

**BE IT RESOLVED**, by the City Council of The City of Pittston, and it is hereby resolved by the authority of the same:

**WHEREAS**, in accordance with Section C10.02 of the Pittston City Code (Home Rule Charter Article X) and applicable laws of the Commonwealth of Pennsylvania, the City's duly appointed Independent Auditor, PA & K, LLP, 269 Pierce Street, Kingston, Pennsylvania has prepared the "City of Pittston Financial Statements for the Year Ended December 31, 2015 & Independent Auditor's Report & Required Supplementary Information & Additional Information" dated September 8, 2016 and

**WHEREAS**, said report is attached to this Resolution as "Exhibit A" and is hereby accepted and received by the City Council, City Treasurer, and City Controller and is made available for public examination and disclosure beginning October 20, 2016 as required with the provisions of the law and

**WHEREAS** the City Administrator, with the assistance of the Independent Auditor is hereby directed to file the requisite report with the Pennsylvania Department of Community and Economic Development (DCED) for the same and

**WHEREAS** the City Council also acknowledges the communication of the Independent Auditor that a "Single Audit" is not required for Fiscal Year 2015 due to the total amount of grant funds received by the city during fiscal year 2015 being less than the threshold set by the applicable regulations for the required completion of a Single Audit.

On Motion of, Kenneth Bangs, seconded by Michael Lombardo

Above Resolution Adopted

ROLL CALL		
Yeas	- Councilmembers -	Nays
<u>  X  </u>	ARGO	<u>      </u>
<u>  X  </u>	BANGS	<u>      </u>
<u>  X  </u>	LOMBARDO	<u>      </u>
<u>  X  </u>	MCLEAN	<u>      </u>
<u>  X  </u>	MAYOR KLUSH	<u>      </u>

ATTEST

APPROVED

Joseph Mosley  
CITY ADMINISTRATOR

J. Klush  
MAYOR

**CITY OF PITTSBURGH, PENNSYLVANIA**

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**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2015  
&  
INDEPENDENT AUDITORS' REPORT  
&  
REQUIRED SUPPLEMENTARY INFORMATION  
&  
ADDITIONAL INFORMATION**

MARK KNEEREAM  ASSOCIATES PC

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ACCOUNTANTS & CONSULTANTS

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ACCOUNTANTS & CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor - and Members of City Council  
City of Pittston, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pittston, Pennsylvania, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City'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.

## **Basis for Adverse Opinion on Governmental Activities**

As discussed in Note 1 to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

## **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the City of Pittston, Pennsylvania, as of December 31, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pittston, Pennsylvania, as of December 31, 2015, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6–12 and 13–21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pittston, Pennsylvania's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*PATK LLP*

Kingston, Pennsylvania  
September 8, 2016



**CITY OF PITTSTON, PENNSYLVANIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

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Management's discussion and analysis of the City of Pittston's financial performance provides an overview of the City's financial activities for the years ended December 31, 2015 and 2014 for governmental activities and business-type activity.

Pursuant to Article IV of the Pittston City Home Rule Charter (Pittston City Code §C4.04) the City Administrator is responsible for specified budgetary and financial administration and this discussion and analysis has been prepared by the Office of the City Administrator. The Independent Auditor's report is authorized by the Pittston City Council pursuant to the Article X of the Pittston City Home Rule Charter (Pittston City Code §C10.01-§C10.03).

**FINANCIAL HIGHLIGHTS**

Government-Wide Level

- The City's overall net assets decreased as a result of this year's operations. The net assets of the business-type activity decreased by \$7,981, and net assets of the governmental activities decreased in 2015 by \$549,200.
- During 2015, the City had expenses that were \$6,403,757 greater than the \$4,696,530 generated in tax and other revenues for governmental programs. Of this, \$2,694,882 was expended on capital improvement projects.

Fund Level

- The General Fund reported a deficit of \$6,738,651 at December 31, 2015 and a deficit of \$4,981,900 at December 31, 2014.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 20 and 21) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 22 and tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

## REPORTING THE CITY AS A WHOLE

"The Statement of Net Position and the Statement of Activities"

Our analysis of the City as a whole begins on page 9. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets-the difference between assets and liabilities-as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads and housing units, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities**-Most of the City's basic services are reported here including the administration, code enforcement/building inspection, police, fire, public works (includes street, sanitation, recycling, sewer, and recreation functions), community development, and **Redevelopment Authority**. Property taxes, earned income and

business taxes, franchise fees, licenses, sewage transmission fees, garbage fees, and state and federal grants finance most of these activities.

- **Business-Type activity**-The **Pittston Parking Authority** is a Municipal Authority entity organized under the laws of the Commonwealth of Pennsylvania (Pittston City Code §18-3). The Authority collects fees from parking spaces.

## REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

Our analysis of the City's major funds begins on page 10. The fund financial statements begin on page 22 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by state law and by debt/bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes (such as the Sewer Maintenance Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as grants received from the U.S. Department of Housing and Urban Development). The City's two kinds of funds-governmental and proprietary-use different accounting approaches.

- **Governmental funds**-Most of the city's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation on pages 20 and 21.
- **Proprietary funds**-When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activity we report in the government-wide statements, but provide more detail and additional information.

## THE CITY AS TRUSTEE

### Reporting the City's Fiduciary Responsibilities

The City is the Trustee, or fiduciary, for its employees' pension plans (Pittsburgh City Code Chapter 68). It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets on pages 28 and 29. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The pension funds are audited every two years by the Commonwealth's Office of the Auditor General and the audit reports are available at city hall and from the Pennsylvania State Auditor General.

## THE CITY AS A WHOLE

The City's combined net assets decreased from a year ago to \$4.2 million from \$4.8 million. Our analysis below focuses on the net assets and changes in net assets of the City's governmental activities.

Net deficit of the City's governmental activities increased to \$6,838,651 compared to \$4,981,900 in 2014. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements-changed from a \$6,134,708 deficit at December 31, 2014 to a \$7,027,571 deficit at the end of fiscal year 2015

The net assets of our business-type activity decreased to \$75,890 compared to \$83,871 in 2014.

The cost of all governmental activities in 2015 and 2014, respectively, was \$11.7 million and \$9.5 million. However, as shown in the Statement of Activities on page 21, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$3.2 million in 2015 and \$3 million in 2014 because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain program with grants and contributions.

CITY OF PITTSBURGH, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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**CITY'S MAJOR FUNDS**

As the City completed the year, its governmental funds (as presented in the balance sheet on page 22) reported a combined fund balance of \$177,139, which is less than last year's total of \$1,053,938.

- Principal and interest payments made on long-term debt and capital leases were approximately \$2,084,000.
- During the current year, the fund balance of the Office of Community Development Program decreased by \$235,089
- Each year, the State provides the City with a portion of the gasoline tax revenues it collects. These funds are deposited into the city's **Liquid Fuels Fund**, a restricted use special purpose revenue fund subject to separate audit by the office of the Commonwealth's Auditor General. These funds can only be used for certain purposes related to maintenance and improvement of public roads and street lighting and specific equipment directly related to roadway maintenance. The amount the city receives has been increasing because of a change in state law that resulted in more funds being available. The following table shows the amount of Liquid Fuels funds received by the city in the last 3 years:

<b>Fiscal Year</b>	<b>Liquid Fuels Funds Received from the Commonwealth of Pennsylvania</b>
2015	\$ 183,688
2014	166,753
2013	154,736

During Fiscal Year 2015, the City expended \$81,495 of Liquid Fuels Funds on a paygo capital improvement project to repair and resurface Cron Street.

## **CAPITAL ASSETS**

During Fiscal Year 2015, city leadership initiated the planning process to establish a current asset inventory of city owned capital assets which is a required component of the annual Financial Statement. Previous administrations had not maintained the fixed assets inventory. Due to a significant expansion project of the city's public library building; planned renovations to city hall and considerable changes in the city's vehicle fleet and equipment planned for Fiscal Year 2015, it was deemed prudent to delay the start of the capital asset inventory until Fiscal Year 2016. It is noted that the future inclusion of the inventoried capital assets would have a significant positive financial impact on the annual financial statement. This capital asset inventory program was initiated in the spring of 2016 with the plan of completing it for the 2016 annual audit.

## **OTHER POST-EMPLOYMENT BENEFITS—GASB 45**

**Note on Other Post-Employment Benefits (OPEB):** When regulations related to reporting Other Post-Employment Benefits costs were changed some time ago, the previous administration did not obtain the necessary OPEB information. The current city leadership implemented a planning process with a goal of appropriating funds for obtaining the city's OPEB calculation during Fiscal Year 2015-2016 in accordance with standard accounting requirements.

Compliance with GASB 45 related to Other Post-Employment Benefits was achieved in the spring of 2016 when the City contracted with the Beyer-Barber Company, Employee Benefit and Actuarial Consultants, to produce the required OPEB report. This report which covers the 2015 calendar year, dated June 28, 2016, was provided to the Independent Auditor for inclusion in the 2015 Independent Audit and Financial Statements as required by GASB 45 and is also on file for review at City Hall.

Other obligations include accrued vacation pay, compensatory time and sick leave.

## **GASB 68 Disclosure**

For compliance with requirements of GASB 68, the city contracted with Beyer-Barber Company, Employee Benefit and Actuarial Consultants, to provide the required disclosures for each city pension plan pursuant to GASB 68. Copies of the GASB 68 disclosure report for each pension plan were provided to the Independent Auditor and are on file at City Hall for review.

