at fair value):	
U.S. government obligations	4,561,154
Corporate debt	6,963,099
Equities	16,191,002
Other bonds	12,822
Mutual funds	4,154,887
Total Assets	33,233,258
Net Position Restricted for Pension Benefits	\$ 33,233,258

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2018

	Pension Trust Funds
Additions:	
<hr/>	
Contributions:	
Employer	\$ 346,993
Employee	270,657
	<hr/>
Total contributions	617,650
	<hr/>
Investment income (loss):	
Net increase (decrease) in fair value of investments	(3,397,849)
Interest and dividends	1,455,270
	<hr/>
Total investment income (loss)	(1,942,579)
	<hr/>
Total additions	(1,324,929)
	<hr/>
Deductions:	
<hr/>	
Benefits	1,784,684
Administrative expense	230,713
	<hr/>
Total deductions	2,015,397
	<hr/>
Increase (Decrease) in Plan Net Position	(3,340,326)
	<hr/>
Net Position Restricted for Pension Benefits:	
<hr/>	
Beginning of year	36,573,584
	<hr/>
End of year	\$ 33,233,258
	<hr/> <hr/>

See accompanying notes to financial statements.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Township of Shaler (Township) operates under the First Class Township Code (Code). In accordance with the Code, the Township is governed by an elected Board of seven Commissioners (Board) and a manager/secretary who is appointed by the Board. The Township covers approximately 10.74 square miles and has a population of approximately 30,000. The Township provides services to its residents in many areas, including various general government services, public safety, highway maintenance, sanitation, and culture and recreation.

In evaluating the Township as a primary government, the criteria used by the Township to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the Township reviews the applicability of the following criteria:

The Township is financially accountable for:

1. Organizations that make up the legal entity.
 2. Legally separate organizations if the Board appoints a voting majority of the organizations' governing body and the Township is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Township.
 - a. Impose its Will - If the Township can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - b. Financial Benefit or Burden - Exists if the Township (1) is entitled to the organization's resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.
 3. Organizations that are fiscally dependent on the Township. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the Township.
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TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Discretely Presented Component Unit

The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. Shaler North Hills Library (Library) is a nonprofit educational institution organized under Internal Revenue Service Code Section 501(c)(3) and is considered exempt from taxes under this section. The Library is primarily funded through contributions by the Township, Allegheny County Library Association, and various Commonwealth of Pennsylvania operating grants. The Board appoints the Board of Directors of the Library.

The financial statements have been presented on the accrual basis of accounting. Accordingly, revenues and support are recorded when earned and expenses are recognized when the liabilities are incurred.

The Library donated the facilities to the Township in 1985.

The Library issues separate financial statements, which are available at the Library, 1822 Mt. Royal Boulevard, Glenshaw, PA 15116.

Jointly Governed Organization

Shaler Area Emergency Medical Services, Inc. (Shaler EMS) was organized and incorporated in 1993 as a not-for-profit corporation under Internal Revenue Code Section 501(c)(3) and is considered exempt from taxes under this section. Shaler EMS was formed for the purpose of providing emergency medical services to residents of the Township and other surrounding communities, including Etna Borough. In addition, Shaler EMS provides non-emergency medical transport services on a fee-for-service basis. Effective February 2018, an Intergovernmental Cooperation Agreement was executed between the Township and Hampton Township for Emergency Medical Services, whereas Shaler EMS changed its name to Shaler Hampton Emergency Medical Services, Inc. (Shaler Hampton EMS), modified its Articles of Incorporation and By-Laws to increase the number and appointment of its Board of Directors, and expand the service area to include Hampton Township. The governing body of Shaler Hampton EMS is its Board of Directors (Board), which is comprised of three members appointed by the Township, three members appointed by the Township of Hampton, one member appointed by the Borough of Etna, one member selected in a three-year rotation alternating between the Township and the Township of Hampton, and one medical director appointed by the Board.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Shaler Hampton EMS issues separate financial statements, which are available at Shaler Hampton EMS, 339 Wetzel Road, Glenshaw, PA 15116.

B. 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 primary government and its component unit. 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 services. Likewise, the primary government is reported separately from its legally separate component units for which the primary government is financially accountable.

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. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate 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.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are 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.

Governmental fund financial statements are reported using the *current financial resource measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by the Township.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension and other post-employment benefit obligations, and claims and judgments, are recorded only when payment is due.

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

The Township reports the following major governmental funds:

The *General Fund* is the Township's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for and reported in another fund.

The *Capital Projects Fund*, accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (excluding those financed by proprietary funds).

The Township reports the following major proprietary fund:

The *Sanitary Sewer Fund* records transactions related to providing sewer services to Township residents. This Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Additionally, the Township reports the following other fund information:

The *Non-Major Governmental Fund* is comprised of one Special Revenue Fund which is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Township uses the following Special Revenue Fund: Liquid Fuels.

The *Pension Trust Funds* account for assets held by the Township in a trustee capacity for the future payment of retirement benefits to employees. The Township has three separate Pension Trust Funds: Police, Union, and Non-Union Pension Funds.

D. Interfund Activity in the Government-wide Statements

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's governmental activities, business-type activities, and component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

E. Revenue Classification of Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Township's Sanitary Sewer Funds are charges to customers for sales and services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. Budgets and Budgetary Accounting

An annual appropriated budget was adopted in 2018 for the General Fund.

The Township uses the following procedures in establishing the budgetary data reflected in the financial statements.

- The proposed budget is published or made available for public inspection at least 20 days prior to the date set for the adoption of the budget.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

- Final action shall not be taken on the proposed budget until after at least ten days' public notice.
- The Board legally adopts the budget prior to December 31 each year.

Appropriations may be transferred between accounts within functions without approval of the Board. The Board has the authority to enact supplemental and emergency appropriations. No such appropriations were enacted in 2018. The legal level of control is at the departmental level.

For the year ended December 31, 2018, expenditures exceeded appropriations in the culture and recreation department. This overage was funded by greater than anticipated revenues and by available fund balance.

There are differences between the budget amounts on the cash basis of accounting and the actual amounts on the modified accrual basis of accounting reported in accordance with generally accepted accounting principles. The differences are due to accounts receivable, prepaid expenditures, accounts payable, accrued payroll and related benefits other liabilities, and unavailable revenue not being recognized on the cash basis of accounting and are not considered to be material.

G. Cash and Cash Equivalents

The Township considers all cash and cash equivalents in demand deposits and investments with maturities of three months or less at the time of purchase to be cash and cash equivalents.

H. Investments

Investments are recorded at fair value. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Funds are invested as described in Note 2.

I. Fair Value Measurements

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

TOWNSHIP OF SHALER

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YEAR ENDED DECEMBER 31, 2018

inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

J. Prepaid Items

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.

K. Sewer Receivables

Sewage user fees recorded by the proprietary fund are based upon water usage and are billed on a bi-monthly basis by Hampton Shaler Water Authority on behalf of the Township. These fees are recognized when earned. Benefit assessments and tap-in fees, which are a one-time charge billed to customers who are connecting to the existing wastewater systems, are recognized as revenue when billed to customers.

L. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of three years. Computer equipment and software purchases with an individual cost of \$750 and an estimated useful life in excess of three years are also defined as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWNSHIP OF SHALER

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YEAR ENDED DECEMBER 31, 2018

Capital assets of the Township are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Infrastructure	7-50
Vehicles	3-15
Machinery, equipment, and fixtures	3-20

M. Compensated Absences

A liability as of December 31, 2018 for compensated absences is determined by the vacation and sick day payments that would be made if employees were to leave or retire from the Township. Compensated absences accrue when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Employees earn vacation, based upon their anniversary date for use during the current calendar year. The number of days earned each month varies depending upon length of service and union contracts.

Employees earn sick days based upon their contract and upon retirement employees are paid for the accumulated days up to and in accordance with their respective contracts.

N. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt, and other long-term obligations are reported as liabilities. 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 governmental fund financial statements, the face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are also reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

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In both the government-wide and governmental fund financial statements, issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current period costs.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet 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 and/or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category:

Certain amounts determined in connection with pension accounting requirements are reported as deferred outflows of resources on the government-wide financial statements. These amounts are determined based on the actuarial valuations performed for the plans. Note 6 presents additional information about the pension plans.

In addition to liabilities, the statement of net position and/or the balance sheet 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 and/or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Township has the following items that qualify for reporting in this category:

Unavailable revenue is reported only on the balance sheet and represents property and other taxes which will not be collected within the available period. This amount will be recognized as an inflow of resources in the period the amounts become available.

