FOX CHAPEL AUTHORITY
(Water Works System)

Financial Statements

December 31, 2016

FOX CHAPEL AUTHORITY
(Water Works System)

DECEMBER 31, 2016

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LS&B
LOVE, SCHERLE & BAUER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

The Grant Building • 310 Grant Street • Suite 1020 • Pittsburgh, Pennsylvania 15219-2295
(412) 281-8270 • FAX (412) 281-7791

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fox Chapel Authority
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of Fox Chapel Authority Water Works System, which comprise the statements of net position as of December 31, 2016 and December 31, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of 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 organization'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 Authority'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 opinion.

Opinion

In our opinion, the financial statements referred to on page 1 present fairly, in all material respects, the financial position of Fox Chapel Authority as of December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on pages 3 through 11 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 and the actuary about the methods of preparing the information and comparing the information for consistency with management's and the actuary's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Love, Scherle + Bauer, P.C.

Certified Public Accountants

Pittsburgh, Pennsylvania
March 17, 2017

REQUIRED SUPPLEMENTARY INFORMATION

FOX CHAPEL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2016. Please read it in conjunction with the Authority's financial statements.

GENERAL:

The Fox Chapel Authority was created by Fox Chapel Borough and the Townships of Harmar, Indiana and O'Hara in accordance with the Pennsylvania Municipality Authorities Act of June 28, 1935 for a term of 50 years. The Authority was incorporated on September 23, 1938 and is authorized to operate water treatment, supply and distribution systems. On June 30, 2012, the Authority's life was extended to December 31, 2050.

The Authority currently serves 5,477 accounts with the following breakdown: 5,238 residential, 212 commercial, 22 municipal, 1 industrial and 2 bulk customers. The system consists of approximately 113 miles of pipe ranging in size from 2" to 16" in diameter. The system has five storage facilities with a capacity of 3.63MG. The Authority is constantly upgrading its distribution system and storage facilities.

In July of 1995, the Authority entered into a 30 year water supply agreement with Pittsburgh Water and Sewer Authority to supply up to 10MG. The Fox Chapel Authority water treatment plant ceased operating in November 1997.

FINANCIAL HIGHLIGHTS:

The Authority's net position increased by $90,724 for 2016 as a result of operations. The Authority's operating revenues decreased by $68,223 while operating expenses increased by $343,478 for 2016. The decrease in operating revenues resulted principally from a decrease in other operating revenues. The increase in operating expenses resulted from increased depreciation expense. Capital expenditures totaled $767,791 for 2016, which consisted principally of construction in progress. A detailed review of the Authority's long-term debt is included in the notes to the financial statements.

OVERVIEW:

This annual report contains both the Required Supplementary Information and the Financial Statements. The Financial Statements also include the Independent Auditor's Report and Notes to Financial Statements that offer a more detailed explanation of those Statements.

The Financial Statements of the Authority are compiled using the enterprise fund method of accounting which is similar to the methods used by the private sector. The statement of net position reports all of the Authority's assets, net deferred outflows of resources, liabilities and resulting net position. The overall condition of the Authority is viewed in this statement. The Statement of Revenues, Expenses and Changes in Net Position reports the revenues and expenses of the Authority. This statement shows the year's activity. The statement can be used to view the Authority's ability to meet expenses, profitability, and help determine its credit worthiness. The third financial statement is the Statement of Cash Flows. Information is provided within this statement as to the Authority's cash receipts and cash payments for the reporting period. The statement further illuminates the net changes in investing activities and financing activities. This statement can be used to view where the cash comes from, what the cash is used for, and the increase or decrease in cash for the reporting period.