CITY OF PITTSBURGH, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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**2015 ANNUAL BUDGET**

The City Council has adopted a comprehensive budgetary, financial management and debt management policy (Pittsburgh City Code Chapter 23) and the Fiscal Year 2015 budget was prepared in accordance with the parameters of the policy (§23-2). The Fiscal Year 2015 Budget was approved by Ordinance, File of Council # 17 of 2014 and the required supporting tax revenue ordinances all were adopted by the City Council at the meeting of December 17, 2014.

During the course of the fiscal year, the City Council proactively amended the General Fund budget in June 2015 (Resolution 11724) and November 2015 (Resolution 11790) to reflect the then most current projections of revenue and expenditures and to reflect proceeds received from grants and the issuance of long-term debt.

The following table shows the total annual budget for each appropriated fund for Fiscal Year 2015:

Fund Name	Approved FY 2015 Budget	First Revised FY 2015 Budget	Second Revised 2015 Budget
General Fund	\$ 4,900,767	\$5,045,691	\$5,436,258
Sewer Maintenance Fund	\$ 1,125,000	No revision	No Revision
Liquid Fuels Fund	\$ 219,000	No revision	No Revision

Please note that during Fiscal Year 2014, the city established capital projects funds for the expansion of the city library, renovation of city hall, Downtown Streetscape Phase IV and received additional funds from PENNVEST for repairs and renovation of sewer lines (PENNVEST Sewer Capital Improvement Fund). Authority to establish, receive, and expend these funds was appropriated in specific Resolutions adopted by the City Council during fiscal year. These projects were ongoing throughout Fiscal Year 2015 and all activity with regard to funds received and expenditures paid were recorded in the capital project account for each project.

Despite an increase in the earned income tax in 2013, updating and modernization of permit and user fees and the imposition of a flat rate business privilege tax beginning in 2015, the City still continues to be challenged forthright by its ability to generate sufficient revenues and maintain its financial capacity to afford a level of services that our residents are accustomed and in fact, have come to expect. In 2016 the Administration will continue to strive to improve the City's finances and maintain control of department-wide expenditures.

CITY OF PITTSBURGH, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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**FINANCIAL NOTES TO 2015 BUDGET**

**REVENUE ACCOUNTS**

The City's overall General Fund revenue over the past three years is as follows:

Fiscal Year	Total General Fund Revenue
2015	\$ 4,493,503
2014	\$ 4,077,461
2013	\$ 4,159,613

The City's two primary revenue sources are earned income tax and real estate tax (property tax). Following adoption of the City's new Home Rule Charter in Fiscal Year 2013, and to offset the cost of a new property tax deduction for homeowners required by the City's new Home Rule Charter, the earned income tax was increased to generate sufficient operating revenue for enhanced city services. Earned income tax collections over the past three years are as follows:

Fiscal Year	Earned Income Tax
2015	\$ 1,185,551
2014	\$ 1,059,403
2013	\$ 1,054,270

Like many jurisdictions in the area, the City was adversely affected by the bankruptcy and liquidation of its former earned income tax collector, Don Wilkinson Agency. During FY 2010-FY 2012, the earned income tax collection and reliability of cash flow were hindered. The City is an active member of the Luzerne County Act 32 Tax Collection Committee and carefully and proactively participated in the selection of a new Act 511 tax collection agency, Berkheimer Associates, and since Berkheimer became the collection agency, the City has seen improved earned income tax collections. The City's Administration Department communicated regularly with the collection agency for alignment of the City's Budget to forecasted earned income tax revenue.



CITY OF PITTSBURGH, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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Real estate taxes represent the City's largest single source of revenue. Collections of current year real estate taxes in the in last three years are as follows:

Fiscal Year	Current Year Real Estate Tax
2015	\$ 1,388,118
2014	\$ 1,414,527
2013	\$ 1,362,631

The City's new Home Rule Charter required the establishment of a "Homestead Deduction" for the assessment amounts of owner-occupied residential homes. Pittston City Code Section §436-42(A) set the amount of the deduction at \$15,000. This resulted in a reduction of approximately \$220,000 in annual property tax revenue beginning in FY 2013. Two other factors placed downward pressure on real estate tax revenue. These included improved property code enforcement that resulted in several dangerously decayed blight structures being razed, and the city Redevelopment Authority acquiring other parcels to remove blight and or stabilize the properties to prevent further decay while formulating reutilization plans to allow their return to the tax rolls with productive use in the future. It is anticipated that with the continued recovery of the economy from the 2008 market downturn as well as several commercial building construction and improvements in the downtown expected to generate new revenue beginning in 2016 as well as some residential structure improvements, that real estate tax will increase in future years. Luzerne County Government is responsible for collection of delinquent real estate taxes and enhanced administration of delinquent property tax revenue has also contributed to more current year tax revenue being received as property owners seek to avoid the fees and costs associated when taxes go delinquent.

Although representing less than 2% of the City's total revenue, a source of uncertainty in revenue has been the "Local Services Tax" (Pittston City Code Section 436 Title V). This is also due to the bankruptcy of the Don Wilkinson Agency as previously noted. However, the new collection agency, Berkheimer Associates, determined that the City has been incorrectly receiving revenue from businesses not located in the city and the resulting adjustments has significantly decreased total annual revenue from this source. The City believed this revenue source will stabilize at about \$90,000 annually in FY 2015 and collections are trending in accordance with that projection.

**Business Privilege Tax:** The city is constrained by current state law in expanding its tax base through the use of business privilege and mercantile taxes. However, beginning in 2015, the city council enacted an ordinance that imposed a flat rate business privilege tax

CITY OF PITTSBURGH, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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(BPT) which is allowed by current state law. The BPT is now codified in Chapter 436, Article VIII of the Pittsburgh City Code, business with proceeds greater than \$15,000 per calendar year are assessed a flat tax of \$200. To maximize efficiency in tax collections, the city contracted with Berkheimer Associates, also the Act 32 tax collector for the earned income and local services taxes to collect this tax. The first year's collections of \$34,196 was slightly below the projection, but this collection is expected to improve in the out years because delinquent collections are included in the contract with the collector.

The City has also modernized and improved collections of various fees and licenses issued by its building inspection, code enforcement, and zoning offices.

**Delinquent Revenue:** Beginning in the last quarter of fiscal year 2015 the city began placing liens on properties with multi-year delinquencies in refuse fees and plans in 2016 to begin placing liens and undertaking water shut-offs for seriously delinquent sewer maintenance fees. Persistently delinquent accounts has resulted in revenue loss for these revenue sources that support vital public services and the city's action in collecting delinquent accounts is consistent with enforcement actions set forth in the enacting ordinances for the fees in Pittsburgh City Code Chapters 386 and 412. The city also plans to develop a uniform accounting policy for any write-offs of delinquent or bankrupt accounts in accordance with standard accounting policies to most accurately portray receivables.

Overall, the City's revenue is expected to continue to increase at slightly more than the rate of inflation. Downtown business district improvements will result in several new commercial building coming into the property tax stream in the near future. In late 2015 for example a large new private medical office building opened on North Main Street and a condominium building was completed on Kennedy Boulevard, both of which will result in additional property tax revenue. A home revitalization project, the new downtown condominium building and a multi-story building with apartments at South Main Street and Tomato Festival Drive set to reopen in 2015 will serve as catalysts for improvements in the earned income tax revenue system. At the same time, however, it will be a challenge for the City's revenue growth to match pace with anticipated expenditures.

## EXPENSE ACCOUNTS

The City adopted a comprehensive budgetary, financial, and debt service management policy in FY 2013 (Pittsburgh City Code Chapter 23) that significantly improved the accuracy of the City's annual budget and resulted in proactive monthly budget to actual reporting by the office of the city administrator with monitoring by the elected officials.

The improvements in the budgetary and financial reporting have made department heads more aware of and involved in administering their budgets and understanding the city's overall financial condition and this has resulted in a significant improvement in department spending being at or below budget appropriations. The office of the city administrator also proposes mid-year budget amendments to the mayor and city council as needed to adopt the budget to changing financial circumstances within the fiscal year.

Consequently, overall General Fund expenditures of \$5,269,556 in FY 2015 were \$223,865 below the budgeted expenditures.

The only areas of significant overspending were in the police department. Some additional gross pay categories, such as court pay, which varies depending on the caseload, were over expended, and the motor pool, which has increased in size, also incurred increased operating costs. Additionally, a policy decision was made by the city administrator and city council to make a payment of \$100,000 to partially defease a prior year liability in the police pension fund. It was subsequently discovered this \$100,000 payment could not be refunded by a December debt issuance intended to finance that obligation.

All of these areas of FY 2015 overspending were monitored throughout the year and addressed during FY 2016 budget formation.

While departments did an excellent job of administering their budgets, the city continued to face significant spending pressures, particularly in the area of the required employer contribution to the defined benefit pension plans, increased debt service required to sustain capital improvements; increased lease costs to replenish the vehicle fleet and increased insurance costs.

The City is required by state law to provide certain defined benefit pension plans to several classes of full time employees. Decisions made by previous administrations, combined with the effects of the 2008 global recession have greatly increased the cost of these pension plans to the city taxpayers.

The state aid payments for 2014 and 2015 completely covered the Minimum Municipal Obligation (MMO) for the firefighters and nonuniform plan, but only partially covered the MMOs for the police pension plan in those periods. Even after the available state aid was

applied to the police pension plan in FY 2015, an obligation in excess of \$247,000, to the police pension plan, remained to the city. The police pension plan contribution increased dramatically in recent years due to a past administration's decision in collective bargaining to allow lower than normal member contributions, unexpected disability retirements and the 2008 market downturn.