Certain amounts determined in connection with pension accounting requirements are reported as deferred inflows of resources on the government-wide financial statements. These amounts are determined based on the actuarial valuations performed for the pension plans. Note 6 presents additional information about the pension plans.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

P. Fund Balance

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

- Nonspendable – This category represents funds that are not in spendable form and includes prepaid expenditures.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. This category includes funds that are legally restricted for liquid fuels related expenditures.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Board. Such commitment is made via a majority vote of the Board and must be made prior to the end of the year. Removal of this commitment requires a majority vote of the Board. The Township has committed funds relating to loans receivable from various non-profit and government agencies.
- Assigned – This category represents intentions of the Board to use the funds for specific purposes. The Board has delegated the authority to assign amounts to be used for specific purposes to the Finance Officer, with approval from the Finance Committee for formal motion. This category includes amounts assigned for capital improvements.
- Unassigned – This category includes the residual classification for the Township's General Fund and includes all spendable amounts not contained in other classifications.

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

Q. Net Position

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

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YEAR ENDED DECEMBER 31, 2018

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- Restricted – This component of net position consists of restricted assets reduced by liabilities, and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

R. 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.

S. Risk

The Township is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees; and natural disasters. Except for workmen's compensation (see Note 10), these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past five years.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

T. Adopted Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*,” was adopted in the current year by the Township. As a result of this implementation, the government-wide net position as of January 1, 2018 was restated with a decrease of \$1,842,139 to record the Township’s OPEB liability as it relates to its post-employment benefits plan. The OPEB liability is further described in Note 7.

The following GASB Statements were also adopted for the year ended December 31, 2018: Statement Nos. 85 (Omnibus) and 86 (Certain Debt Extinguishment Issues). These statements had no significant impact on the Township’s financial statements for the year ended December 31, 2018.

U. Pending Pronouncements

GASB has issued statements that will become effective in future years including Statement Nos. 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), and 90 (Majority Equity Interests). Management has not yet determined the impact of these statements on the financial statements.

2. **Cash, 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. 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 allow pooling of governmental funds for investment purposes.

The deposit and investment policy of the Township adheres to state statutes. Deposits of the governmental funds are either maintained in demand deposits and certificates of deposit or invested with the Pennsylvania Local Government Investment Trust (PLGIT). There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Township or Library.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Deposits

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

Custodial Credit Risk – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a formal deposit policy for custodial credit risk. As of December 31, 2018, \$500,000 of the Township's \$3,865,854 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$3,846,866 as of December 31, 2018.

Cash Equivalent Investments

The Township's cash equivalent investments in PLGIT and INVEST (external investment pools) cannot be classified by risk category because the investment is not evidenced by securities that exist in physical or book entry form. Investments in pools managed by others or in mutual funds, which are not evidenced by specific securities, cannot be categorized. The underlying securities in these pools are held by either the counterparty or its custodial agent in a nominee name for the pool. These investments are not evidenced by specific securities relating to the Township's shares or units in the pool. The Township's investment in external investment pools is the same as the value of the pool shares and is reported at amortized cost, which approximates market. All investments in an external investment pool that are not SEC-registered are subject to oversight by the Commonwealth. The Township can generally withdraw funds from the external investment pools. However, there are certain limitations placed on the following withdrawals: for PLGIT-Class accounts, there is a one-day holding period; for PLGIT/PLUS-Class accounts, there is a 30-day holding period; for PLGIT/Prime accounts, there is a one-day holding period and withdrawals are limited to twice per calendar month.

As of December 31, 2018, the investments in PLGIT and INVEST of \$3,843,886 and \$18,049 (book and bank balance), respectively, are considered to be a cash equivalent for presentation on the statement of net position and governmental fund balance sheet.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Township has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2018, investments in PLGIT and INVEST have received an AAAM rating from Standard & Poor's.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside entity. The Township does not have a formal investment policy for custodial credit risk.

Concentration of Credit Risk – The Township places no limit on the amount the Township may invest in any one issuer. The Township has no investments of greater than 5% with one issuer.

Interest Rate Risk – The Township's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates to instruments whose maturities do not exceed one year. All investments in PLGIT and INVEST have an average maturity of less than one year.

Pension Trust Funds

The Pension Trust Funds' investments are held separately from those of other Township Funds. The Township's Pension Committees determine the investment managers for the Pension Trust Funds and meet periodically with the trustees to discuss the general categories of investments to be made. Currently, the types of investments agreed upon include U.S. Government Obligations and equity investments. Investments were consistent with those authorized.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

As of December 31, 2018, the Township had the following cash, cash equivalents, and investments in its Pension Trust Funds:

Cash or Investment Type	Book Value	Investment Maturities from December 31, 2018			
		Less than 1 year	1-5 years	6-10 years	More than 10 years
U.S. government obligations	\$ 4,561,154	\$ -	\$ 482,456	\$ 1,957,051	\$ 2,121,647
Corporate debt	6,963,099	190,434	4,288,063	1,359,808	1,124,794
Other bonds	12,822	-	12,822	-	-
Total debt securities	11,537,075	\$ 190,434	\$ 4,783,341	\$ 3,316,859	\$ 3,246,441
Cash and cash equivalents	1,350,294				
Equities:					
Industrials	2,193,648				
Consumer discretionary	1,349,953				
Consumer staples	790,956				
Energy	1,225,542				
Financial	2,351,550				
Materials	340,884				
Information technology	3,923,603				
Utilities	229,020				
Health care	1,614,694				
Telecommunication services	2,134,882				
Unclassified stocks	36,270				
Total equities	16,191,002				
Mutual funds	4,154,887				
Total other investments	21,696,183				
Total Pension Trust Funds cash, cash equivalents, and investments reported on statement of fiduciary net position	\$ 33,233,258				

U.S. government obligations, corporate debt, and other bonds with maturities of less than one year, as well as equities and mutual funds, are valued at fair value using quoted market prices (Level 1). U.S. government obligations, corporate debt, and other bonds with maturities of greater than one year are valued at fair value using various techniques, which may consider the reported sales of similar securities, market price quotations, and data (such as broker quotes, yields, bids, and reference data) (Level 2). The Township's investments in money markets (cash and cash equivalents) is reported at amortized cost, which approximates market.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Trust Funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2018, the Pension Trust Funds' investments in debt securities have received the following ratings from Moody's:

**Credit Quality Distribution for Securities with Credit Exposure
as a Percentage of Total Pension Trust Fund Debt Securities**

<u>Moody's Rating</u>	<u>Percentage of Total Pension Trust Fund Debt Securities</u>
AAA	26.7%
AA1	0.2%
AA2	3.6%
AA3	2.9%
Other	66.6%
	<u>100.0%</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the Pension Trust Funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The Pension Trust Funds do not have a formal deposit or investment policy for custodial credit risk. The Township's investments in mutual funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. As of December 31, 2018, the Township's entire pension cash, cash equivalents, and investment balance of \$33,233,258 (bank and book balance) was exposed to custodial credit risk. All of the Township's Pension Trust Fund investments were uninsured and held by the counterparty. The counterparty is a member of the Securities Investor Protection Corporation (SIPC), which provides insurance coverage up to \$500,000 of the net equity balance, including up to \$250,000 in cash, in the event the counterparty fails, owing the Township cash and securities that are missing from their accounts. This coverage does not extend to losses incurred due to fraud, misrepresentation, or investment decisions.

Concentration of Credit Risk – The Township places no limit on the amount the Township may invest in any one issuer. At December 31, 2018, there were no individual investments that constituted more than 5% of plan net assets available for benefits that

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

were required to be reported. In addition, the plans did not have any investment transactions with related parties during the year.

Interest Rate Risk – The Pension Trust Funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Shaler North Hills Library

The deposit and investment policy of the Library adheres to state statutes. Deposits of the Library are either maintained in demand deposits or invested with registered investment companies. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Library.

Deposits and Investments

The following is a description of the Library's deposit and investment risk:

Custodial Credit Risk – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a formal deposit policy for custodial credit risk. As of December 31, 2018, \$283,385 of the Library's bank balance of \$531,682 was insured by the FDIC. The remaining bank balance was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$531,289 as of December 31, 2018. The Library also maintains deposits totaling \$90,511 (book and bank balance) in money market accounts held with registered investment companies, which are included in cash and cash equivalents on the financial statements and would be exposed to custodial credit risk.

The Library also invests in PLGIT, an external investment pool, which as noted above, cannot be classified by risk category because the investment is not evidenced by securities that exist in physical or book entry form. The Library's position in the external investment pool is the same as the value of the pool shares and is reported at amortized cost, which approximates market. The Library can withdraw funds from PLGIT without limitations or fee; however, there is a one-day holding period. As of December 31, 2018, the total PLGIT investment of \$91,178 (bank and book balance) is considered to

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

be a cash equivalent for presentation on the statement of net position. As of December 31, 2018, investments in PLGIT have received an AAAM rating from Standard & Poor's.