OVERVIEW (CONTINUED):

A summary of the Authority's statement of net position at December 31, 2016 and December 31, 2015 follows:

	2016	2015	Increase (Decrease)
ASSETS:			
Current assets	$ 2,138,364	$ 2,393,534	$ (255,170)
Prepaid pension	87,656	113,207	(25,551)
Restricted assets	1,654,343	1,537,634	116,709
Investment in facilities	26,874,094	27,022,407	(148,313)
Other	70,717	74,888	(4,171)
Total Assets	30,825,174	31,141,670	(316,496)
DEFERRED OUTFLOWS OF RESOURCES	102,537	126,932	(24,395)
LIABILITIES:			
Current liabilities	752,349	786,674	(34,325)
Long-term debt	7,874,372	8,271,662	(397,290)
Total Liabilities	8,626,721	9,058,336	(431,615)
NET POSITION:			
Invested in facilities, net of related debt	18,594,722	18,355,745	238,977
Restricted	1,654,343	1,537,634	116,709
Unrestricted	2,051,925	2,316,887	(264,962)
Total Net Position	$ 22,300,990	$ 22,210,266	$ 90,724

While the statement of net position reflects the financial position of the Authority at December 31, 2016 and December 31, 2015 the statement of revenues, expenses and changes in net position reflects the activity of the Authority for a period of time. A condensed statement of revenues, expenses and changes in net position for the years ended December 31, 2016 and December 31, 2015 follows:

	2016	2015	Increase (Decrease)
REVENUE:			
Operating revenue	$ 4,356,971	$ 4,425,194	$ (68,223)
Non-operating revenue	1,167	1,009	158
Total Revenue	4,358,138	4,426,203	(68,065)
EXPENSES:			
Operating expenses	4,025,781	3,682,303	343,478
Non-operating expenses	241,633	249,750	(8,117)
Total Expenses	4,267,414	3,932,053	335,361
Change in Net Position	90,724	494,150	(403,426)
CONTRIBUTED CAPITAL	-	252,757	(252,757)
NET POSITION – BEGINNING OF YEAR	22,210,266	21,463,359	746,907
NET POSITION – END OF YEAR	$ 22,300,990	$ 22,210,266	$ 90,724

BUDGET HIGHLIGHTS:

The Authority's Board annually approves an operating budget. This budget is considered a management tool and is not revised during the year. The budgetary amounts are presented here and are not shown in the financial statement section of this report.

	2016 Budget	2016 Actual	Variance Positive (Negative)
OPERATING REVENUES:			
Metered sales	$ 3,858,700	$ 3,861,927	$ 3,227
Fire protection	248,200	247,638	(562)
Other	272,800	247,406	(25,394)
Total Operating Revenue	4,379,700	4,356,971	(22,729)
OPERATING EXPENSES:			
Distribution system	2,638,525	2,573,237	(65,288)
General and Administrative	507,500	539,005	31,505
Depreciation	605,600	913,539	307,939
Total Operating Expenses	3,751,625	4,025,781	274,156
Income from Operations	628,075	331,190	(296,885)
NONOPERATING REVENUE (EXPENSES):			
Interest income	2,400	1,167	(1,233)
Interest expense	(230,084)	(237,462)	(7,378)
Amortization of debt issuance expense	(4,200)	(4,171)	29
Total Non-operating Revenue (Expenses)	(231,884)	(240,466)	(8,582)
Unallocated Earnings	$ 396,191	$ 90,724	$ (305,467)

OVERALL GENERAL ECONOMIC CLIMATE AND 2017 BUDGET:

Since 1994, the Authority has very actively pursued a program of capital renewal. As of the end of 2016, it has invested $27,890,000 in replacement of facilities to improve the level of fire protection and public water supply services it provides. The Authority facilities are generally in good repair.

The Authority's 2017 budget reflects a decrease in operating revenues of approximately $89,000. The budget has operating expenses increasing by approximately $171,000 above their 2016 levels.

The revenue estimate for 2017 is based upon conservative assumptions regarding customer growth and water sales.

The expense estimate includes provisions to accommodate inflation. The expense budget also includes the assumption that the rate of unaccounted-for water loss will be at 15%.

CONTACTING THE AUTHORITY'S MANAGEMENT:

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions regarding this report, please contact in writing the Authority's Manager at 255 Alpha Drive, Pittsburgh, Pennsylvania 15238.