Due to cash flow in the fourth quarter, the city was unable to meet this obligation and it was moved to a liability on the General Fund balance sheet for FY 2015. During 2015 the city made an initial payment of \$100,000 on this obligation, and in December 2015 issued a General Obligation Note that completely defeased the remaining 2014 police pension liability.

However, the city subsequently was unable to fully make the 2015 minimum municipal obligation to the police pension plan and that liability was moved to the 2016 balance sheet. Confronted with this structural funding problem for the police pension fund, for FY 2016 the city council, by ordinance, earmarked 1.0 mills of General Fund real estate tax revenue for pension fund recovery. This decision will work to remedy the recurring structural budget deficit in funding the annual police pension fund minimum municipal obligation, but will force the city to carefully manage cash flow and restrict spending in the city general fund for all other operations funded through the general fund. The city will seek, through collective bargaining, to increase member contributions to the police pension plan in the future, and carefully manages pension plan investments to maximize earnings while managing investment risk, but short of attributing the number of full-time police officers employed by the city, which is not prudent given the city's population and crime rates, state-level reform of municipal pensions is the only way the city and many other jurisdictions can stabilize and afford this liability.

## **CAPITAL INVESTMENTS**

For many years, the city deferred maintenance and improvement of its infrastructure and public buildings. The present administration has invested heavily in repairs, maintenance, and improvement of city wide infrastructure and public property. To fund this work, the city has pursued grants, partnered with state agencies and public utilities and taken on long term debt.

For the last several years, the city has worked closely with the Pennsylvania American Water Company, which has replaced thousands of feet of water mains on city streets and repaved the affected streets at no cost to the city. Just in 2015, Wood, Stark, East Frothingham, East Oak, Butler and parts of Church Street were all repaved by the water company. Additionally, with the encouragement of city officials, the state transportation department, PENNDOT, has invested in repaving state high ways in the city, including all of North Main and Parsonage Streets during 2015.

The city actively pursues state and federal grant funding opportunities and has been successful in receiving millions of dollars in recent years from grants, particularly grants from the proceeds of state casino taxes, grants from PENNDOT, and federal and state funds for stormwater and sanitary improvements and disaster recovery, but the grant funds have been insufficient to meet all deferred maintenance needs. Accordingly, the city council has enacted ordinances to incur long-term debt for sewer replacement (areas of the city sewer system are more than 100 years old), expansion of the public library, renovations to the 1939 city hall, and streetscaping for the downtown business district. However, this investment comes at a cost of increased debt service. The City fully budgets for anticipated debt service, but future capital improvements may be constrained by the limits of the borrowing base as determined by state law, and the ability to budget the resulting debt service.

## **MOTOR POOL**

Many city vehicles were deteriorated to the point that annual maintenance costs equaled or exceeded replacement costs. Where possible, the city has pursued grants to help fund replacement of the motor pool. During 2015 the city received a state recycling program grant that provided more than \$90,000 of the \$105,000 cost of a new recycling collection vehicle. But the cost of most fleet replacement is fully borne by the city. The city has invested heavily in modernizing its public works and police fleets but with a resulting increase in debt lease payments.

This increase is partially offset by decreased maintenance costs and as the leases are paid off the city anticipates lease costs again decreasing. For example, during 2015 the city invested in a new street sweeper through a lease purchase option. The city had not been regularly sweeping streets for many years resulting in accumulation of debris in street drains, leading to increased storm system maintenance costs and continual complaints from residents and businesses of debris in the street gutters. This equipment represents an investment of more than \$200,000, but will achieve long-term goals in preventing blocking of street drains and improving the appearance of downtown and neighborhood streets which will work towards attracting more businesses and residents, growing the tax base.

## **INSURANCE COSTS**

Changes in state law to workers compensation for paid firefighters a few years ago left the City and many other jurisdictions unable to obtain workers compensation insurance from private insurers and the city had to obtain insurance from a state entity, the State Workers Compensation Fund (SWIF) resulting in a significant spike in the cost of this insurance, particularly in the fire departments. The City currently pays the workers compensation insurance for its two volunteer fire companies which represents a significant strain on the

CITY OF PITTSBURGH, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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General Fund in the face of the tremendously increased cost of such coverage. Towards reducing workers compensation cases the city instituted an Employee Safety Committee that meets regularly and has worked to reduce workplace accidents. The city's progressive risk management efforts were rewarded with the ability to obtain city-wide workers compensation insurance from the private marketplace for 2016 at significantly decreased costs. However, due to the changes in the law, the 2 volunteer fire companies' workers compensation insurance remains in the SWIF system.

Like all other municipalities, the city also faces uncertainty in the cost of health insurance for its full-time municipal employees, as required by collective bargaining. Since the passage of the federal Affordable Care Act, the city's annual health insurance premium increase has remained within manageable levels. However, each renewal presents uncertainty. The city has been challenged in obtaining union agreement to require full-time employees pay a meaningful share of the monthly premium and annual deductibles, all of which are negotiable under the Pennsylvania state collective bargaining laws. The city will continue to pursue this approach of requiring employees to share some of the cost of health insurance costs to try to ameliorate the cost to the taxpayers, but is constrained by state collective bargaining laws and the cost of arbitration, given an uncertain outcome, is not deemed prudent by city leadership at this time.

In conclusion, given the need to address years of deferred capital maintenance, and increased personnel costs largely due to the state collective bargaining, employee health insurance, workers compensation and pension laws, the City can anticipate a continued challenge in holding the line on expenditures to the anticipated growth in revenue.

CITY OF PITTSBURGH, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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## **COMMENTS ON NON-GENERAL FUNDS**

The City maintains a number of special purpose revenue funds. These funds have specific sources of revenue and their expenditures are limited to purposes defined in their authorizing legislation.

The City's primary special purpose revenue fund is the Sewer Maintenance Fund. This fund receives revenue from an annual sewer maintenance fee established pursuant to Chapter 386 Article IV of the Pittsburgh City Code. Expenditures from this fund are limited to debt service on the PENNVEST sewer improvement loan and repairs and maintenance of the City's sanitary and stormwater sewer system. The existing debt service of approximately \$525,000 annually uses up the majority of this fund's annual budget. However, approximately 60% of the City's sewer system has yet to be renovated and is 80 to more than 100 years old. The City regularly is faced with emergency sewer repairs that challenge this fund's finances and which may require future revenue enhancement.

The City has been a prudent steward of its Liquid Fuels Fund for road repairs. Unlike many jurisdictions the City does not charge any personnel costs to this fund, and regularly uses this fund for paygo capital improvements to roads and for road maintenance equipment. In FY 2015, the City repaved Cron Street as a paygo capital project.

During FY 2014, the City established several new capital project funds for the expansion of the public library, planned renovations to city hall and expansion of the downtown streetscape. The City has implemented careful and prudent budgeting and accounting to successfully manage these capital projects on a budgetary basis. All of these projects were underway during 2015 and will continue during 2016.

The Office of the City Treasurer also holds escrow funds for fire damaged properties under the City's fire escrow ordinance (Pittsburgh City Code Chapter 255) and for certain condemned buildings pursuant to the City Condemned Building Ordinance (Pittsburgh City Code Chapter 186). These funds are also monitored by the City Controller and Office of the City Administrator.

## **FLOODPLAIN MANAGEMENT**

Parts of the City are in areas subject to federal floodplain regulations pertaining to the National Flood Insurance Program (NFIP). In 2012, the City adopted the most current federal floodplain regulations as required by NFIP (Pittsburgh City Code Section 270) to assure NFIP insurance availability.

CITY OF PITSTON, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

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**REQUEST FOR INFORMATION**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Pittston- City Hall, 35 Broad Street, Pittston, PA 18640.

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## CITY OF PITTSBURGH

STATEMENT OF NET POSITION  
DECEMBER 31, 2015

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITY	TOTAL
CURRENT ASSETS:			
Cash	\$ 114,928	\$ 23,523	\$ 138,451
Restricted cash	820,637	-	820,637
Accounts receivable, net	648,721	-	648,721
Taxes receivable	311,425	-	311,425
Current portion of loans receivable	<u>6,091</u>	<u>-</u>	<u>6,091</u>
Total current assets	<u>1,901,802</u>	<u>23,523</u>	<u>1,925,325</u>
LOANS RECEIVABLE, Net of current portion and allowance for doubtful accounts	69,887	-	69,887
MORTGAGES RECEIVABLE	2,129,750	-	2,129,750
CAPITAL ASSETS, Net	<u>-</u>	<u>52,551</u>	<u>52,551</u>
TOTAL	<u>\$ 4,101,439</u>	<u>\$ 76,074</u>	<u>\$ 4,177,513</u>
CURRENT LIABILITIES:			
Notes payable	785,946	-	785,946
Capital lease obligations	130,739	-	130,739
Compensated absences	101,998	-	101,998
Accounts payable	896,440	-	896,440
Accrued expenses	<u>33,279</u>	<u>184</u>	<u>33,463</u>
Total current liabilities	1,948,402	184	1,948,586
NONCURRENT LIABILITIES:			
Notes payable	8,487,975	-	8,487,975
Capital lease obligations	350,717	-	350,717
Compensated absences	<u>152,996</u>	<u>-</u>	<u>152,996</u>
Total liabilities	<u>10,940,091</u>	<u>184</u>	<u>10,940,275</u>
NET POSITION:			
Invested in capital assets, net of related debt		52,551	52,551
Restricted	188,920	-	188,920
Unrestricted	<u>(7,027,571)</u>	<u>23,339</u>	<u>(7,004,232)</u>
Total net position	<u>(6,838,651)</u>	<u>75,890</u>	<u>(6,762,761)</u>
TOTAL	<u>\$ 4,101,438</u>	<u>\$ 76,074</u>	<u>\$ 4,177,513</u>