3. Capital Assets

A summary of changes in capital assets during 2018 is as follows:

	Balance at January 1, 2018	Additions	Deletions	Balance at December 31, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,475,014	\$ 1,500	\$ -	\$ 1,476,514
Capital assets, being depreciated:				
Land improvements	792,070	111,457	-	903,527
Infrastructure	14,743,620	-	-	14,743,620
Buildings and improvements	5,163,707	185,674	(122,351)	5,227,030
Furniture and equipment	4,098,677	102,591	(33,821)	4,167,447
Sewer systems and improvements	324,218	-	-	324,218
Vehicles	2,390,453	298,316	(46,445)	2,642,324
Total capital assets, being depreciated	<u>27,512,745</u>	<u>698,038</u>	<u>(202,617)</u>	<u>28,008,166</u>
Accumulated depreciation	<u>(21,214,854)</u>	<u>(582,015)</u>	<u>202,617</u>	<u>(21,594,252)</u>
Total capital assets, being depreciated, net	<u>6,297,891</u>	<u>116,023</u>	<u>-</u>	<u>6,413,914</u>
Total capital assets, net	<u>\$ 7,772,905</u>	<u>\$ 117,523</u>	<u>\$ -</u>	<u>\$ 7,890,428</u>

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	Balance at January 1, 2018	Additions	Deletions	Balance at December 31, 2018
	<u>2018</u>	<u> </u>	<u> </u>	<u>2018</u>
Business-type activities:				
Infrastructure	\$ 136,181	\$ -	\$ -	\$ 136,181
Buildings and improvements	10,272	-	-	10,272
Furniture and equipment	142,844	-	-	142,844
Sewer systems and improvements	7,934,514	-	-	7,934,514
Vehicles	478,007	-	-	478,007
	<u>8,701,818</u>	<u>-</u>	<u>-</u>	<u>8,701,818</u>
Accumulated depreciation	<u>(6,641,796)</u>	<u>(155,681)</u>	<u>-</u>	<u>(6,797,477)</u>
Business-type activities capital assets, net	<u>\$ 2,060,022</u>	<u>\$ (155,681)</u>	<u>\$ -</u>	<u>\$ 1,904,341</u>

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

Governmental activities:	
General government	\$ 82,739
Public safety	138,486
Public works	265,922
Culture and recreation	94,868
Total depreciation expense - governmental activities	<u>\$ 582,015</u>
Business-type activities:	
Sewer	\$ 155,681
Total depreciation expense - business-type activities	<u>\$ 155,681</u>

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Shaler North Hills Library

A summary of changes in capital assets during 2018 is as follows:

	Balance at January 1, 2018	Increase	Decrease	Balance at December 31, 2018
Books	\$ 897,645	\$ 95,790	\$ (109,140)	\$ 884,295
Audio visual equipment	93,276	13,299	(23,240)	83,335
Leasehold improvements	109,438	-	-	109,438
	<u>1,100,359</u>	<u>109,089</u>	<u>(132,380)</u>	<u>1,077,068</u>
Accumulated depreciation	<u>(672,894)</u>	<u>(105,095)</u>	<u>132,380</u>	<u>(645,609)</u>
Net capital assets	<u>\$ 427,465</u>	<u>\$ 3,994</u>	<u>\$ -</u>	<u>\$ 431,459</u>

4. Interfund Transfers

Interfund transfers at December 31, 2018 are summarized below:

Fund	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 307,093	\$ 171,084
Capital Projects Fund	132,932	-
Major Enterprise Fund:		
Sanitary Sewer Fund	<u>6,399</u>	<u>275,340</u>
Total	<u>\$ 446,424</u>	<u>\$ 446,424</u>

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. The transfers made between the funds represent ongoing activity for the disbursements made from the General Fund.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

5. Long-Term Liabilities

Long-term liabilities consist of the following:

	Balance at January 1, 2018	Increase	Decrease	Balance at December 31, 2018
Governmental activities:				
Other post-employment benefits liability*	\$ 5,401,126	\$ 352,426	\$ (347,924)	\$ 5,405,628
Net pension liability	-	4,424,256	(1,772,917)	2,651,339
Compensated absences	472,368	(21,701)	-	450,667
	<u>5,873,494</u>	<u>4,754,981</u>	<u>(2,120,841)</u>	<u>8,507,634</u>
Business - type activities:				
Compensated absences	2,001	10,655	-	12,656
	<u>\$ 5,875,495</u>	<u>\$ 4,765,636</u>	<u>\$ (2,120,841)</u>	<u>\$ 8,520,290</u>

* Balance as of January 1, 2018 as restated under GASB No. 75.

The other post-employment benefits liability and the net pension liability are to be funded by the General Fund.

6. Pension Plans

Summary of Significant Accounting Policies

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

Plan Descriptions

The Township has three single-employer defined benefit pension plans: the Police Plan, the Union Plan, and the Non-Union Plan (Plans). The Plans cover substantially all full-time employees. The Plans are governed by the Board of Commissioners of the Township which

TOWNSHIP OF SHALER

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YEAR ENDED DECEMBER 31, 2018

may amend plan provisions, and which is responsible for the management of plan assets. The Board of Commissioners has delegated the authority to manage certain plan assets to PNC Bank. The activity of the Plans is reported as the Pension Trust Fund in the accompanying financial statements. Separate plan financial statements are not available.

At December 31, 2018, Plan membership consisted of the following:

	<u>Police</u>	<u>Union</u>	<u>Non-Union</u>
Inactive plan members or beneficiaries currently receiving benefits	28	27	21
Inactive plan members entitled to but not yet receiving benefits	-	-	2
Active plan members	<u>26</u>	<u>23</u>	<u>15</u>
Total plan members	<u><u>54</u></u>	<u><u>50</u></u>	<u><u>38</u></u>

Benefits Provided – Police Plan

Retirement Benefit – A participant is eligible for the normal retirement benefit at age 55 and completion of 25 years of service. Pension benefits become 100% vested after the completion of 12 years of service. The monthly pension benefit is equal to 50% of gross pay (excluding uniform allowance) averaged over the last 36 months of employment, plus a service increment of \$100 for service in excess of 26 years or more. For participants hired after January 1, 2001, pay excludes lump-sum sick leave buybacks.

Death Benefit – In the event of death before eligibility retirement, contributions plus interest are refunded. In the event of death after retirement eligibility, a monthly benefit equal to 50% of the pension the participant was receiving or was entitled to receive on the day of the participant's death is payable to the participant's spouse for life. If there is no spouse or the spouse later dies, the benefit will be paid to the participant's dependent children, if any, until age 18, or age 23 if attending college.

Disability Benefit – A police officer that sustains total and permanent disability while in service is eligible for a monthly benefit equal to 75% of the participant's final monthly average salary at disablement.

Post-Retirement Adjustments – Effective on each anniversary of retirement, a retiree will receive an increase in the monthly benefit equal to the percentage increase in the Consumer Price Index. The total of all increases may not exceed 30% of the original benefit, nor may total benefit exceed 75% of the average monthly salary used to calculate the original benefit.

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Vesting Benefit – The accrued benefit at date of termination is payable monthly starting at normal retirement date.

Benefits Provided – Union Plan

Retirement Benefit – A participant is eligible for the normal retirement benefit at age 65 and completion of 10 years of service. A participant is eligible for early retirement at age 55 and completion of 10 years of service. Pension benefits become 100% vested after completion of 10 years of service. The monthly pension benefit is equal to the applicable benefit multiplier multiplied by 1/12 of average annual compensation (highest 36-month average compensation prior to termination), multiplied by years of service, up to a maximum of 40 years. The benefit multiplier is 1.5% for participants who have less than 25 years of service, 1.8% for participants with 25 to 30 years of service, and 2.0% for participants with more than 30 years of service (80% cap). For participants electing early retirement, the participant will receive a monthly benefit equal to the accrued benefit reduced for each month benefit commencement precedes the normal retirement date.

Death Benefit – In the event of death before retirement, 50% of the participant's accrued benefit at time of death is payable to the participant's spouse for life commencing on the earliest retirement date and reduced for early commencement, if applicable. In the event of death after retirement, the normal form of payment is a life annuity. A joint and 50% survivor benefit, which is the actuarial equivalent of the normal form, may instead be elected at retirement.

Disability Benefit – For both service and non-service related disability, following age 40, the completion of 10 years of service, and qualification for Social Security disability benefits, a monthly pension based on average annual compensation and years of service (40 maximum) at the time of disablement will be payable.

Vesting Benefit – If eligible, participant will receive the accrued benefit (retirement benefit based on service at termination) payable at normal retirement, provided the participant has not withdrawn his or her accumulated employee contributions.