SALARIED EMPLOYEES' PENSION PLAN

Under GASB No. 68 *Accounting and Financial Reporting of Pensions* the following supplementary information is required for The Authority's Salaried Employees Pension Plan.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS:

	2016	2015
TOTAL PENSION LIABILITY		
Service cost	$ 33,600	$ 32,000
Interest	145,474	138,369
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	(77,497)	(63,691)
NET CHANGES IN TOTAL PENSION LIABILITY	101,577	106,678
TOTAL PENSION LIABILITY - BEGINNING	2,082,692	1,976,014
TOTAL PENSION LIABILITY - ENDING (A)	$ 2,184,269	$ 2,082,692
PLAN FIDUCIARY NET POSITION		
Contributions - employer	27,962	84,168
Contributions - employee	-	-
Net investment income	142,262	(4,757)
Benefit payments, including refunds of employee contributions	(77,497)	(63,691)
Administrative expense	(16,701)	(16,612)
Other	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	76,026	(892)
PLAN FIDUCIARY NET POSITION - BEGINNING	2,195,899	2,196,791
PLAN FIDUCIARY NET POSITION - ENDING (B)	$ 2,271,925	$ 2,195,899
NET PENSION LIABILITY - ENDING (A) - (B)	$ (87,656)	$ (113,207)
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	104.0 %	105.4 %
COVERED EMPLOYEE PAYROLL	$ 352,485	$ 343,906
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	(24.9) %	(32.9)

See notes to the Supplementary Schedules for an explanation of changes to benefit actuarial

SCHEDULE OF CONTRIBUTIONS:

2011 - 2016

YEAR ENDED DECEMBER 31	ACTUARIALLY DETERMINED CONTRIBUTIONS	ACTUAL CONTRIBUTION	CONTRIBUTION DEFICIENCY (EXCESS)	COVERED-EMPLOYEE PAYROLL	CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL
2011	80,230	80,232	(2)	-	- %
2012	79,164	79,164	-	400,345	19.8 %
2013	82,085	82,085	-	-	- %
2014	84,963	84,963	-	415,750	20.4 %
2015	84,167	84,168	(1)	343,906	24.5 %
2016	27,962	27,962	-	352,485	7.9 %

See notes to the Supplementary Schedules for an explanation of changes to benefit acuarial assumptions.

SCHEDULE OF INVESTMENT RETURNS:

Annual money-weighted rate of return, net of investment expense not funded through MMO for the years ended December 31, 2016, 2015 and 2014.

2016	6.55 %
2015	(0.22) %
2014	7.74 %

SCHEDULE OF FUNDING PROGRESS:

2007 - 2017

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) -ENTRY AGE (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL [(b-a)/c]
01-01-07	1,307,661	1,276,876	(30,785)	102.4 %	351,313	N/A %
01-01-09	1,223,005	1,460,867	237,862	83.7 %	377,834	63.0 %
01-01-11*	1,448,048	1,597,128	149,080	90.7 %	380,239	39.2 %
01-01-13*	1,645,037	1,899,537	254,500	86.6 %	400,345	63.6 %
01-01-15*	2,075,295	1,976,014	(99,281)	105.0 %	415,750	N/A %
01-01-17*	2,356,977	2,227,078	(129,899)	105.8 %	352,485	N/A %

*****Assumption change pursuant to experience review.

See notes to the Supplementary Schedules for an explanation of changes to benefit acuarial assumptions.

NOTES TO THE SUPPLEMENTARY SCEDULES:

Unless otherwise specified, the following actuarial methods and assumptions were used in the calculation of actuarially determined contributions reported in the supplementary schedules:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	17 years (aggregate)
Asset valuation method	4-year smoothing
Inflation	3.0%
Salary increases	5.0% including inflation
Investment rate of return	7.0% net of investment expenses not funded through the MMO, and including inflation
Mortality	RP-2014 Mortality Table with rates set forward 5 years for disabled members.
Retirement Age	Latest of age 63 with 5 years of service, or attained age if currently eligible to retire.

Changes to Benefits: None.

Changes to Assumptions:

Effective 1-1-11: Pre-retirement death benefit is valued directly.

Effective 1-1-13: The mortality assumption was updated to the RP-2000 Combined Healthy Mortality Table, with rates projected to improve at 75% scale AA.