See Notes to Financial Statements

CITY OF PITTSBURGH

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	PROGRAM REVENUES			NET EXPENSES AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITY
						TOTAL
<b>FUNCTIONS/PROGRAMS</b>						
Governmental activities:						
Community development	\$ 3,049,887			2,443,863	\$ (606,024)	\$ (606,024)
Public safety	2,228,660	35,810		-	(2,192,850)	(2,192,850)
Public works	4,415,335	1,073,186	158,384	-	(3,183,765)	(3,183,765)
General government - administrative	1,158,196	816,491	168,796	-	(172,909)	(172,909)
Interest on long-term debt	178,416				(178,416)	(178,397)
Culture and recreation	69,793	-	-	-	(69,793)	(69,793)
Total governmental activities	\$ 11,100,288	\$ 1,925,487	\$ 327,180	\$ 2,443,863	\$ (6,403,758)	\$ (6,403,739)
Business-type activity:						
Pittston Parking Authority	66,878	58,878	-	-	-	(8,000)
TOTAL	\$ 11,167,166	\$ 1,984,365	\$ 327,180	\$ 2,443,863	\$ (6,403,758)	\$ (6,411,739)
General revenues:						
Property and other taxes					3,218,603	3,218,603
Unrestricted investment earnings					36,290	36,290
Miscellaneous					285,476	285,476
Total general revenues					3,540,369	3,540,369
Change in net position					(2,863,389)	(2,871,370)
Net position(deficit)-beginning					(4,796,388)	(4,712,517)
Net position (deficit)-ending					\$ (7,659,777)	\$ (7,583,887)

See Notes to Financial Statements

CITY OF PITTSSTON

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	GENERAL FUND	COMMUNITY DEVELOPMENT FUND	SEWER MAINTENANCE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash	\$ 62,324	\$ 39,285	\$ 13,319	\$ 423,084	\$ 168,984	\$ 114,928
Restricted cash	-	228,569	-	-	-	820,637
Accounts receivable, net	215,861	-	432,860	-	-	648,721
Taxes receivable	311,425	-	-	-	-	311,425
Due from other funds	63,198	-	-	50,000	-	113,198
Total assets	\$ 652,807	\$ 267,854	\$ 446,179	\$ 473,084	\$ 168,984	\$ 2,008,908
LIABILITIES:						
Accounts payable	\$ 152,311	\$ 299,396	\$ 95,403	\$ 345,077	\$ 4,253	\$ 896,440
Due to other funds	-	-	50,698	-	62,500	113,198
Accrued liabilities	281,139	-	-	-	-	281,139
Total liabilities	433,450	299,396	146,100	345,077	66,753	1,290,777
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue:						
Property taxes	215,861	-	-	-	-	215,861
Refuse fees	178,574	-	-	-	-	178,574
Sewer fees	-	-	146,557	-	-	146,557
Total deferred inflows	394,435	-	146,557	-	-	540,992
(DEFICIT) FUND BALANCES:						
Unassigned fund balances	(175,078)	-	-	-	163,297	(11,781)
Restricted fund balances	-	(31,542)	153,522	128,007	(61,067)	188,920
Total fund balances (deficit)	(175,078)	(31,542)	153,522	128,007	102,230	177,139
Total liabilities and fund balances	\$ 652,807	\$ 267,854	\$ 446,179	\$ 473,084	\$ 168,984	\$ 2,008,908

See Notes to Financial Statements

CITY OF PITTSTON

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015

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TOTAL FUND BALANCE (Page 24) \$ 177,139

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

Mortgages and loans receivable are not due and collectible in the  
current period and, therefore, are not reported as assets in the  
governmental funds. 2,205,728

Unavailable revenue and deferred inflows of resources in the  
governmental-fund balance sheet including accounts  
receivable balances that were not considered a current  
resource. 540,992

Accrued pension liability 247,861

Long-term obligations are not due and payable in the current period and are  
not reported as liabilities in the general funds. Long-term obligations  
at year end consist of:

Notes payable	(9,273,921)
Compensated absences	(254,994)
Capital lease	<u>(481,456)</u>

Total net position of governmental activities (Page 22) \$ (6,838,651)

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See Notes to Financial Statements

## CITY OF PITTSBURGH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015

	GENERAL FUND	COMMUNITY DEVELOPMENT FUND	SEWER MAINTENANCE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES:						
Taxes	\$ 3,004,157	\$ -	\$ -	\$ -	\$ 183,688	\$ 3,187,845
Intergovernmental revenues	477,636	2,443,863	-	-	-	2,921,498
Charges for services	591,551	-	1,029,598	-	-	1,621,149
Licenses and permits	224,939	-	-	-	-	224,939
Fines and forfeits	35,810	-	-	-	-	35,810
Investment earnings	35,165	363	26	102	635	36,290
Miscellaneous revenues	124,245	161,231	-	-	-	285,476
Total revenues	4,493,503	2,605,457	1,029,623	102	184,322	8,313,007
EXPENDITURES:						
Current:						
Public works	1,027,065	-	282,475	2,694,883	157,139	4,161,561
Public safety	2,374,259	-	-	-	-	2,374,259
Community development	177,713	2,949,282	-	-	-	3,126,996
General government - administrative	1,166,932	-	-	-	-	1,166,932
Culture and recreation	69,793	-	-	-	-	69,793
Debt service:						
Principal	371,823	-	-	466,947	-	838,770
Interest	81,971	36,264	-	60,181	-	178,416
Total expenditures	5,269,556	2,985,546	282,475	3,222,010	157,139	11,916,727
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(776,053)	(380,089)	747,148	(3,221,908)	27,183	(3,603,719)
OTHER FINANCING SOURCES (USES):						
Proceeds from short-term debt	100,959	-	-	-	-	100,959
Proceeds from issuance of long-term debt	500,000	145,000	-	1,980,961	-	2,625,961
Transfers in	235,000	-	-	571,055	-	806,055
Transfers out	-	-	(806,055)	-	-	(806,055)
Total other financing sources (uses)	835,959	145,000	(806,055)	2,552,016	-	2,726,920
NET CHANGE IN FUND BALANCE	59,906	(235,089)	(58,907)	(669,892)	27,183	(876,799)
(DEFICIT) FUND BALANCE, BEGINNING	(234,984)	203,547	212,429	797,899	75,047	1,053,938
(DEFICIT) FUND BALANCE, ENDING	\$ (175,078)	\$ (31,542)	\$ 153,522	\$ 128,007	\$ 102,230	\$ 177,139

See Notes to Financial Statements

**CITY OF PITTSTON**

**RECONCILIATION OF CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS  
WITH CHANGE IN NET POSITION IN THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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Change in fund balance (Page 26)	\$ (876,799)
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The change in net position reported in the statement of activities is different because:

Payments of long-term obligation principal are considered a use of current financial resources and are reported in the changes in fund balance but not in the statement of activities.	838,770
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Proceeds from short-term debt and capital lease obligations are considered a current financial resource and are reported in the changes in fund balance but not in the statement of activities.	(100,959)
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Proceeds from long-term debt and capital lease obligations are considered a current financial resource and are reported in the changes in fund balance but not in the statement of activities.	(2,625,961)
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Net repayment of loans receivable are considered a use of current financial resources and are reported in the changes in fund balance but not in the statement of activities.	77,109
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Capital lease additions used in governmental activities are not reported as expenditures	(253,774)
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Payments on capital lease principal are considered a use of current financial resources and are reported in the statement of changes in fund balance but not in the statement of activities.	96,910
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Change in compensated absences	(57,424)
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In the statement of net change in fund balance, non-exchange revenue is only recognized when measurable and available. Therefore, any non-exchange balances collected past sixty days of the balance sheet date are not recognized as revenue until the period collected. This amount is the net change in revenue accrued between the prior and the current year.	<u>30,758</u>
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Change in net position of governmental activities	<u>\$ (2,871,370)</u>
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See Notes to Financial Statements

CITY OF PITTSTON

STATEMENT OF NET POSITION-PROPRIETARY FUND  
DECEMBER 31, 2015

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CURRENT ASSETS,	
Cash and cash equivalents	\$ 23,523
CAPITAL ASSETS, NET	<u>52,551</u>
 TOTAL ASSETS	 \$ <u>76,074</u>
 CURRENT LIABILITIES,	
Accrued liabilities	\$ 184
 NET ASSETS,	
Restricted	<u>75,890</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>76,074</u>

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See Notes to Financial Statements

CITY OF PITTSTON

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN NET POSITION-PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015

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REVENUES:

Fees	\$ 58,878
Interest	<u>19</u>

Total revenues	<u>58,897</u>
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EXPENSES:

Administration	8,206
Professional services	<u>58,672</u>

Total expenses	<u>66,878</u>
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NET LOSS	(7,981)
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NET ASSETS, BEGINNING OF THE YEAR,	<u>83,871</u>
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NET ASSETS, END OF THE YEAR	<u>\$ 75,890</u>
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See Notes to Financial Statements