Benefits Provided – Non-Union Plan

Retirement Benefit – A participant is eligible for the normal retirement benefit at age 65 and completion of 10 years of service. A participant is eligible for early retirement at age 55 and completion of 10 years of service. Pension benefits become 100% vested after completion of 10 years of service. For participants hired prior to January 1, 2005, pension benefits

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become 100% vested after completion of eight years of service. The monthly pension benefit is equal to 1/12 of average annual compensation multiplied by years of service (up to 40 years) and the applicable benefit multiplier based upon the following schedule: a) less than 25 years of service, 1.5%, b) 25 to 30 years of service, 1.8%, and c) more than 30 years of service, 2.0%. For participants electing early retirement, the accrued benefit at date of actual retirement is reduced according to a table if the participant has completed less than 25 years of service (or under age 60 if hired after December 31, 2007). No reduction applies if the participant has completed at least 25 years of service (and reached age 60 if hired after December 31, 2007).

Death Benefit – In the event of death pre-retirement, a monthly benefit is payable to the participant's spouse for life starting at what would have been the participant's earliest retirement date (or immediately if death occurs after early retirement). The survivor benefit shall be equal to 50% of the participant's accrued benefit at the date of death, reduced for early commencement if applicable. In the event of death post-retirement, the normal form of payment is a life annuity. An actuarial equivalent joint and 50% survivor annuity is available at the election of the participant.

Disability Benefit – For both service and non-service related disability, following age 40, the completion of 10 years of service, and qualification for social security disability benefits, the accrued benefit at date of disablement reduced by worker's compensation, Social Security disability benefits, or any other disability benefit will be payable.

Vesting Benefit – The accrued benefit at termination is payable beginning at normal retirement age. Benefit is paid in lieu of a refund of contributions.

Contributions and Funding Policy

The Plans are funded by the Township on an annual basis pursuant to the provisions of Act 205 of 1984 of the Commonwealth of Pennsylvania (Act). The Act requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the plan's most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated participant contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The Commonwealth of Pennsylvania (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 Township. During the year, the Township made

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contributions totaling \$189,042, \$21,274, and \$136,677 to the Police, Union, and Non-Union Plans, respectively, which met or exceeded amounts required by the MMO.

Police officers are required to contribute 8% of covered payroll to the Police Plan, which is governed by the Plan's governing ordinances and collective bargaining. Union employees are required to contribute 5% of covered payroll to the Plan, which is governed by the Plan's governing ordinances and collective bargaining. Non-union employees are required to contribute 5% of covered payroll to the Plan, which is governed by the Plan's governing ordinances.

Net Pension Liability (Asset)

Measurement Date and Actuarial Assumptions – The Township's net pension liability (asset) was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by actuarial valuations as of January 1, 2017. There were no plan changes between the January 1, 2017 valuation date and the December 31, 2018 liability measurement date. Standard actuarial techniques were used to roll forward the total pension liability from the valuation date to the measurement date.

The components of the net pension liability (asset) of the Plans at December 31, 2018 were as follows:

	Police	Union	Non-Union
Total pension liability	\$ 22,205,906	\$ 4,957,338	\$ 8,414,506
Plan fiduciary net position	(20,394,415)	(5,264,185)	(7,574,658)
Net pension liability (asset)	<u>\$ 1,811,491</u>	<u>\$ (306,847)</u>	<u>\$ 839,848</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	<u>91.84%</u>	<u>106.19%</u>	<u>90.02%</u>

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Changes in the Net Pension Liability (Asset) – The changes in the net pension liability (asset) of the Police Plan for the year ended December 31, 2018 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2017	\$ 21,426,131	\$ 22,471,478	\$ (1,045,347)
Changes for the year:			
Service cost	371,596	-	371,596
Interest	1,539,709	-	1,539,709
Contributions - employer	-	189,042	(189,042)
Contributions - employee	-	166,126	(166,126)
Net investment income	-	(1,182,375)	1,182,375
Benefit payments, including refunds	(1,131,530)	(1,131,530)	-
Administrative expense	-	(118,326)	118,326
Net changes	779,775	(2,077,063)	2,856,838
Balances at December 31, 2018	\$ 22,205,906	\$ 20,394,415	\$ 1,811,491

The changes in the net pension liability (asset) of the Union Plan for the year ended December 31, 2018 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2017	\$ 4,778,201	\$ 5,831,481	\$ (1,053,280)
Changes for the year:			
Service cost	107,808	-	107,808
Interest	344,273	-	344,273
Contributions - employer	-	21,274	(21,274)
Contributions - employee	-	46,172	(46,172)
Net investment income	-	(318,054)	318,054
Benefit payments, including refunds	(266,385)	(266,385)	-
Administrative expense	-	(43,744)	43,744
Other changes	(6,559)	(6,559)	-
Net changes	179,137	(567,296)	746,433
Balances at December 31, 2018	\$ 4,957,338	\$ 5,264,185	\$ (306,847)

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The changes in the net pension liability (asset) of the Non-Union Plan for the year ended December 31, 2018 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2017	\$ 8,093,259	\$ 8,270,625	\$ (177,366)
Changes for the year:			
Service cost	119,698	-	119,698
Interest	581,759	-	581,759
Contributions - employer	-	136,677	(136,677)
Contributions - employee	-	58,359	(58,359)
Net investment income	-	(442,150)	442,150
Benefit payments, including refunds	(386,769)	(386,769)	-
Administrative expense	-	(68,643)	68,643
Other changes	6,559	6,559	-
Net changes	321,247	(695,967)	1,017,214
Balances at December 31, 2018	\$ 8,414,506	\$ 7,574,658	\$ 839,848

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2017 and rolled forward to December 31, 2018 using the following actuarial assumptions, applied to all periods in the measurement:

	Police	Union	Non-Union
Actuarial assumptions:			
Investment rate of return	7.25%	7.25%	7.25%
Projected salary increases	4.25%*	4.5%	4.5%
Underlying inflation rate	2.75%	2.75%	2.75%
Cost-of-living adjustments	n/a	n/a	n/a

Police/Union: RP-2014 Mortality Table with 50% of the Blue Collar Adjustment, with rates set forward five years for disabled lives; mortality improvement based on the Long-Range Demographic Assumptions for the 2015 SSA's Trustee Report. Non-Union: RP-2014 Mortality Table, with rates set forward 5 years for disabled lives; mortality improvement based on the Long-Range Demographic Assumptions for the 2015 SSA's Trustee Report.

* Plus an additional 25% in final year if hired before 1/1/2001

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Changes in Actuarial Assumptions – The following assumption changes occurred in the January 1, 2017 actuarial valuation:

- Police: Underlying inflation lowered from 3.0% to 2.75%; investment rate of return lowered from 7.5% to 7.25%; projected salary increase changed from 5.0% per year to 4.25% per year plus an additional 25% in final year if hired before 1/1/2001; mortality assumption updated from RP-2000 Combined Healthy mortality with Blue Collar adjustment and 75% of scale AA to RP-2014 mortality with 50% Blue Collar adjustment and mortality improvement projected with rates derived from the SSA's 2015 Trustee Report's Long-Term Demographic Assumption.
- Union: Investment rate of return lowered from 7.5% to 7.25%; projected salary increases lowered from 5.0% to 4.5%; underlying inflation rate lowered from 3.0% to 2.75%; mortality assumption changed from RP-2000 Combined Healthy mortality table to RP-2014 mortality table with 50% of the Blue-Collar adjustment and mortality improvement projected with rates derived from the SSA's 2015 Trustee Report's Long-Term Demographic Assumption.
- Non-Union: Investment rate of return lowered from 7.5% to 7.25%; projected salary increases lowered from 5.0% to 4.5%; underlying inflation rate lowered from 3.0% to 2.75%; mortality assumption updated from RP-2000 Combined Healthy mortality with 75% of scale AA to RP-2014 mortality and mortality improvement projected with rates derived from the SSA's 2015 Trustee Report's Long-Term Demographic Assumption.

Investment Policy – The Plan's policies in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote of its members. It is the policy of the Pension Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Long-Term Expected Rate of Return – The long-term expected rate of return on 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 MMO) 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.

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The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Plans' target asset allocation as of December 31, 2018:

Asset Class	Target Allocation			Long-Term Expected Real Rate of Return		
	Police	Union	Non-Union	Police	Union	Non-Union
U.S. equities	48.0%	48.0%	48.0%	5-7%	5-7%	5-7%
International equities	12.0%	12.0%	12.0%	5-7%	5-7%	5-7%
Fixed income securities	40.0%	40.0%	40.0%	1-3%	1-3%	1-3%
Cash and cash equivalents	0.0%	0.0%	0.0%	0-1%	0-1%	0-1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>			

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2018, the annual money-weighted rate of return on the Police, Union, and Non-Union Plan investments, net of investment expense, was (5.47)%, (5.58)%, and (5.63)%, respectively.

Concentrations – At December 31, 2018, there were no individual investments that are required to be disclosed that constituted more than 5% of any of the Police, Union, and Non-Union Pension Plan net position available for benefits.