Effective 1-1-15: The assumed interest rate was reduced from 7.5% to 7.0%, and the salary increase assumption was reduced from 5.5% to 5%.

Effective 1-1-17: The mortality assumption was updated to the RP 2014 Mortality Table with rates set forward 5 years for disabled members.

FINANCIAL STATEMENTS

FOX CHAPEL AUTHORITY
(Water Works System)

STATEMENTS OF NET POSITION

DECEMBER 31, 2016 AND DECEMBER 31, 2015

ASSETS

	2016	2015
CURRENT ASSETS:		
Cash	$ 825,988	$ 1,068,649
Receivables	893,682	926,088
Inventory	314,939	362,102
Prepaid insurance	103,755	36,695
Total Current Assets	2,138,364	2,393,534
PREPAID PENSION	87,656	113,207
CASH EQUIVALENTS HELD IN TRUST	1,654,343	1,537,634
DEFERRED FINANCING COSTS	70,717	74,888
INVESTMENT IN FACILITIES	26,874,094	27,022,407
Total Assets	$ 30,825,174	$ 31,141,670
DEFERRED OUTFLOWS OF RESOURCES - PENSION	102,537	126,932

LIABILITIES

	2016	2015
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 405,000	$ 395,000
Accounts payable	317,982	361,317
Accrued interest on funded debt	28,347	29,337
Consumers’ and developers’ deposits	1,020	1,020
Total Current Liabilities	752,349	786,674
LONG-TERM DEBT:		
Water revenue bonds	7,874,372	8,271,662
Total Liabilities	8,626,721	9,058,336

NET POSITION

	2016	2015
Invested in facilities, net of related debt	18,594,722	18,355,745
Restricted	1,654,343	1,537,634
Unrestricted	2,051,925	2,316,887
Total Net Position	$ 22,300,990	$ 22,210,266

See Notes to Financial Statements.

FOX CHAPEL AUTHORITY
(Water Works System)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

	2016	2015
OPERATING REVENUES:		
Water sales	$ 3,861,927	$ 3,852,506
Fire protection	247,638	242,812
Other	247,406	329,876
Total Operating Revenues	4,356,971	4,425,194
OPERATING EXPENSES:		
Distribution system	2,573,237	2,591,782
General and administrative	539,005	537,978
Depreciation	913,539	552,543
Total Operating Expenses	4,025,781	3,682,303
Income From Operations	331,190	742,891
NONOPERATING REVENUE (EXPENSES):		
Interest income	1,167	1,009
Interest expense	(237,462)	(245,578)
Amortization of financing costs	(4,171)	(4,172)
Total Nonoperating Revenue (Expenses)	(240,466)	(248,741)
Change in Net Position	90,724	494,150
CONTRIBUTED CAPITAL	-	252,757
NET POSITION – BEGINNING OF YEAR	22,210,266	21,463,359
NET POSITION - END OF YEAR	22,300,990	22,210,266

See Notes to Financial Statements.

FOX CHAPEL AUTHORITY
(Water Works System)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

	2016	2015
OPERATING ACTIVITIES:		
Receipts from customers	$ 4,184,907	$ 4,185,806
Other receipts	204,470	247,078
Payments to suppliers, vendors and professionals	(2,009,397)	(1,931,761)
Payments to employees	(784,854)	(792,159)
Other payments	(331,277)	(365,115)
Net Cash Provided By Operating Activities	1,263,849	1,343,849
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on funded debt	(395,000)	(390,000)
Acquisition and construction of capital assets	(767,791)	(421,153)
Disposal of capital assets	2,565	709
Interest paid on funded debt	(230,742)	(238,592)
Net Cash Used By Capital and Related Financing Activities	(1,390,968)	(1,049,036)
INVESTING ACTIVITIES:		
Interest on cash and investments held by trustee	1,167	1,009
Net Cash Provided By Investing Activities	1,167	1,009
Net Increase (Decrease) In Cash And Cash Equivalents	(125,952)	295,822
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	2,606,283	2,310,461
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 2,480,331	$ 2,606,283
Cash	$ 825,988	$ 1,068,649
Cash equivalents held in trust	1,654,343	1,537,634
	$ 2,480,331	$ 2,606,283
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$ 331,190	$ 742,891
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	913,539	552,543
Pension expense	49,946	(19,362)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	32,406	7,690
(Increase) decrease in inventory	47,163	20,777
(Increase) decrease in prepaid insurance	(67,060)	(20,280)
Increase (decrease) in accounts payable	(43,335)	59,590
Net Cash Provided By Operating Activities	$ 1,263,849	$ 1,343,849

See Notes to Financial Statements.