CITY OF PITTSTON

STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2015

	PENSION TRUST FUND	AGENCY FUNDS
<u>ASSETS</u>		
CASH	\$ -	\$ 228,436
DUE FROM OTHER FUND	247,861	-
INVESTMENTS	<u>8,077,006</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 8,324,867</u>	<u>\$ 228,436</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES,		
Due to other governments	\$ -	\$ 181,408
Due to insured party	-	12,256
Due to nonprofit organization	-	9,547
Due to property owner	<u>-</u>	<u>25,000</u>
Total Liabilities	-	228,212
NET ASSETS,		
Reserved for pension benefits	<u>8,324,867</u>	<u>224</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,324,867</u>	<u>\$ 228,436</u>

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See Notes to Financial Statements

CITY OF PITTSBURGH

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION-  
PENSION TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015

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ADDITIONS:

Contributions:

Employer	\$ 322,511
Employee	52,531
State aid	<u>196,042</u>

Total contributions 571,084

Investment earnings:

Net depreciation of fair value of investments	(91,341)
Interest and dividends	<u>139,964</u>

Total investment earnings 48,623

Other loss:

Investment loss on transfer	<u>(85,434)</u>
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Total additions, net 534,273

DEDUCTIONS:

Benefits paid	557,847
Administrative and other fees	70,010
Refunds of terminated employees	<u>8,648</u>

Total deductions 636,505

NET DECREASE IN NET ASSETS (102,232)

NET ASSETS, RESERVED FOR EMPLOYEES'

RETIREMENT BENEFITS:

Beginning of year 8,427,037

End of year \$ 8,324,805

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See Notes to Financial Statements

## CITY OF PITTSBURGH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(UNAUDITED)

	General Fund		Actual	Variance with
	Original	Final	Amounts	Final Budget- Positive (Negative)
<b>REVENUES:</b>				
Taxes	\$ 2,966,100	\$ 2,953,100	\$ 3,004,157	\$ 51,057
Intergovernment revenue	479,285	615,232	477,636	(137,596)
Charges for services	601,212	608,008	591,551	(16,457)
Interest received	13,500	13,500	224,939	211,439
Licenses and permits	246,850	250,350	35,810	(214,540)
Fines and forfeitures	47,000	47,000	35,165	(11,835)
Miscellaneous revenues	246,920	258,601	124,245	(134,356)
Total revenues	4,600,867	4,745,791	4,493,503	(252,288)
<b>EXPENDITURES:</b>				
Current:				
Public safety	2,092,501	2,113,304	1,027,065	\$ (1,086,239)
General government - administrative	1,094,632	1,186,469	2,374,259	1,207,790
Public works	1,070,487	1,157,012	177,713	(979,299)
Community development	172,327	174,327	1,166,932	992,605
Culture and recreation	69,500	77,500	69,793	(7,707)
Debt service:				
Principal	391,820	273,709	371,823	98,114
Interest	9,500	83,370	81,971	(1,399)
Total expenditures	4,900,767	5,045,691	5,269,556	223,865
DEFICIENCY OF REVENUES OVER EXPENDITURES	(299,900)	(299,900)	(776,053)	(28,423)
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from short-term debt				
Proceeds from sale of land and capital assets				
Transfers in	299,900	299,900	267,279	-
Proceeds from issuance of long-term debt			(123,112)	-
Transfers out				
Total other financing sources (uses)	299,900	299,900	144,167	-
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(234,984)	(234,984)	(631,886)	(631,886)
FUND DEFICIT, BEGINNING			(234,984)	
FUND DEFICIT, ENDING	\$ (234,984)	\$ (234,984)	\$ (866,870)	\$ (631,886)

See Notes to Financial Statements

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## CITY OF PITTSTON, PENNSYLVANIA

### NOTES TO FINANCIAL STATEMENTS

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#### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the City of Pittston, Pennsylvania (the "City"), conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following notes to the financial statements are an integral part of the City's financial statements.

##### FINANCIAL REPORTING ENTITY

The City was incorporated in 1894 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania. The City is a third class city, as defined by state statutes. The City has been operating under a Home Rule Charter since January 2, 2013. The City operates under a Mayor/Council form of government and provides a full range of services, including general administration, public safety, health and welfare, sanitation, culture and recreation, community development, and public works to approximately 8,000 residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component unit. The component unit, discussed in Note 2, is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

##### BASIS OF PRESENTATION

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 blended component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 goods, services, or privileges provided by a given function or segment and 2) grants and contributions 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 instead as *general revenues*.

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

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING,  
AND FINANCIAL STATEMENT PRESENTATION**

The governmental activities in the government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The business-type activity in the government-wide financial statements and the proprietary fund are reported using accounting principles prescribed by the Pennsylvania Department of Transportation.

Governmental fund financial statements are reported using the *current financial resources 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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be *measurable* and *available* only when cash is received by the City.

The City reports the following major governmental funds:

**GENERAL FUND**-Used to account for all financial transactions applicable to the general operations of the City except for those required to be accounted for in another fund.

**COMMUNITY REDEVELOPMENT FUND**-Used to account for the grant proceeds received from the state and Federal agencies to fund local development activities such as affordable housing, anti-poverty programs, and infrastructure development.

**SEWER MAINTENANCE FUND**-Used to account for the sewer usage charges collected from the City residents to fund the sewer improvement project.

**CAPITAL PROJECTS FUNDS**-Used to account for the financial resources and activity related to the acquisition, construction, or reconstruction of the City's sewer lines, and other public property and city infrastructure. Resources are derived from proceeds of long-term debt and various grants.

**LIQUID FUELS FUND**-Used to account for the maintenance of city streets. Financing is provided through the City's share of the state gasoline taxes.

The City's Fiduciary Fund accounts for the Pension Trust Fund and Agency Funds. The Pension Trust Fund is used to account for pension benefits for current and retired employees. The principal revenue sources for this fund are employer, employee, and state contributions. The Pension Trust Fund is accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. The Pension Trust Fund accounts for the City's defined benefit pension plans for police, firemen, and non-uniformed employees and retirees. The Agency Funds account for funds held by the City in a custodial or agent function.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

The City has elected to follow subsequent private-sector guidance, except those that conflict with or contradict GASB pronouncements.

Amounts reported as *program revenues* include charges to customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets acquired with operating assistance grants. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

#### **BUDGETARY ACCOUNTING CONTROL**

The City's budget is prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") using the modified accrual basis of accounting. Annual operating budgets are legally adopted for the General Fund, and other funds as required by enacting legislation.

#### **CASH, CASH EQUIVALENTS AND INVESTMENTS**

The City's cash is considered to be cash on hand and demand deposits. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

#### **INTERNAL BALANCES**

Internal balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

## **FUND BALANCE**

The City's fund balance classifications are defined and described as follows:

Restricted: Represents fund balance amounts that are limited by external parties, or by enabling legislation.

## **MORTGAGES RECEIVABLE**

Mortgages receivable represents various notes and mortgages between the Lincoln Heights Corporation ("grantor") and Lincoln Heights Senior Housing, LP ("grantee") for an old school building that was converted to apartments for low income housing. Payment of principal only is due 30 years from the date of the notes, which were signed on various dates in 2005. The premises acts as security for the mortgage. Total mortgages receivable at December 31, 2015 is \$2,129,750.

## **RECEIVABLES**

All accounts receivable are shown net of an allowance for doubtful accounts of \$228,096

The loans receivable are shown net of an allowance for estimated uncollectible loans. The allowance is calculated based on collection history and is approximately \$44,000 at December 31, 2015.

## **COMPENSATED ABSENCES**

Contracts between the City and the three unions representing substantially all police, firemen, and non-uniformed employees provide for various compensated absences for vacation pay and unused sick days.

Vacation time must generally be used in the period earned and there is no accrual for vacation pay included in the City's financial statements.

Sick leave may be accumulated for a maximum number of days as described in each of the respective union contracts. Fifty percent of the accumulated maximum number of days is payable upon death when as the employee retires under the normal retirement provisions of the applicable pension program.



## PROPERTY TAXES

The City bills and collects its own property taxes based upon assessed valuations provided by Luzerne County. All uncollected taxes are submitted to Northeast Revenue Service, LLC, agent for the Luzerne County Tax Claim Bureau for collection. For 2015, The City levied 6.85 mills per dollar of assessed valuation for general governmental, debt service, and recreational purposes upon the total taxable assessed valuation of property within the City of \$262,906,000. The 2015 property tax calendar follows:

Issued date	February 8, 2015
Discount period at 2%	Until April 7, 2015
Face period	April 8, 2015 to June 7, 2015
Penalty period at 10%	June 8 and thereafter

## DEFERRED REVENUES

Deferred revenues are those revenues where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Such amounts are measurable but are not available. Deferred revenue may also result from revenues being collected in advance of the fiscal year to which they apply or in advance of their legal due date.

## RESTRICTED INVESTMENTS

Restricted investments represent resources set aside for the liquidation of specific obligations.

## USE OF ESTIMATES

The preparation of 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 reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF PITTSBURGH, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

**INTERFUND TRANSACTIONS**

The City had numerous transactions between funds to finance operations, provide services, construct assets, and service debt. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These transactions are classified as transfers-in/out, and due from/to other funds.