Discount Rate – The discount rate used to measure the total pension liability for the Plans was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the MMO. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Police Plan	\$ 4,282,598	\$ 1,811,491	\$ (272,655)
Union Plan	\$ 277,030	\$ (306,847)	\$ (802,191)
Non-Union Plan	\$ 1,654,733	\$ 839,848	\$ 141,708

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

For the year ended December 31, 2018, the Township recognized pension expense of \$1,445,733. At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police	Union	Non-Union	Total
<u>Deferred Outflows of Resources:</u>				
Change of assumptions	\$ 693,434	\$ 223,604	\$ 216,973	\$ 1,134,011
Differences between projected and actual earnings on pension plan investments	2,567,967	672,528	959,398	4,199,893
Total deferred outflows of resources	\$ 3,261,401	\$ 896,132	\$ 1,176,371	\$ 5,333,904
	Police	Union	Non-Union	Total
<u>Deferred Inflows of Resources:</u>				
Differences between expected and actual experience	\$ 297,596	\$ 123,873	\$ 194,708	\$ 616,177
Differences between projected and actual earnings on pension plan investments	836,491	218,144	306,420	1,361,055
Total deferred inflows of resources	\$ 1,134,087	\$ 342,017	\$ 501,128	\$ 1,977,232

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

<u>Year Ending December 31,</u>	<u>Police</u>	<u>Union</u>	<u>Non-Union</u>
2019	\$ 657,329	\$ 163,916	\$ 236,266
2020	410,162	87,319	117,916
2021	439,130	113,367	111,919
2022	620,693	185,580	209,142
2023	-	3,933	-
Total	<u>\$ 2,127,314</u>	<u>\$ 554,115</u>	<u>\$ 675,243</u>

Shaler North Hills Library

Full-time Library employees hired prior to January 1, 2018 are covered by the Township's Non-Union Pension Plan (Plan), which is a defined benefit plan. The members of the Plan are required to contribute 5% of basic annual earnings. Employer contributions are paid by the Township. Additionally, any liability for pension related benefits is assumed by the Township. The Plan is reflected as a Pension Trust Fund in the Township's basic financial statements.

Full-time Library employees hired after January 1, 2018 are eligible for participation in a 403(b) plan, which will be established by the Library at the appropriate time.

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7. Other Post-Retirement Benefits (OPEB)

Plan Description. In addition to the pension benefits described in Note 6, the Township provides post-retirement health care benefits to certain retired employees, in accordance with the various union contracts and Township policy. The Township funds all Township contributions on a pay-as-you-go basis.

At December 31, 2018, participants in the OPEB Plan were as follows:

	<u>Police</u>	<u>Union</u>	<u>Management</u>
Inactive plan members or beneficiaries currently receiving benefits	21	23	14
Active plan members	25	23	9
Total plan members	<u>46</u>	<u>46</u>	<u>23</u>

Benefits. For Police employees, the Township provides medical, dental, and vision coverage for employees and their spouses from the date of retirement until Medicare eligibility. If a police employee does not have Medicare coverage, then Medicare coverage will be provided by the Township to the date of the employee's death. Police spouses will receive the same coverage. Effective January 1, 2013, no other post-retirement benefits will be provided to newly hired police employees.

Post-retirement benefits for Union employees who retire after the age of 62 and completion of 20 years of service (10 years of service for employees hired before January 1, 2000) consist of the full cost of single coverage at the date of retirement for medical coverage until the age of 65, with the retiree paying any increase in the single coverage rate after the date of retirement.

For Management employees employed by the Township as of July 1, 2013, the Township will create a Health Reimbursement Arrangement (HRA). Within the HRA, a fund will be established in the retiree's name with a designated amount of funds which can be used to reimburse retirees for the purchase of monthly medical insurance premiums, including health care, eye, and dental benefits up to \$800 per month. To qualify for such post-retirement benefits, management employees must have at least 25 years of service and be at least 55 years of age. The individual retiree HRA deposit amount is based upon the number of years of service employed by the Township, but shall not exceed \$25,000.

In addition, each retired policeman is eligible for a post retirement life insurance benefit totaling \$4,000, while Union and Management personnel are entitled to a post-retirement

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life insurance benefit totaling \$3,000. The Township has eliminated the post-retirement life insurance benefit for future retiring management employees.

Contributions. The Township's contribution is based on projected pay-as-you-go financing requirements. For the year ended 2018, total cash disbursements for health care, dental, and vision for current retirees or their widow/widowers were \$347,924. Employees are not required to make contributions for basic life insurance.

Changes in the Total OPEB Liability. The changes in the OPEB liability of the Township for the year ended December 31, 2018 were as follows:

	Total OPEB Liability
Balances at December 31, 2017	\$ 5,401,126
Changes for the year:	
Service cost	176,753
Interest	175,673
Benefit payments	<u>(347,924)</u>
Net changes	<u>4,502</u>
Balances at December 31, 2018	<u><u>\$ 5,405,628</u></u>

Actuarial Methods and Assumptions. The total OPEB liability was determined by an actuarial valuation performed on January 1, 2018, and rolled forward to December 31, 2018, using the following actuarial assumptions, applied to all periods in the measurement:

- Actuarial cost method: Entry Age Normal
- Inflation rate: 2.75%
- Discount rate, based on the index rate for the 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher: 3.25%
- Annual trend rates:

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<u>Year</u>	<u>Pre-65 Medical/R</u>	<u>Dental & Vision</u>
2018	-1.40%	3.00%
2019	6.75%	3.00%
2020	6.50%	3.00%
2021	6.25%	3.00%
2022	6.00%	3.00%
2023	5.75%	3.00%
2024	5.50%	3.00%
2025	5.25%	3.00%
2016 and later	5.00%	3.00%

- **Morality:** For Police and Union, RP-2014 Mortality Table with 50% Blue Collar Adjustment, rates set forward 5 years for disabled members. For Management, RP-2014 Mortality Table, rates set forward 5 years for disabled members.
- **Mortality Improvement:** Rates derived from the Long-Range Demographic Assumptions for the 2015 Social Security Administration’s Trustee Report.
- **Retirement Age:** For Police, age 55 and completion of 25 years of service. For Management, age 60 and completion of 25 years of service. For Union, age 62 and completion of 20 years of service (10 years of service if hired on or before January 1, 2000).
- **Participation:** 100% of eligible retirees
- **HRA Application:** Management employees eligible for the HRA are assumed to leave the Township’s coverage upon assumed retirement and begin receiving maximum reimbursements immediately.
- **Current Premium Schedules:** The following are the reported applicable 2018 annual rates for medical (including prescription drug), dental, and vision coverage:

<u>Coverage</u>	<u>Active</u>	<u>Retiree</u>	<u>Non-Police</u>	<u>Police</u>	<u>Vision</u>
	<u>Medical/Rx MBS PPO 10B</u>	<u>Medical/Rx MBS PPO 10B</u>	<u>Dental</u>	<u>Dental</u>	
Single	\$ 7,588.68	\$ 11,026.08	\$ 371.64	\$ 432.12	\$ 60.48
Parent/Child(ren)	18,258.24	26,529.00	1,152.84	1,332.48	120.24
Husband/Wife	20,443.68	29,704.44	1,152.84	1,332.48	120.24
Family	23,479.20	34,114.80	1,152.84	1,332.48	120.24

Changes in Actuarial Assumptions. The interest rate assumption has been lowered from 4.00% to 3.25%. The dental and visions premiums are projected to increase at 3% per year

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as compared to 4% used in the last valuation. The medical trend rate assumed for 2018 is the actual rate of change, with the rates from 2019 to 2025 being greater than those assumed for the same years in the last valuation.

Sensitivity of the Total OPEB Liability to changes in the Discount Rate. The following presents the total OPEB liability calculated using the discount rate described above, as well as what the total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<u>1% Decrease (2.25%)</u>	<u>Current Discount Rate (3.25%)</u>	<u>1% Increase (4.25%)</u>
<u>\$ 5,846,207</u>	<u>\$ 5,405,628</u>	<u>\$ 5,004,876</u>

Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates. The following presents the total OPEB liability calculated using the stated healthcare cost trend rate, as well as what the total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
<u>\$ 4,918,366</u>	<u>\$ 5,405,628</u>	<u>\$ 5,965,875</u>

8. Real Estate Taxes

Real estate taxes are based on assessed valuations provided by Allegheny County (County) and are levied on July 1. The 2018 assessed value of taxable real property totaled \$1,737,126,814. These taxes are billed on July 1 and collected by the elected Township Treasurer. Taxes paid through August 31 are given a 2% discount. Amounts paid after October 31 are assessed a 10% penalty. Any uncollected balances as of the end of the third year following the billing are sent to an outside collection agency to be lienied.