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES:

General Statement – The Authority is a public corporation existing under the laws of the Commonwealth of Pennsylvania, pursuant to Act 22 of 2001 which governs municipal authorities. The Authority provides water service to commercial and residential customers for four municipalities in Western Pennsylvania. The Authority has no stockholders, and revenue is disbursed for specific purposes in accordance with the provisions of the Trust Indenture dated as of August 22, 2012, securing the Water Revenue Bonds Series of 2012 (See Note 5).

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for government units through its pronouncements (Statements and Interpretations). In December 2010, GASB issued GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 codifies the requirements of all Pre-November 30, 1989 FASB and AICPA pronouncements that the GASB considers to be applicable to state and local governments (that is, are relevant to governments and do not conflict with or contradict GASB pronouncements). As a result, governmental and business-type activities and proprietary funds will no longer have to consider pre-November 30, 1989 FASB or AICPA pronouncements nor will enterprise funds be permitted to apply "new" FASB pronouncements issued after November 30, 1989. The Authority adopted GASB Statement No. 62 for year ended December 31, 2011. The more significant accounting policies established in GAAP and used by the Authority are as follows.

Reporting Entity – The report includes all of the services provided by the Authority to residents and businesses within its boundaries. Authority services include providing water for consumption and fire protection and maintenance of water lines. The basic criterion for including a potential component unit within the Authority's reporting entity is the ability of the Authority to exercise oversight responsibly. In addition, criteria used in this determination includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. In addition, factors other than oversight which may significantly influence the entity relationship include the scope of public service and special financing relationships. Therefore, based upon these criteria, the Authority has no component units.

Basis of Presentation – The Authority's financial statement are presented in accordance with GASB Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." GASB Statement No. 34 created a financial reporting model for all governmental units such as Fox Chapel Authority. This reporting model requires management to provide a narrative and analysis to the ordinary user called "Management's Discussion and Analysis" (MD&A).

Fund Accounting – The accounts of the Authority are organized on the basis of a fund, which is considered a separate accounting entity. The operation of this fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. The fund is classified as a Proprietary Fund.

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Enterprise Fund – The only fund of the Authority that is used to account for the operations of the Authority. Enterprise funds are to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting – The Authority's fund is reported as an enterprise fund on the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred. The Authority's Trust Indenture requires the Authority to prepare a yearly operating budget. The operating budget is prepared by the Authority's consulting engineer and adopted by the Authority's Board of Directors.

Encumbrances – The Authority does not employ encumbrance accounting.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents – For the purpose of the Balance Sheet "cash and cash equivalents" includes demand deposits and money market funds. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include the same components as the balance sheet plus short-term investments with original maturity of three months or less.

Investment in Facilities and Depreciation – Investment in facilities is recorded at actual costs incurred. Donated capital assets are recorded at fair value which equated to developers cost when contributed. Depreciation is computed on the straight-line method at rates based upon the estimated useful life of the assets ranging from 5 to 100 years.

Receivables and Revenue Recognition – The Authority recognizes revenue in the year in which the service is rendered. At December 31, 2016 and December 31, 2015 receivables and domestic revenue included estimated unbilled service rendered through the end of the year in the amount of $369,000 and $384,000, respectively.

Inventory – Supplies inventory is valued at cost on a first-in, first-out basis and is not in excess of market.

Deferred Financing Costs – Deferred financing costs consist of legal and other costs incurred in connection with the issuance of the current funded debt and are being amortized over the term of the respective debt under the effective interest method.