The operating transfers between funds for the year ending December 31, 2015 are as follows:

	<u>General</u> <u>Fund</u>	<u>Sewer</u> <u>Maintenance</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>
Transfers in	\$ 235,000	\$ -	\$ 571,055	\$ 806,055
Transfers out	\$ -	\$ (806,055)	\$ -	\$ (806,055)

The following summarizes the receivables and payables between governmental fund for the year ended December 31, 2015:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Pension Fund	\$ -	\$ 247,861
Other Governmental Funds	310,361	-
Sewer Maintenance Fund	698	-
Total General Fund	<u>\$ 311,059</u>	<u>\$ 247,861</u>
Capital Projects Fund:		
Sewer Maintenance Fund	<u>\$ 50,000</u>	<u>\$ -</u>
Sewer Maintenance Fund:		
General Fund	\$ -	\$ 698
Capital Projects Fund	-	50,000
Total Sewer Maintenance Fund	<u>\$ -</u>	<u>\$ 50,698</u>
Other Governmental Funds:		
General Fund	<u>\$ -</u>	<u>\$ 62,500</u>

#### DATE OF MANAGEMENT REVIEW

Subsequent events were evaluated through September 8, 2016, which is the date the final statements were available to be issued.

## 2. REPORTING ENTITY

In accordance with GASB 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB 14, the City evaluated the following related entities for the possible inclusion in the financial reporting entity:

The Redevelopment Authority of the City of Pittsburgh  
Lincoln Heights Corporation  
Pittsburgh Parking Authority  
Housing Authority of the City of Pittsburgh  
Pittsburgh Memorial Library  
Lincoln Heights Senior Housing, LP

Based upon its evaluation, the City has included the Redevelopment Authority (the "Authority"), the Pittsburgh Parking Authority (the "Parking Authority"), and the Lincoln Heights Corporation (the "Corporation") each as a blended component unit, whereby the financial data for the Authority is presented in the same manner as that of the City's financial operation. The remaining entities do not meet the GASB criteria and are not included in the reporting entity.

The Authority and the Parking Authority is organized under the State of Pennsylvania Community Redevelopment Law. The Authority participates in low and moderate housing activities including rehabilitation of low and moderate income rental housing projects. The City council appoints the governing board of the Authority.

The Corporation is a 501 (c)3 entity formed in 2003 to oversee and provide funding to Lincoln Heights Senior Housing, LP. Lincoln Heights Senior Housing, LP provides affordable safe housing to low income elderly individuals. The Corporation is governed by the same board as The Authority.

## 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City follows the Home Rule Charter and applicable state law for investment of City funds.

Authorized types of investments for City funds shall be:

- a. United States Treasury bills.
- b. Short-term obligations of the United States government or its agencies or instrumentalities.
- c. Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
- d. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- e. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for City funds listed.
- f. Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured; however, for any amounts above the insured maximum, such certificates of deposit shall be collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent of a bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks shall be limited to an amount equal to twenty percent of an institution's assets minus liabilities.

- g. Any investment authorized by 20 Pa. C.S. Ch. 73 (relating to fiduciaries' investments) shall be an authorized investment for any pension or retirement fund.

In making investment of City funds, the City Council shall have authority: To permit assets pledged as collateral under subsection (d)(3), to be pooled in accordance with the act of August 6, 1971 (P.L. 281, No. 72), relating to pledges of assets to secure deposits of public funds. No custodial credit risk policy for deposits.

Investments of the Pension Fund are held by a fiscal agent under trust agreements that authorize the trustee to invest in any form of property, at its discretion, without restriction to investments authorized for fiduciaries, provided that the investments of the trust shall be kept separate and apart from other City funds.

As of December 31, 2015, the aggregate bank balance of bank deposits was \$1,044,037 of which \$742,553 was covered by federal depository insurance and the uninsured remaining bank deposits of \$302,483, were covered by pledged pools of assets maintained in accordance with Act No. 72 of the General Assembly that requires the institution pool collateral for all government deposits. The carrying amount of these bank deposits was \$935,565 at December 31, 2015.

#### INVESTMENTS

As of December 31, 2015, the City had the following Investments:

<u>Pension Trust Fund</u>	<u>Maturities</u>	<u>Fair Value</u>
Managed equity	N/A	<u>\$ 8,077,006</u>

#### CREDIT RATINGS

The City's investments had the following credit ratings:

Managed equity	NR	100%
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The City has no investment policy that would limit its investment choices to certain credit ratings.

CITY OF PITTSBURGH, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

# INTEREST RATE RISK

As a means of limiting its exposure to fair value losses arising from interest rates, the City purchases securities with laddered maturities. In line with investment policy guidelines, ladders have maturities of 12 months or less.

## 4. CAPITAL ASSETS

Capital assets activity for the discretely presented component unit for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 22,320	\$ -	\$ -	\$ 22,320
Capital assets being depreciated:				
Equipment and furniture	\$ 40,139	\$ -	\$ -	\$ 40,139
Less: Accumulated depreciation:				
Equipment and furniture	\$ (10,674)	\$ (3,521)	\$ -	\$ (14,195)
Total capital assets being depreciated, net	\$ 29,465	\$ (3,521)	\$ -	\$ 25,944
Total Capital Assets	\$ 51,785	\$ (3,521)	\$ -	\$ 48,264

## 5. SHORT-TERM AND LONG-TERM DEBT

At December 31, 2015, Short-Term debt obligations were as follows:

	<u>Current</u>	<u>1-Jan-15</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>31-Dec-15</u>
City of Pittsburgh:					
2015 Short Term Bridge Loan with interest					
only at a rate of 3.75%. Proceeds used					
for the purchase of a recycling truck	\$ 100,959	\$ -	\$ 100,959	\$ -	\$ 100,959

CITY OF PITTSBURGH, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

At December 31, 2015, Long-Term debt obligations were as follows:

	<u>Current</u>	<u>1-Jan-15</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>31-Dec-15</u>
<b>City of Pittsburgh:</b>					
2004 General Obligation Note, 3.95% interest, due in monthly installments of \$8,519 including interest through July 2022	80,207	677,854	-	81,995	595,859
2009 Pennsylvania Infrastructure Investment Authority Note, 1.274% interest, due in 36 monthly installments, 1.274% to 2.55% principal and interest due in 240 monthly installments. Used to finance replacement sanitary & storm sewer mains. Payments financed by City Sewer Maintenance Fee.	410,088	4,937,314	-	466,947	4,470,367
2011 General Obligation Note, Series A and B, Series A at 3.65% due in monthly installments of \$9,084 and Series B at 5.525% due in monthly installments of \$1,980	86,449	882,725	-	225,302	657,423
2014 General Obligation Series B Note with interest only at the bank's prime rate (3.25% at December 31, 2014) plus 1%. Proceeds were used to pay off Series A note.	-	100,000	20,225	-	120,225
2014 General Obligation Series D Note with interest only at 2.96%. Proceeds were used to fund Greater Pittsburgh Memorial Library.	-	15,724	410,849	-	426,573
2015 General Obligation Series 2015 Note with interest only for the first six months at a rate of 2.59%. Proceeds were for the City Hall Energy Savings Project.	9,234	-	398,432	-	398,432

CITY OF PITTSBURGH, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	<u>Current</u>	<u>1-Jan-15</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>31-Dec-15</u>
2015 General Obligation Series 2015 Note					
Due in annual installments of \$80,187 with					
Interest at a rate of 3.309% Proceeds were					
For the Street Light Energy Savings Capital					
Project.	57,622	-	671,623		671,623
2015 General Obligation Series A Note at 4%					
due in monthly installments of \$5,076 per					
month in 120 installments. Proceeds were					
for payment of police pension plan and					
payoff of a 2011 Series B Note	<u>41,387</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Total City of Pittsburgh long-term notes payable	<u>684,987</u>	<u>6,613,617</u>	<u>2,001,129</u>	<u>773,744</u>	<u>7,840,502</u>
Total City of Pittsburgh short-term and long-term notes payable	<u>785,946</u>	<u>6,613,617</u>	<u>2,102,088</u>	<u>773,744</u>	<u>7,941,461</u>
Redevelopment Authority:					
2006 Guaranteed Lease Revenue Note,					
payable in monthly payments of \$11,797					
including interest at 6.10% through June					
2015. Note proceeds were used to					
purchase property.	-	84,102	-	84,102	-
Note Payable to the County of Luzerne,					
Pennsylvania, this note is a non-interest					
bearing note with a deferred repayment					
of the principal until November 2036.					
This note will be forgiven in its entirety					
at the end of its term, contingent upon					
compliance with the terms of the					
agreement. Note proceeds were used					
for the development of a multi-unit					
residential facility for eligible elderly					
tenants	-	250,000	-	-	250,000



CITY OF PITTSBURGH, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	<u>Current</u>	<u>1-Jan-15</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>31-Dec-15</u>
2015 Multiple advance term loan with interest only for three years at prime minus 20 (3.05% currently) adjusted annually. Proceeds used to pay 3 existing loans from a bank.	-	-	1,081,960	-	1,081,960
2012 General Obligation Note, with interest payments due monthly and principal due in full in June 2015. Proceeds were used to pay 2012 mortgage note and for community development operations	-	951,000	-	951,000	-
Total Redevelopment Authority long-term notes	-	1,285,102	1,081,960	1,035,102	1,331,960
Total City of Pittsburgh and Redevelopment Authority short-term and long-term notes	<u>\$ 785,946</u>	<u>\$7,898,719</u>	<u>\$3,184,048</u>	<u>\$ 1,808,846</u>	<u>\$9,273,421</u>

Debt service requirements to maturity are as follows:

<u>YEAR ENDING DECEMBER 31:</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2016	\$ 785,946	\$ 231,823	\$ 1,017,769
2017	770,749	229,955	1,000,704
2018	1,474,056	199,841	1,673,897
2019	829,035	161,871	990,906
2020	854,001	136,905	990,906
2021-2025	3,655,488	444,453	4,099,941
2025-2029	107,452	85,912	193,364
2029-2033	546,694	71,931	618,625
2033-2037	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Total	<u>\$ 9,273,421</u>	<u>\$ 1,562,691</u>	<u>\$ 10,836,112</u>

CITY OF PITTSBURGH, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

The City repaid the 2012 general obligation Note in the amount of \$951,000 through the refinancing of the 2015 multiple advance term loan.