Under the Code, the Township is permitted to levy real estate taxes up to 30 mills for general purposes. Additional taxes may be levied for certain specified purposes. Township real estate taxes were levied at 2.49 mills on assessed valuation for general purposes for 2018.

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YEAR ENDED DECEMBER 31, 2018

9. Commitments and Contingencies

In 1997, the United States Environmental Protection Agency (USEPA) ordered 83 communities tributary to the Allegheny County Sanitary Authority (ALCOSAN) whose sanitary sewers had been identified as being subject to possible wet weather overflows to implement a comprehensive flow monitoring program. The Township is one of the communities directed by USEPA to perform flow monitoring. On November 4, 2003, the Township was notified by the Environmental Protection Agency to execute the Allegheny County Health Department's (ACHD), proposed Administrative Consent Order (ACO). The Township is compelled to comply with the ACO of the ACHD as a result of its location within ALCOSAN. The Township continues to monitor and collect data related to sewer line flows. The Township has undergone construction within the past year in order to meet compliance. Further, commencing in 2012 and over a twenty-year period, plans are in place to upgrade sections of sanitary sewer lines in compliance with the EPA's long-term improvement requirements. The Township is currently in discussions to minimize the construction cost through a regionalization with various other government units. In addition, ALCOSAN is in the process of evaluating man sewer lines within the Township. It is anticipated that ownership and maintenance of the lines will be transferred from the Township to ALCOSAN after evaluation and completion of any necessary repairs. The Township is also conducting a source reduction study and demonstration project in accordance with the Phase I ACO. The Township currently expects any major construction would occur from 2022 through 2026. The Township's costs of such improvements are unknown, but the costs of the total project for the Township could be as high as \$20,000,000. The Township will use current funds available and will issue debt as necessary to complete the project. No amount has been recorded as a provision in the accompanying financial statements.

In addition, various other claims and lawsuits are pending against the Township. In most cases, the Township is insured, and losses will not exceed insurance limits. In the opinion of the Township management and solicitor, the outcome of these claims and lawsuits will not have a material adverse effect on the accompanying general purpose financial statements.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

10. Workmen's Compensation and Health Insurance

For its workmen's compensation insurance coverage, the Township participates in the Municipal Risk Management Workmen's Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of approximately 200 cities, municipalities, boroughs, townships, and municipal authorities. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals of the Pennsylvania Department of Labor and Industry as mandated by Act 44 of 1993 (Act 44). All Trust participants may be subject to a supplemental assessment/dividend based on the overall experience of the participants, pursuant to Act 44. Dividends received in 2018 were \$203,365. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workmen's Compensation Act and Occupational Disease Act of each and every participant of the Trust. Political subdivisions joining the Trust must remain members for a minimum of four years; a member may withdraw from the Trust after that time by giving ninety days' notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments, but has no claim on any assets of the Trust.

The Township participates as a member in Municipal Employers Insurance Trust (d/b/a Municipal Benefit Services (MBS)), a public entity risk pool. MBS provides certain benefits including but not limited to, the following coverages: health benefits, short-term accident and sickness disability benefits, long-term accident and sickness disability benefits, dental benefits, vision care, prescription drugs, and life insurance for those eligible employers. All participants of MBS may be subject to supplemental premiums based on the overall experience of the participating members. Reserves generated by MBS for self-insured health premiums paid by members exceeding claims and expenses are held by MBS for the benefit of all participating members. Beginning in 2015, a portion of the excess reserves was deposited in eligible clients' Rate Mitigation Accounts (RMA) as determined by MBS's actuary. RMA funds are held by MBS and are available to the Township reduce future costs associated with participating coverage. RMA funds are forfeited if the member terminates participation in the MBS medical insurance program.

TOWNSHIP OF SHALER

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

11. Pittsburgh Foundation

During 1991, the Library established the Shaler North Hills Library Trust Fund (Trust) pursuant to an agreement with the Pittsburgh Foundation (Foundation), a nonprofit community trust. The Trust agreement is an irrevocable transfer of all rights, title, and interest in the funds deposited. Disbursements of the Trust are determined by the Foundation Board, upon recommendation of the Library Board. Accordingly, the Trust activity and balance are not included in the financial statement. During 2018, a contribution of \$13,671 was made from the Foundation to the Library General Fund and the Trust realized an investment loss of \$16,932 in the Trust. The fair value of the Trust was \$323,067 at December 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF SHALER

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Real estate	\$ 4,336,510	\$ 4,336,510	\$ 4,562,513	\$ 226,003
Earned income	4,065,000	4,065,000	4,222,864	157,864
Real estate transfer	425,000	425,000	487,120	62,120
Local service	200,000	200,000	183,261	(16,739)
Mechanical device	16,500	16,500	24,200	7,700
Sales	480,000	480,000	504,737	24,737
Total taxes	<u>9,523,010</u>	<u>9,523,010</u>	<u>9,984,695</u>	<u>461,685</u>
Licenses, permits, and fees	680,750	680,750	697,163	16,413
Fines, forfeitures, and penalties	47,750	47,750	68,939	21,189
Investment income, rents, and royalties	172,135	172,135	233,775	61,640
Intergovernmental	515,889	515,889	558,623	42,734
Charges for services	411,895	411,895	448,830	36,935
Miscellaneous	21,450	21,450	55,869	34,419
Total revenues	<u>11,372,879</u>	<u>11,372,879</u>	<u>12,047,894</u>	<u>675,015</u>
Expenditures:				
Current:				
General government	1,318,614	1,318,614	1,296,963	21,651
Public safety	5,315,138	5,315,138	5,006,161	308,977
Public works	4,203,114	4,203,114	4,153,979	49,135
Culture and recreation	1,028,946	1,028,946	1,053,730	(24,784)
Miscellaneous	217,570	217,570	209,783	7,787
Contribution to component units	600,000	600,000	599,992	8
Total expenditures	<u>12,683,382</u>	<u>12,683,382</u>	<u>12,320,608</u>	<u>362,774</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,310,503)</u>	<u>(1,310,503)</u>	<u>(272,714)</u>	<u>1,037,789</u>
Other Financing Sources (Uses):				
Refunds of prior years expenditures	181,340	181,340	264,498	83,158
Transfers in	246,000	246,000	307,093	61,093
Transfers out	(125,000)	(125,000)	(171,084)	(46,084)
Total other financing sources (uses)	<u>302,340</u>	<u>302,340</u>	<u>400,507</u>	<u>98,167</u>
Net Change in Fund Balance	<u>\$ (1,008,163)</u>	<u>\$ (1,008,163)</u>	<u>127,793</u>	<u>\$ 1,135,956</u>
Fund Balance:				
Beginning of year			<u>4,440,085</u>	
End of year			<u>\$ 4,567,878</u>	

TOWNSHIP OF SHALER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLAN

SCHEDULES OF CHANGES IN THE TOWNSHIP'S NET
PENSION LIABILITY (ASSET) AND RELATED RATIOS

POLICE PLAN

YEAR ENDED DECEMBER 31
LAST TEN YEARS*

	2018	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 371,596	\$ 389,014	\$ 328,895	\$ 332,014	\$ 330,297
Interest	1,539,709	1,481,029	1,404,079	1,341,078	1,317,175
Differences between expected and actual experience	-	(275,796)	-	(537,102)	-
Changes of assumptions	-	1,101,336	-	-	-
Benefit payments, including refunds of member contributions	<u>(1,131,530)</u>	<u>(968,709)</u>	<u>(836,648)</u>	<u>(823,480)</u>	<u>(764,337)</u>
Net Changes in Total Pension Liability	779,775	1,726,874	896,326	312,510	883,135
Total Pension Liability - Beginning	<u>21,426,131</u>	<u>19,699,257</u>	<u>18,802,931</u>	<u>18,490,421</u>	<u>17,607,286</u>
Total Pension Liability - Ending (a)	<u>\$ 22,205,906</u>	<u>\$ 21,426,131</u>	<u>\$ 19,699,257</u>	<u>\$ 18,802,931</u>	<u>\$ 18,490,421</u>
Plan Fiduciary Net Position:					
Contributions - employer	\$ 189,042	\$ 76,189	\$ 59,081	\$ 205,720	\$ 196,866
Contributions - employee	166,126	219,064	197,901	185,822	181,062
Net investment income (loss)	(1,182,375)	2,818,388	1,481,384	(149,346)	1,144,633
Benefit payments, including refunds of member contributions	(1,131,530)	(968,709)	(836,648)	(823,480)	(764,337)
Administrative expense	(118,326)	(109,426)	(103,879)	(96,612)	(98,829)
Other	-	-	-	13,607	7,781
Net Change in Plan Fiduciary Net Position	(2,077,063)	2,035,506	797,839	(664,289)	667,176
Plan Fiduciary Net Position - Beginning	<u>22,471,478</u>	<u>20,435,972</u>	<u>19,638,133</u>	<u>20,302,422</u>	<u>19,635,246</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 20,394,415</u>	<u>\$ 22,471,478</u>	<u>\$ 20,435,972</u>	<u>\$ 19,638,133</u>	<u>\$ 20,302,422</u>
Net Pension Liability (Asset) - Ending (a-b)	<u>\$ 1,811,491</u>	<u>\$ (1,045,347)</u>	<u>\$ (736,715)</u>	<u>\$ (835,202)</u>	<u>\$ (1,812,001)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>91.84%</u>	<u>104.88%</u>	<u>103.74%</u>	<u>104.44%</u>	<u>109.80%</u>
Covered Payroll	<u>\$ 2,419,725</u>	<u>\$ 2,443,049</u>	<u>\$ 2,412,611</u>	<u>\$ 2,382,789</u>	<u>\$ 2,368,197</u>
Net Pension Liability (Asset) as a Percentage of Covered Payroll	74.86%	-42.79%	-30.54%	-35.05%	-76.51%

* Until a full 10-year trend is compiled, the required information for the plan is presented for as many years as are available.