Restricted Assets – Funds required to satisfy obligations of construction and debt service are restricted from use in operations in accordance with the Trust Indenture.

Deferred Outflows of Resources – Deferred outflows of resources will be recognized in pension expense over four years.

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Equity Classifications – Fund equity is displayed in three components:

a. Investment in facilities, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted – Consists of fund equity with constraints placed on the use either by (1) external group such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted – All other fund equity that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE 2 — CASH AND CASH EQUIVALENTS:

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

The deposit and investment policies of the Authority adhere to state statutes and the Trust Indenture. There were no deposit or investment transactions noted during the year that were in violation of either the state statutes or the policy of the Authority.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a policy for custodial credit risk on deposits. The table presented below is designed to disclose the level of custodial credit risk assumed by the Authority based upon how its deposits were insured or secured with collateral at December 31, 2016 and December 31, 2015. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Authority or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized with no written or approved collateral agreement.

	December 31, 2016				
	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
Cash (demand deposits)	$ 825,588	$ 898,933	$ 250,000	$ -	$ 648,933

NOTE 2 — CASH AND CASH EQUIVALENTS (CONTINUED):

	December 31, 2015				
	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
Cash (demand deposits)	$ 1,068,249	$ 1,088,135	$ 250,000	$ -	$ 838,135

The difference between the carrying amount of cash and the cash bank balance at December 31, 2016 and December 31, 2015 is due to outstanding checks.

Cash and cash equivalents included in the schedule on the previous page and above are presented in the balance sheet as follows:

	Cash		Cash Equivalents Held in Trust	
	12/31/16	12/31/15	12/31/16	12/31/15
Cash	$ 825,588	$ 1,068,249	$ -	$ -
Petty cash	400	400	-	-
US Govt. money market fund unclassified for GASB Statement No. 3	-	-	1,654,343	1,537,634
	$ 825,988	$ 1,068,649	$ 1,654,343	$ 1,537,634

NOTE 3 — INVESTMENT IN FACILITIES:

Activity in investment in facilities for the years ended December 31, 2016 and December 31, 2015 are as follows:

	Balance January 1, 2016	Additions	Disposals	Balance December 31, 2016
Land and improvements	$ 309,418	$ -	$ -	$ 309,418
Buildings	1,095,806	35,871	-	1,131,677
Pumping facilities and equipment	3,109,671	53,294	-	3,162,965
Storage facilities	5,052,955	8,649	-	5,061,604
Distribution system	29,310,918	102,556	(5,447)	29,408,027
Other	1,404,242	48,390	-	1,452,632
Construction in Progress	30,456	519,031	-	549,487
	40,313,466	767,791	(5,447)	41,075,810
Accumulated Depreciation	(13,291,059)	(913,539)	2,882	(14,201,716)
	$ 27,022,407	$ (145,748)	$ (2,565)	$ 26,874,094

NOTE 3 — INVESTMENT IN FACILITIES (CONTINUED):

	Balance January 1, 2015	Additions	Disposals	Balance December 31, 2015
Land and improvements	$ 309,418	$ -	$ -	$ 309,418
Buildings	1,071,884	23,922	-	1,095,806
Pumping facilities and equipment	3,084,725	24,946	-	3,109,671
Storage facilities	5,047,848	5,107	-	5,052,955
Distribution system	28,610,213	703,007	(2,302)	29,310,918
Other	1,400,242	4,000	-	1,404,242
Construction in Progress	117,528	(87,072)	-	30,456
	39,641,858	673,910	(2,302)	40,313,466
Accumulated Depreciation	(12,740,109)	(552,543)	1,593	(13,291,059)
	$ 26,901,749	$ 121,367	$ (709)	$ 27,022,407

Construction projects uncompleted at year end are included in construction in progress. The estimated costs to complete the construction in progress at December 31, 2016 are approximately $807,000.