The following represents changes in long-term liabilities, other than notes and bond payables. The capital leases consist of vehicles and equipment, expiring in 2020.

	<u>JANUARY 1, 2015</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>DECEMBER 31, 2015</u>
Capital leases	<u>\$ 324,592</u>	<u>\$ 253,774</u>	<u>\$ 96,910</u>	<u>\$ 481,456</u>
Compensated absences	<u>\$ 312,418</u>	<u>\$ 49,425</u>	<u>\$ 106,849</u>	<u>\$ 254,994</u>

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31, 2015:

<u>YEAR ENDING:</u>	<u>GOVERNMENTAL ACTIVITIES</u>
2016	\$ 146,717
2017	145,657
2018	129,822
2019	85,541
2020	<u>9,981</u>
Total commitment under capital lease	517,718
Less amounts representing interest	<u>36,262</u>
Present value of future minimum lease payments	<u>\$ 481,456</u>

The city has adopted a debt management policy for both short and long-term debt as provided in Section 23-3 of the Pittsburgh City Code.

## 6. PENSION PLANS

The City has three single-employer defined benefit pension plans covering Police, Firemen and Officers and Employees personnel. The Police and Firemen plans provide for retirement, late retirement, disability, and death benefits to plan members and their beneficiaries. The Officers and Employees retirement plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Refer to Pittsburgh City Code Chapter 68 for additional information on the City pension plans.

### STATEMENT OF FIDUCIARY NET ASSETS

	<u>POLICE PENSION FUND</u>	<u>FIREMEN PENSION FUND</u>	<u>OFFICERS AND EMPLOYEES PENSION FUND</u>
ASSETS:			
Due from other fund	\$ 247,861	\$ -	\$ -
Investments	<u>2,673,120</u>	<u>2,560,984</u>	<u>2,842,902</u>
 TOTAL ASSETS	 <u>\$ 2,920,981</u>	 <u>\$ 2,560,984</u>	 <u>\$ 2,842,902</u>
Net assets,			
Reserved for employees' retirement benefits	<u>2,920,981</u>	<u>2,560,984</u>	<u>2,842,902</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,920,981</u>	 <u>\$ 2,560,984</u>	 <u>\$ 2,842,902</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

	POLICE PENSION FUND	FIREMEN'S PENSION FUND	OFFICERS & EMPLOYEES PENSION FUND
ADDITIONS:			
Contributions:			
Employer	\$ 322,511	\$ -	\$ -
State Aid	24,910	70,122	101,010
Employees	<u>10,289</u>	<u>3,697</u>	<u>38,545</u>
Total contributions	<u>357,710</u>	<u>73,819</u>	<u>139,555</u>
Investment earnings:			
Net appreciation (depreciation)			
In fair value of investments	(13,778)	(36,818)	(40,805)
Interest and dividends	<u>68,130</u>	<u>34,124</u>	<u>37,771</u>
Total investment gain (loss)	54,352	(2,694)	(3,034)
Other income:			
Investment loss on transfer	<u>(6,131)</u>	<u>(41,234)</u>	<u>(38,069)</u>
Total additions	405,931	29,891	98,452
DEDUCTIONS:			
Benefits paid to recipients	289,687	105,039	163,121
Administrative and other fees	22,086	22,755	25,169
Refunds of terminated employees	<u>-</u>	<u>-</u>	<u>8,648</u>
Total deductions	<u>311,773</u>	<u>127,794</u>	<u>196,938</u>
NET INCREASE (DECREASE) IN NET ASSETS	94,158	(97,903)	(98,486)
NET ASSETS, RESERVED FOR EMPLOYEES' RETIREMENT - BEGINNING	<u>2,826,823</u>	<u>2,658,887</u>	<u>2,941,327</u>
NET ASSETS, RESERVED FOR EMPLOYEES' RETIREMENT - ENDING	<u>\$ 2,920,981</u>	<u>\$ 2,560,984</u>	<u>\$ 2,842,841</u>

CITY OF PITTSBURGH, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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The following table provides information concerning types of covered employees and benefit provisions for each of the plans. Benefit provisions and their amendments are authorized by the separate pension boards:

	Police Pension Plan	Firemen Pension Plan	Officers and Employees Plan
Active plan members	9	7	20
Retirees and beneficiaries currently receiving benefits	10	5	20
Terminated employees entitled to deferred benefits	1	1	2

#### CONTRIBUTIONS

Pennsylvania Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act of the Commonwealth of Pennsylvania (as amended) (Act 205) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plan's annual actuarial valuation. The MMO includes the normal cost estimated administrative expenses and an amortization of the unfunded actuarial accrued liability less estimated member contributions. The Commonwealth provides an allocation of funds which must be used for pension funding. Any financial requirements established by the MMO which exceeds Commonwealth and member contribution must be funded by the employer.

In 2009, the Governor of Pennsylvania signed into law Act 44 of 2009 (Act 44). Act 44 clarifies the limitations on the uses of the special municipal taxing authority currently provided under the Act, and in the case of a municipality utilizing the proceeds from the special tax to fund other post-employment benefits (OPEBs), requires the inclusion of OPEB liabilities in the actuarial valuation report filed with the Commission and in the calculation of the municipality's Minimum Municipal Obligation (MMO), and became effective January 1, 2010.

Police, Firemen and Non-Uniformed employees are required to contribute 2%, 1%, and 5% of covered payroll, respectively. These contributions are governed by the Plans governing documents and collective bargaining agreements. Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plans and funded through the MMO and/or investment earnings. The City did not fully fund its MMO for the Police Fund by December 31, 2015. The outstanding balance due is approximately \$247,861.

#### **ANNUAL PENSION COST**

State aid contributions amounted to \$24,910 for the police pension, \$70,122 for the firemen pension, and \$101,010 for the officers and employees pension in 2015.

### **7. POST-EMPLOYMENT BENEFITS**

The City implemented Governmental Accounting Standards Board ("GASB") Statement no. 45, "Accounting and Financial Reporting by Employers for Post-Employment benefits Other than Pensions", for certain post-employment benefits provided by the City which include health insurance benefits. The requirement of this statement was implemented prospectively. The most recent actuarial review of post-employment benefits was performed as of January 1, 2015.

#### **PLAN DESCRIPTION**

The City administers a single employer benefit healthcare plan for two of its three unions (the Retiree Health Plan). Benefits provisions are established or may be amended by the terms of the City's collective bargaining agreements with its employees.

##### **Benefit Types Provided:**

- Fire - Medical, prescription drug, and vision
- Police - Medical, prescription drug, and vision

##### **Duration of Benefits and Dependent Coverage:**

- Fire - Coverage ends when member is eligible for Medicare. Spousal and dependent coverage is only available if retiree pays 100% of the cost of coverage. If other coverage is available through either employment or retiree's spouse, the retiree must take that coverage.

- Police - Coverage ends when member is eligible for Medicare. Spousal and dependent coverage is only available if retiree pays 100% of the cost of coverage. If other coverage is available through either employment or retiree's spouse, the retiree must take that coverage.

Minimum Age and Service Requirements:

- Fire – 65 years of age and a minimum of 20 years of service, or a work related disability.
- Police - Minimum of 20 years of service, or a work related disability

City Contribution

- Fire - Full premium paid for retiree.
- Police - Full premium paid for retiree.

### FUNDING POLICY

The City currently finances benefits on a pay-as-you-go basis. A description of the City's contribution is disclosed in the preceding Plan Description. For the year ended December 31, 2015, the City contributed \$29,341 to the plan not including the implicit rate subsidy.

### ANNUAL OPEB AND NET OPEB OBLIGATION

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

	<u>Firemen</u>	<u>Police</u>	<u>Total</u>
Annual Required Contribution (ARC)	\$ 11,663	\$ 65,172	\$ 76,835
Estimated Annual Pay-As-You-Go Cost Including Implicit Rate Subsidy	<u>6,111</u>	<u>23,230</u>	<u>29,341</u>
Estimated Change in Net OPEB Obligation	5,552	41,942	47,494
Estimated Net OPEB Obligation - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Estimated Net OPEB Obligation - End of Year	<u>\$ 5,552</u>	<u>\$ 41,942</u>	<u>\$ 47,494</u>

The City's annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the estimated net OPEB obligation for the year ended December 31, 2015 was as follows:

	<u>Firemen</u>	<u>Police</u>	<u>Total</u>
Year Ended:			
12-31-15			
Annual OPEB Cost	\$ 11,663	\$ 65,172	\$ 76,835
Est. % of Annual OPEB Cost Cont.	52%	36%	38%
Estimated Net OPEB Obligation	\$ 5,552	\$ 41,942	\$ 47,494

This is the initial year that the City has reported the annual OPEB cost, the percentage of annual OPEB cost contributed, and the estimated OPEB obligation information. Consequently, the earliest this information is available is for the year ended December 31, 2015. No data exists for the years ended December 31, 2013 and 2014.

#### FUNDING STATUS AND FUNDING PROGRESS

As of January 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The total actuarial accrued liability for benefits as well as the total unfunded actuarial accrued liability (UAAL) for all plans was \$732,511. The covered payroll for all plans (annual payroll of active employees covered by the plans) was \$861,591. and the ratio of the UAAL to the covered payroll was 85.01%. The plan has no segregated assets. The City does not designate resources for retiree health care costs. Refer to the "Other Post-Employment Benefit Plans Schedule of Funding Progress" on page 57 for a breakdown of funding progress by plan.