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

TOWNSHIP OF SHALER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLAN

SCHEDULES OF CHANGES IN THE TOWNSHIP'S NET
PENSION LIABILITY (ASSET) AND RELATED RATIOS

UNION PLAN

YEAR ENDED DECEMBER 31
LAST TEN YEARS*

	2018	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 107,808	\$ 103,166	\$ 91,524	\$ 87,166	\$ 85,922
Interest	344,273	332,617	315,375	292,730	310,000
Differences between expected and actual experience	-	(92,903)	-	(205,970)	-
Changes of assumptions	-	332,678	-	-	-
Benefit payments, including refunds of member contributions	(266,385)	(279,569)	(271,412)	(242,057)	(252,398)
Other	(6,559)	-	-	-	-
Net Changes in Total Pension Liability	179,137	395,989	135,487	(68,131)	143,524
Total Pension Liability - Beginning	4,778,201	4,382,212	4,246,725	4,314,856	4,171,332
Total Pension Liability - Ending (a)	\$ 4,957,338	\$ 4,778,201	\$ 4,382,212	\$ 4,246,725	\$ 4,314,856
Plan Fiduciary Net Position:					
Contributions - employer	\$ 21,274	\$ 13,943	\$ 17,952	\$ 17,404	\$ 21,760
Contributions - employee	46,172	53,927	54,147	53,243	55,889
Net investment income (loss)	(318,054)	739,402	384,707	(36,237)	312,791
Benefit payments, including refunds of member contributions	(266,385)	(279,569)	(284,009)	(242,057)	(252,398)
Administrative expense	(43,744)	(42,428)	(40,308)	(43,332)	(39,997)
Other	(6,559)	-	-	4,944	(30,053)
Net Change in Plan Fiduciary Net Position	(567,296)	485,275	132,489	(246,035)	67,992
Plan Fiduciary Net Position - Beginning	5,831,481	5,346,206	5,213,717	5,459,752	5,391,760
Plan Fiduciary Net Position - Ending (b)	\$ 5,264,185	\$ 5,831,481	\$ 5,346,206	\$ 5,213,717	\$ 5,459,752
Net Pension Liability (Asset) - Ending (a-b)	\$ (306,847)	\$ (1,053,280)	\$ (963,994)	\$ (966,992)	\$ (1,144,896)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	106.19%	122.04%	122.00%	122.77%	126.53%
Covered Payroll	\$ 1,449,818	\$ 1,334,408	\$ 1,320,593	\$ 1,392,445	\$ 1,232,906
Net Pension Liability (Asset) as a Percentage of Covered Payroll	-21.16%	-78.93%	-73.00%	-69.45%	-92.86%

* Until a full 10-year trend is compiled, the required information for the plan is presented for as many years as are available.

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

TOWNSHIP OF SHALER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLAN

SCHEDULES OF CHANGES IN THE TOWNSHIP'S NET
PENSION LIABILITY (ASSET) AND RELATED RATIOS

NON-UNION PLAN

YEAR ENDED DECEMBER 31
LAST TEN YEARS*

	2018	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 119,698	\$ 128,105	\$ 123,785	\$ 119,986	\$ 123,730
Interest	581,759	559,828	551,506	529,604	512,852
Differences between expected and actual experience	-	(355,640)	-	(40,346)	-
Changes of assumptions	-	405,647	-	-	-
Benefit payments, including refunds of member contributions	(386,769)	(363,300)	(361,665)	(365,399)	(372,731)
Other	6,559	-	-	-	-
Net Changes in Total Pension Liability	321,247	374,640	313,626	243,845	263,851
Total Pension Liability - Beginning	8,093,259	7,718,619	7,404,993	7,161,148	6,897,297
Total Pension Liability - Ending (a)	\$ 8,414,506	\$ 8,093,259	\$ 7,718,619	\$ 7,404,993	\$ 7,161,148
Plan Fiduciary Net Position:					
Contributions - employer	\$ 136,677	\$ 116,239	\$ 115,961	\$ 143,882	\$ 140,445
Contributions - employee	58,359	52,100	52,405	60,309	49,414
Net investment income (loss)	(442,150)	1,035,293	544,991	(64,532)	391,158
Benefit payments, including refunds of member contributions	(386,769)	(363,300)	(361,665)	(365,399)	(372,731)
Administrative expense	(68,643)	(50,678)	(49,414)	(48,287)	(47,682)
Other	6,559	-	-	(18,551)	22,272
Net Change in Plan Fiduciary Net Position	(695,967)	789,654	302,278	(292,578)	182,876
Plan Fiduciary Net Position - Beginning	8,270,625	7,480,971	7,178,693	7,471,271	7,288,395
Plan Fiduciary Net Position - Ending (b)	\$ 7,574,658	\$ 8,270,625	\$ 7,480,971	\$ 7,178,693	\$ 7,471,271
Net Pension Liability (Asset) - Ending (a-b)	\$ 839,848	\$ (177,366)	\$ 237,648	\$ 226,300	\$ (310,123)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.02%	102.19%	96.92%	96.94%	104.33%
Covered Payroll	\$ 1,116,694	\$ 1,121,289	\$ 1,151,511	\$ 1,067,328	\$ 1,120,453
Net Pension Liability (Asset) as a Percentage of Covered Payroll	75.21%	-15.82%	20.64%	21.20%	-27.68%

* Until a full 10-year trend is compiled, the required information for the plan is presented for as many years as are available.

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

TOWNSHIP OF SHALER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLAN

SCHEDULES OF TOWNSHIP CONTRIBUTIONS
AND INVESTMENT RETURNS

YEAR ENDED DECEMBER 31
LAST TEN YEARS*

POLICE PLAN:

<u>Schedule of Township Contributions</u>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ -	\$ -	\$ 162,162	\$ 147,012	\$ 247,623	\$ 196,866	\$ 205,720	\$ 59,081	\$ 76,189	\$ 189,042
Contributions in relation to the actuarially determined contribution	-	-	282,318	171,653	248,407	196,866	205,720	59,081	76,189	189,042
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (120,156)</u>	<u>\$ (24,641)</u>	<u>\$ (784)</u>	<u>\$ -</u>				
Covered payroll	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,238,800</u>	<u>\$ 2,238,800</u>	<u>\$ 2,368,197</u>	<u>\$ 2,382,789</u>	<u>\$ 2,412,611</u>	<u>\$ 2,443,049</u>	<u>\$ 2,419,725</u>
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	7.67%	11.10%	8.31%	8.63%	2.45%	3.12%	7.81%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	n/a	n/a	n/a	n/a	n/a	5.92%	-0.75%	7.68%	14.05%	-5.47%

UNION PLAN:

<u>Schedule of Township Contributions</u>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ -	\$ 15,949	\$ 10,303	\$ 6,569	\$ -	\$ 21,760	\$ 17,404	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	137,256	101,713	131,124	784	21,760	17,404	17,952	13,943	21,274
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (121,307)</u>	<u>\$ (91,410)</u>	<u>\$ (124,555)</u>	<u>\$ (784)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (17,952)</u>	<u>\$ (13,943)</u>	<u>\$ (21,274)</u>
Covered payroll	<u>\$ 2,178,582</u>	<u>\$ 2,133,318</u>	<u>\$ 2,133,318</u>	<u>\$ 1,114,087</u>	<u>\$ 1,114,087</u>	<u>\$ 1,232,906</u>	<u>\$ 1,392,445</u>	<u>\$ 1,320,593</u>	<u>\$ 1,334,408</u>	<u>\$ 1,449,818</u>
Contributions as a percentage of covered payroll	0.00%	6.43%	4.77%	11.77%	0.07%	1.76%	1.25%	1.36%	1.04%	1.47%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	n/a	n/a	n/a	n/a	n/a	5.94%	-0.68%	7.54%	14.15%	-5.58%