Included in storage facilities is the cost of painting these facilities. In 2016, the Authority undertook the repainting and other structural improvements to two storage facilities. Storage facilities, including painting, are being depreciated over 50 years. As a result of the repainting of the storage facilities in 2016, management has determined that the useful life of the painting portion of storage facilities is 25 years and not 50 years. A change in accounting estimate was recognized to reflect this decision resulting in an increase in depreciation expense of $348,929 for 2016. The painting portion of the two storage facilities projects, which are included in construction in progress, will be depreciated in 25 years.

Effective January 1, 2015, the Authority changed its method of accounting for donated capital assets. Prior to 2015 contributed capital assets which consisted of water lines installed and paid for by the developers were not recorded by the Authority because it did not incur costs relating to the installation of these water lines even though the Authority was responsible for the maintenance and repair of these water lines once they were donated by the developers. Management now believes by recording these donated capital assets that it presents a better financial picture of the true dollar value of capital assets that the Authority is responsible for maintaining.

NOTE 4 — RESTRICTED ASSETS:

Under the terms of the Trust Indenture covering the issuance of the Water Revenue Bonds Series of 2012, the Authority is required to maintain funds for capital expenditures and debt services requirements. The balances, which consist of the subsequently described investments at cost which approximated market value, were held by the Trustee, US Bank National Association at December 31, 2016 and December 31, 2015 for the following purpose:

	2016	2015
Surplus-restricted	$ 1,654,343	$ 1,537,634

NOTE 4 — RESTRICTED ASSETS (CONTINUED):

	2016	2015
Investments held by trustee are as follows:		
Government obligations money market funds	$ 1,654,343	$ 1,537,634

NOTE 5 — LONG-TERM DEBT:

	2016	2015
At December 31, 2016 and December 31, 2015 long-term debt consisted of the following:		
Water Revenue Bonds Series of 2012 issued August 22, 2012 in the original amount of $9,865,000 due in annual installments through May 15, 2033 with an optional redemption of all or part of all of the bonds on or after November 15, 2017 and bearing interest rates of 2.0% to 3.25%. These bonds are secured by revenues of the Authority.	$ 8,279,372	$ 8,666,662
Total Long-Term Debt	$ 8,279,372	$ 8,666,662

Long-term debt activity for the year ended December 31, 2016 and December 31, 2015 was as follows:

Long-Term Debt	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
Water Revenue Bonds	$ 8,775,000	$ -	$ (395,000)	$ 8,380,000	$ 405,000
Bond Discount	(108,338)	-	7,710	(100,628)	-
Total Long-Term Debt	$ 8,666,662	$ -	$ (387,290)	$ 8,279,372	$ 405,000

Long-Term Debt	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
Water Revenue Bonds	$ 9,165,000	$ -	$ (390,000)	$ 8,775,000	$ 395,000
Bond Discount	(116,298)	-	7,960	(108,338)	-
Total Long-Term Debt	$ 9,048,702	$ -	$ (382,040)	$ 8,666,662	$ 395,000

NOTE 5 — LONG-TERM DEBT (CONTINUED):

The annual aggregate debt service for long-term debt as of December 31, 2016 is as follows:

	Water Revenue Bonds		
Year	**Principal**	**Interest**	**Total**
2017	$ 405,000	$ 222,742	$ 627,742
2018	410,000	214,593	624,593
2019	420,000	206,292	626,292
2020	430,000	197,578	627,578
2021	440,000	188,387	628,387
2022-2026	2,355,000	779,063	3,134,063
2027-2031	2,710,000	416,193	3,126,193
2032-2034	1,210,000	39,650	1,249,650
	$ 8,380,000	$ 2,264,498	$ 10,644,498

NOTE 6 — WATER PURCHASE AGREEMENT:

The Authority has an agreement with the Pittsburgh Water and Sewer Authority (PWSA), under which, the Authority will purchase all of its water from the PWSA at rates which can increase over the term of the agreement. This agreement expires in July 2025, but can automatically continue beyond until terminated in accordance with the termination provisions of the agreement. The Authority takes all of its water supply from PWSA. Water purchased under this agreement amounted to $1,161,050 for 2016 and $1,185,709 for 2015.