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



## **ACTUARIAL METHODS AND ASSUMPTIONS**

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

In the January 1, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 3.75% discount rate. The annual healthcare cost trend rate for medical insurance and prescription drug insurance is assumed to be 5% in 2016, 8.25% in 2017, reduced by 0.25% per year thereafter to an ultimate level of 5% per year. The annual healthcare cost trend rate for vision insurance is assumed to be 0% in 2016, 1% in 2017, and 2% per year thereafter. The actuarial value of assets used was equal to the market value of assets. The UAAL is amortized over thirty years as a level dollar amount. Participant data was based on information provided by the City as of January 1, 2015.

## **8. COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES**

### **LITIGATION**

The City is involved in several claims and lawsuits relative to its operations. In the opinion of the City and legal counsel, the ultimate resolution of these matters is either unknown, or will not have a material adverse effect on the financial portion of the City.

### **FEDERAL AND STATE GRANTS**

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2015, significant amounts of grant expenditures have not been audited by the grantor government, but the City believes that disallowed expenditures, if any, based on subsequent audits, will not have a material effect on the financial position of the City.

#### **CONSTRUCTION COMMITMENTS**

The Community Development Fund has entered into several agreements with local contractors totaling \$2,500,000 for redevelopment projects for the City. The community development fund has paid \$1,250,316 on these agreements through December 31, 2014 while the remainder of \$1,249,684 remains committed.

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CITY OF PITTSBURGH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(UNAUDITED)

	General Fund		Actual	Variance with
	Original	Final	Amounts	Final Budget- Positive (Negative)
REVENUES:				
Taxes	\$ 2,966,100	\$ 2,953,100	\$ 3,004,157	\$ 51,057
Intergovernment revenue	479,285	615,232	477,636	(137,596)
Charges for services	601,212	608,008	591,551	(16,457)
Interest received	13,500	13,500	224,939	211,439
Licenses and permits	246,850	250,350	35,810	(214,540)
Fines and forfeitures	47,000	47,000	35,165	(11,835)
Miscellaneous revenues	246,920	258,601	124,245	(134,355)
Total revenues	4,600,867	4,745,791	4,493,503	(252,288)
EXPENDITURES:				
Current:				
Public safety	2,092,501	2,113,304	1,027,065	\$ (1,086,239)
General government - administrative	1,094,632	1,166,469	2,374,259	1,207,790
Public works	1,070,487	1,157,012	177,713	(892,299)
Community development	172,327	174,327	1,166,932	992,605
Culture and recreation	69,500	77,500	69,793	(7,707)
Debt service:				
Principal	391,820	273,709	371,823	98,114
Interest	9,500	83,370	81,971	(1,399)
Total expenditures	4,900,767	5,045,691	5,269,556	223,865
DEFICIENCY OF REVENUES OVER EXPENDITURES	(299,900)	(299,900)	(776,053)	(28,423)
OTHER FINANCING SOURCES (USES):				
Proceeds from short-term debt				
Proceeds from sale of land and capital assets				
Transfers in	299,900	299,900	267,279	-
Proceeds from issuance of long-term debt				
Transfers out			(123,112)	
Total other financing sources (uses)	299,900	299,900	144,167	-
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(234,984)	(234,984)	(631,886)	(631,886)
FUND DEFICIT, BEGINNING				
FUND DEFICIT, ENDING	\$ (234,984)	\$ (234,984)	\$ (866,870)	\$ (631,886)

See Notes to Financial Statements

CITY OF PITTSBURGH

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS  
(UNAUDITED)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCUMULATED LIABILITIES (AAL) (b)	UNFUNDED AAL (UALL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UALL AS A PERCENTAGE OF COVERED PAYROLL {b-a}/{c}
<b>Police Pension Plan</b>						
1/1/1999	2,564,259	1,657,527	(906,732)	154.70 %	306,739	(295.6) %
1/1/2001	2,587,714	2,258,390	(329,324)	114.60 %	349,586	(94.2) %
1/1/2003	1,984,784	2,887,525	902,741	68.70 %	430,670	209.6 %
1/1/2005	2,453,306	3,011,695	558,389	81.50 %	445,794	125.3 %
1/1/2007	2,833,383	3,879,817	1,046,434	73.00 %	435,688	240.2 %
1/1/2009	2,503,410	4,616,681	2,113,271	54.20 %	434,886	614.5 %
1/1/2001	2,250,423	4,625,273	2,374,850	48.70 %	350,221	678.1 %
1/1/2013	2,330,256	4,955,153	2,624,897	47.00 %	334,180	785.5 %
1/1/2015	2,920,981	5,006,987	2,086,006	58.34 %	441,583	472.4 %
<b>Firemen Pension Plan</b>						
1/1/1999	1,863,941	1,487,813	(376,128)	125.30 %	214,272	(175.5) %
1/1/2001	1,976,874	1,651,852	(325,022)	119.70 %	229,859	(141.4) %
1/1/2003	1,668,272	1,989,768	321,496	83.80 %	231,499	138.9 %
1/1/2005	1,997,638	2,136,756	139,118	93.50 %	262,283	53.0 %
1/1/2007	2,200,572	2,355,840	155,268	93.40 %	284,948	54.5 %
1/1/2009	2,115,707	2,487,791	372,084	85.00 %	298,180	124.8 %
1/1/2001	2,025,334	2,434,230	408,896	83.20 %	322,106	126.9 %
1/1/2013	2,168,417	2,534,642	366,225	85.60 %	297,251	123.2 %
1/1/2015	2,560,984	2,768,987	208,003	92.49 %	468,512	44.4 %
<b>Nonuniformed Pension Plan</b>						
1/1/1997	\$ 1,312,361	\$ 1,189,702	\$ (122,659)	110.3 %	723,783	-16.9 %
1/1/1999	1,723,664	1,731,198	7,534	99.6 %	\$ 676,856	1.1 %
1/1/2001	1,922,055	2,019,339	97,284	95.2 %	696,455	14.0 %
1/1/2003	1,759,287	2,142,450	383,163	82.1 %	681,717	56.2 %
1/1/2005	2,264,916	2,350,581	85,665	96.4 %	567,848	15.1 %
1/1/2007	2,496,607	2,286,961	(209,646)	109.2 %	570,631	(36.7) %
1/1/2009	2,520,764	2,491,828	(28,936)	101.2 %	561,334	(5.2) %
1/1/2001	2,391,218	2,715,680	324,462	88.1 %	570,670	56.9 %
1/1/2013	2,467,963	2,956,349	488,386	83.5 %	614,907	0.8 %
1/1/2015	2,842,902	3,276,532	433,630	86.8 %	811,084	53.5 %

See Notes to Required Supplementary Information

CITY OF PITTSBURGH

REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POST-EMPLOYMENT BENEFIT PLANS  
SCHEDULES OF FUNDING PROGRESS

VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)		ENTRY AGE ACTUARIAL ACCUMULATED LIABILITY (AAL) (b)		UNFUNDED AAL (UALL) (b-a)		FUNDED RATIO (a/b)		COVERED PAYROLL (c)		UNFUNDED AAL PERCENTAGE OF COVERED PAYROLL (b-a)/(c)	
Firemen Plan:	1/1/2015	-	\$	112,347	\$	112,347	0%		\$	330,197		34%
Police Plan:	1/1/2015	-	\$	620,164	\$	620,164	0%		\$	531,394		117%

Note: The plan has no segregated assets. The City does not designate resources for future retiree health care costs

See Notes to Required Supplementary Information

## CITY OF PITTSTON

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(UNAUDITED)

	YEAR ENDED 31-Dec-15	ANNUAL REQUIRED CONTRIBUTION	CONTRIBUTION FROM EMPLOYER	STATE AID	PERCENTAGE CONTRIBUTED
Police Pension Plan					
	2011	257,000	257,000		100%
	2012	245,511	245,511		100%
	2013	313,765	313,765		100%
	2014	334,650	334,650		100%
	2015	347,421	118,123		34%
Firemen Pension Plan					
	2011	86,658	86,658		100%
	2012	87,896	87,896		100%
	2013	76,361	76,361		100%
	2014	76,255	76,255		100%
	2015	70,122	70,122		100%
Nonuniformed Pension Plan					
	2011	55,674	55,674		100%
	2012	60,061	60,061		100%
	2013	77,992	77,992		100%
	2014	86,368	86,368		100%
	2015	101,010	101,010		100%

See Notes to Required Supplementary Information

CITY OF PITTSTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
POLICE, FIREMEN, AND OFFICERS AND EMPLOYEES RETIREMENT PENSION PLANS  
DECEMBER 31, 2015  
(UNAUDITED)

	POLICE PENSION PLAN	FIREMEN PENSION PLAN	NONUNIFORMED PENSION PLAN
VALUATION DATE	1/1/2015	1/1/2015	1/1/2015
ACTUARIAL COST METHOD	Entry Age	Entry Age	Entry Age
AMORTIZATION METHOD	Level Dollar	Level Dollar	Level Dollar
REMAINING AMORTIZATION PERIOD	9 years	N/A	8 years
ASSET VALUATION METHOD	Market Value	Market Value	Market Value
ACTUARIAL ASSUMPTIONS:			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	4.50%	4.50%	4.50%
Includes inflation at cost-of-living Adjustments	2.25%	2.25%	2.25%