NON-UNION PLAN:

<u>Schedule of Township Contributions</u>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ 51,301	\$ 83,006	\$ 84,379	\$ 82,596	\$ 130,653	\$ 140,445	\$ 143,882	\$ 99,869	\$ 102,293	\$ 115,403
Contributions in relation to the actuarially determined contribution	66,380	84,110	156,382	101,323	131,436	140,445	143,882	115,961	116,239	136,677
Contribution deficiency (excess)	<u>\$ (15,079)</u>	<u>\$ (1,104)</u>	<u>\$ (72,003)</u>	<u>\$ (18,727)</u>	<u>\$ (783)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,092)</u>	<u>\$ (13,946)</u>	<u>\$ (21,274)</u>
Covered payroll	<u>\$ 1,382,483</u>	<u>\$ 1,302,876</u>	<u>\$ 1,302,876</u>	<u>\$ 1,101,663</u>	<u>\$ 1,101,663</u>	<u>\$ 1,120,453</u>	<u>\$ 1,067,328</u>	<u>\$ 1,151,511</u>	<u>\$ 1,121,289</u>	<u>\$ 1,116,694</u>
Contributions as a percentage of covered employee payroll	4.80%	6.46%	12.00%	9.20%	11.93%	12.53%	13.48%	10.07%	10.37%	12.24%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	n/a	n/a	n/a	n/a	n/a	5.46%	-0.88%	7.63%	14.11%	-5.63%

* Until a full 10-year trend is compiled, the required information for the plan is presented for as many years as are available.

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

TOWNSHIP OF SHALER

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2018

Actuarial Methods and Assumptions

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

	<u>Police</u>	<u>Union</u>	<u>Non-Union</u>
Actuarial valuation date	1/1/2017	1/1/2017	1/1/2017
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Open	Level Dollar Open	Level Dollar Open
Amortization period	17 years	17 years	13 years
Asset valuation method	4-Year Smoothing	4-Year Smoothing	4-Year Smoothing
Actuarial assumptions:			
Investment rate of return	7.25%	7.25%	7.25%
Projected salary increases	4.25%	4.50%	4.50%
Underlying inflation rate	2.75%	2.75%	2.75%

Benefit Changes

No benefit terms were modified for the Police plan.

For the Union plan, effective 1/1/2011, the plan was amended to increase the employee contribution rate from 2.5% to 5.0% of pay for all participants effective January 1, 2010. For the Union plan, effective 1/1/2007, the benefit formula was changed to 1.5% for less than 25 years of service, 1.8% for 25 to 30 years of service, and 2.0% for greater than 30 years of service. In addition, the service increment was eliminated, and the pre-retirement death benefit was added, and the employee contribution was reduced.

For the Non-Union plan, effective 1/1/2007, the benefit formula multipliers changed from 1.5% for less than 25 years of service, 1.8% for 25 to 30 years of service and 2.0% for greater than 30 years of service (maximum of 40 years of service). For the Non-Union plan, effective 1/1/2009, employee contribution rates changed from 2.5% to rates determined based on hire date and service. For the Non-Union plan, effective 1/1/2011, employee contributions changed from rates based on hire dates and service to a flat 5.0% of compensation. For the Non-Union plan,

TOWNSHIP OF SHALER

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2018

effective 1/1/2013, the service requirement for vesting was lowered to eight years if hired prior to January 1, 2005.

Change in Actuarial Assumptions

For all plan 1/1/2017 actuarial valuations, the inflation assumption was lowered from 3% to 2.75% and the interest rate assumption was lowered from 7.5% to 7.25%. In addition, the salary increase assumption was lowered from 5% per year to 4.5% per year for the Union and Non-Union Plans, and to 4.25% per year, plus an additional increase of 25% in the final year for participants hired prior to January 1, 2001, for the Police Plan. Lastly, the mortality table was updated to the RP-2014 mortality table (with 50% of the Blue Collar Adjustment for the Police and Union Plans) and projected mortality improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report.

No significant changes were made to the actuarial assumptions used in the 1/1/2015 valuation since the previous actuarial valuation on 1/1/2013.

For all plan 1/1/2011 actuarial valuations, the mortality table was updated to RP-2000 Combined Healthy Mortality Table, with Blue Collar Adjustment for Police and Union, and rates projected to improve with 75% of Scale AA.

For the Union 1/1/2009 actuarial valuation, the actuarial value of assets was changed to a four-year smoothing method. The preretirement death benefit is being valued directly and participants are assumed to retire on the valuation date rather than one year later if already at or beyond assumed retirement age at the valuation date.

For the Non-Union 1/1/2009 actuarial valuation, the actuarial value of assets was changed from market value to a four-year smoothing method. Pre-retirement death benefits are being valued directly assuming 90% of males and 65% of females are married and that male spouses are 3 years older than female spouses. For the Non-Union 1/1/2011 actuarial valuation, the retirement assumption was updated to use rates of retirement that vary based on age and service.

TOWNSHIP OF SHALER

SCHEDULE OF CHANGES IN THE TOWNSHIP'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years¹

	2018
Total OPEB Liability:	
Service cost	\$ 176,753
Interest	175,673
Changes of benefit terms	-
Differences between actual and expected experience	-
Changes of assumptions	-
Benefit payments	(347,924)
	4,502
Net Changes in Total OPEB Liability	4,502
Total OPEB Liability - Beginning	5,401,126
Total OPEB Liability - Ending	\$ 5,405,628
Covered Payroll	\$ 4,535,986
Total OPEB Liability as a Percentage of Covered Payroll	119.17%

¹ The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Township is presenting information for those years only for which information is available.

TOWNSHIP OF SHALER

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES OTHER POST-EMPLOYMENT BENEFITS

YEAR ENDED DECEMBER 31, 2018

The Township has no assets accumulated in a trust that meets the criteria as defined in paragraph 4 of GASB Statement No. 75 to pay related other post-employment benefits.

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

For the January 1, 2017 actuarial valuation, The interest rate assumption has been lowered from 4.00% to 3.25%. The dental and visions premiums are projected to increase at 3% per year as compared to 4% used in the last valuation. The medical trend rate assumed for 2018 is the actual rate of change, with the rates from 2019 to 2025 being greater than those assumed for the same years in the last valuation.

SUPPLEMENTARY INFORMATION

TOWNSHIP OF SHALER

COMBINING STATEMENT OF PLAN NET POSITION

PENSION TRUST FUNDS

DECEMBER 31, 2018

<u>Assets</u>	<u>Police</u>	<u>Union</u>	<u>Non-Union</u>	<u>Total</u>
Cash and cash equivalents	\$ 854,599	\$ 195,401	\$ 300,294	\$ 1,350,294
Investments (at fair value):				
U.S. government obligations	2,782,245	724,932	1,053,977	4,561,154
Corporate debt	4,258,009	1,116,630	1,588,460	6,963,099
Equities	9,959,460	2,570,503	3,661,039	16,191,002
Other bonds	-	-	12,822	12,822
Mutual funds	2,540,102	656,719	958,066	4,154,887
Total Assets	<u>20,394,415</u>	<u>5,264,185</u>	<u>7,574,658</u>	<u>33,233,258</u>
Net Position Restricted for Pension Benefits	<u>\$ 20,394,415</u>	<u>\$ 5,264,185</u>	<u>\$ 7,574,658</u>	<u>\$ 33,233,258</u>

TOWNSHIP OF SHALER

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION

PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2018

Additions:	Police	Union	Non-Union	Total
Contributions:				
Employer	\$ 189,042	\$ 21,274	\$ 136,677	\$ 346,993
Employee	166,126	46,172	58,359	270,657
Total contributions	355,168	67,446	195,036	617,650
Investment income (loss):				
Net increase (decrease) in fair value of investments	(2,066,873)	(538,915)	(792,061)	(3,397,849)
Interest and dividends	884,498	220,861	349,911	1,455,270
Total investment income (loss)	(1,182,375)	(318,054)	(442,150)	(1,942,579)
Total additions	(827,207)	(250,608)	(247,114)	(1,324,929)
Deductions:				
Benefits	1,131,530	266,385	386,769	1,784,684
Administrative expense	118,326	43,744	68,643	230,713
Total deductions	1,249,856	310,129	455,412	2,015,397
Transfers	-	(6,559)	6,559	-
Increase (Decrease) in Plan Net Position	(2,077,063)	(567,296)	(695,967)	(3,340,326)
Net Position Restricted for Pension Benefits:				
Beginning of year	22,471,478	5,831,481	8,270,625	36,573,584
End of year	\$ 20,394,415	\$ 5,264,185	\$ 7,574,658	\$ 33,233,258