NOTE 7 — PENSION PLANS:

The Authority has two pension plans covering substantially all eligible employees. The union plan which is a multi-employer plan covering the hourly-rated employees requires the Authority to make contributions based upon a set amount per week for each covered employee. Contributions to the union plan amounted to $77,930 for 2016 and $74,884 for 2015. The Fox Chapel Authority Salaried Employees Pension Plan (the Plan) is a single employer defined benefit plan administered by the Authority covering the salaried employees. This Plan is covered under Pennsylvania's Municipal Pension Plan Funding Standard and Recovery Act of December 18, 1984, PL1005 No 205 (Act 205) which permits the Authority to establish and amend benefit provisions of the Plan. The Plan provides retirement, disability and death benefits to the Plan members and beneficiaries based on a formula using compensation and years of service.

For the year ended December 31, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), as it relates to the Authority's Salaried Employees' Pension Plan. GASB 68 which amended GASB Statement No. 27 was effective for years beginning after June 30, 2014. GASB 68 required, among other things, that the "Net Pension Liability" must be included in the Authority's financial statements, addressed actuarial cost methods, discount rate, actuarial valuations, additional disclosures and required supplementary information.

NOTE 7 — PENSION PLANS (CONTINUED):

At December 31, 2016, the following employees were covered by the Plan:

Active employees	5
Retirees and beneficiaries currently receiving benefits	4
Terminated employees entitled to benefits but not yet receiving them	3
	12

Funding Policy – The Authority's salaried employees are not required to make contributions to the Plan nor are they permitted to make voluntary contributions. The Authority contributes to the Plan in amounts determined by an independent actuary to satisfy the funding requirements of Act 205.

The components of the net pension liability (asset) at December 31, 2016 are as follows:

Total pension liability*	$ 2,184,269
Plan fiduciary net position	(2,271,925)
Net pension liability (asset)	$ (87,654)
Plan fiduciary net position as a percentage of the total pension liability	104.0%

*The total pension liability was determined by an actuarial valuation as of January 1, 2016 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	5.0%, including inflation
Investment rate of return	7.0%, net of plan investment expense, including inflation
Mortality	RP-2000 Combined Healthy Mortality Table, with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.

Expected Long-Term Rate of Return: 7.0%, applied for all periods

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 MMO) are developed for each major asset class. These ranges of expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Long Term Expected Real ROR
Equity	6.3%
Fixed Income	1.9%
Cash Equivalents	0.0%

NOTE 7 — PENSION PLANS (CONTINUED):

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

Changes in Net Pension Liability (Asset) for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) – (b)**
Balances at 12/31/2015	$ 2,082,692	$ 2,195,899	$ (113,207)
Changes for the Year:			
Service Cost	33,600	-	33,600
Interest	145,474	-	145,474
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions – employer	-	27,962	(27,962)
Contributions – employee	-	-	-
Net investment income	-	142,262	(142,262)
Benefit payments and refunds of employee contributions	(77,497)	(77,497)	-
Administrative expense	-	(16,701)	16,701
Other changes	-	-	-
Net Changes	101,577	76,026	25,551
Balances at 12/31/2016	$ 2,184,269	$2,271,925	$ (87,656)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1%- point lower (6.0%) or 1%-point higher (8.0%) than the current rate:

	Discount rate	Net pension liability (asset)
1% decrease	6.0%	$ 97,996
Current discount rate	7.0%	$ (87,656)
1% increase	8.0%	$ (249,148)

NOTE 7 — PENSION PLANS (CONTINUED):

Payable to Plan. At December 31, 2016, the Authority did not owe anything to the Plan.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. For the year ended December 31, 2016, the Authority recognized pension expense of $77,908. At December 31, 2016, the Authority reported deferred outflows of resources related to pensions from the following sources:

Differences between expected and actual experience	$ -
Changes of assumptions	-
Net difference between projected and actual earnings on Plan investments	102,537
Total	$ 102,537

Amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2017	$ 33,567
2018	33,567
2019	33,567
2020	1,836
2021	-
	$102,537

NOTE 8 — SUBSEQUENT EVENTS:

The Authority's management has considered events subsequent to December 31, 2016 that affect the Authority through March 17, 2017, the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.