

**CITY OF JEANNETTE**  
**FINANCIAL STATEMENTS – CASH BASIS**

**Year ended December 31, 2013**

**DELUZIO & COMPANY, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS**

## CITY OF JEANNETTE

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351 Harvey Avenue, Suite A  
Greensburg, PA 15601-1911  
724 838 8322  
www.DeluzioCPA.com

Charles A. Deluzio, CPA  
Jeffrey P. Anzovino, CPA, MSA  
Joseph E. Petrillo, CPA  
Stacey A. Sanders, CPA, CSEP  
Lisa M. Altschaffl, CPA

## **INDEPENDENT AUDITORS' REPORT**

City Council and Mayor  
City of Jeannette

### **Report on the Financial Statements**

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Jeannette (City), as of and for the year ended December 31, 2013, and the related notes to the financial statements which collectively comprise the City of Jeannette's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 City'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.

*(continued)*

**INDEPENDENT AUDITORS' REPORT**

*(continued)*

***Auditors' Responsibility (continued)***

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Jeannette as of December 31, 2013, and the respective changes in financial position-cash basis, thereof for the year then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming the City of Jeannette will continue as a going concern. As discussed in Note 11 to the financial statements, there is uncertainty as to whether the City will have the funds available to pay significant expenditures it is expected to incur in 2014. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles require that the management's discussion and analysis on pages 4-9, the budgetary comparison information on page 34 and the pension information on pages 31-33 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.

*(continued)*



**INDEPENDENT AUDITORS' REPORT**

*(continued)*

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2014, on our consideration of the City of Jeannette's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Jeannette's internal control over financial reporting and compliance.



Greensburg, Pennsylvania  
June 12, 2014

**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

As management of the City of Jeannette (City), we offer our residents, elected officials, employees and other interested parties this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2013. For purposes of this discussion and analysis, "City" refers to the primary government only. The goal of this Management's Discussion and Analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in financial position, (4) identify any material deviations from the approved budget, and (5) identify individual fund issues or concerns.

City management encourages all readers to consider the information presented here in conjunction with the financial statements that we have furnished and the accompanying notes that follow in order to obtain a thorough understanding of the City's financial condition at December 31, 2013.

**FINANCIAL HIGHLIGHTS**

- As described in the notes to the primary government financial statements (financial statements), the City prepares its financial statements on the cash basis of accounting.
- The City's net position decreased \$359,470 during fiscal year 2013 or 18%.
- Unrestricted net position was \$165,213 at December 31, 2013. These assets may be used to meet the City's ongoing obligations to residents and creditors.
- The City's real estate property tax rate for fiscal year 2013 is 32.62 mills.
- At December 31, 2013, the City had \$3,126,224 of general obligation debt outstanding. This represents a decrease of \$352,338 from the previous fiscal year.
- The total fund balance of the General Fund on December 31, 2013 was \$230,213, of which, \$165,213 is unreserved and available for spending at the City's discretion.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

The basic financial statements present two different views of the City through the use of government-wide financial statements and fund financial statements.

**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS (continued)**

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

- Statement of Net Position – This report presents information on all of the City's cash, cash equivalents and its cash-basis net position. As described in the notes to the basic financial statements, the City's financial statements are on the cash basis of accounting. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- Statement of Activities – This report presents information showing how the government's net position changed during the most recent year. This shows cash-basis expenses by functions/programs related to operating grants and how the deficit from each function/program is funded with general cash-basis revenues.

The Statement of Activities distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees. The governmental activities of the City include general government, public safety, public works, culture and recreation, community development and debt service.

The government-wide financial statements can be found on pages 10 and 11 of this report.

- (2) Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other governmental agencies, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into governmental funds and fiduciary funds.

The fund financial statements can be found on pages 10, 12 and 13 of this report.

- Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

The City maintains four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balance for the General Fund and the Community Development Fund, which are considered major funds, and the Capital Projects Fund and Liquid Fuels Fund, nonmajor funds.

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

- Fiduciary Funds – Fiduciary funds are used to account for assets held in a trustee capacity. The City's fiduciary funds consist of one agency fund: the Fire Insurance Escrow Account.

**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS (continued)**

- (3) Notes to the Primary Government Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 14 through 30 of this report.

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's pension and budget information.

This required supplementary information can be found on pages 31 through 34 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, net position on the cash basis of accounting was \$1,585,724 as of December 31, 2013, a decrease of \$359,470 from 2012.

**STATEMENT OF NET POSITION**  
**CASH BASIS**  
**December 31, 2013**

<u>Assets:</u>	
Cash and cash equivalents	\$ <u><u>1,585,724</u></u>
<u>Net position:</u>	
Restricted	1,420,511
Unrestricted	<u>165,213</u>
	\$ <u><u>1,585,724</u></u>

The balance of unrestricted net position as of December 31, 2013 was \$165,213 and may be used to meet the government's ongoing obligations to its citizens and creditors. This was an increase of \$36,062 from 2012. At the end of the current year, the City is able to report a positive balance in net position. The same situation held true for the prior year.

**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

Governmental Activities – Governmental activities decreased the net position by \$359,470.

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

**CHANGES IN NET POSITION**  
**CASH BASIS**  
**NET (EXPENSES) REVENUES**

	Expenses	Program Revenues	Net (Expenses) Revenues
Primary Government:			
Government activities:			
General government	\$ 1,044,058	\$ 397,336	\$ (646,722)
Public safety	2,576,259	220,018	(2,356,241)
Public works:			
Highways and streets	928,224	336,448	(591,776)
Sanitation	761,519	857,216	95,697
Culture and recreation	41,520	-	(41,520)
Community development	502,603	497,869	(4,734)
Debt principal and interest	865,607	-	(865,607)
Total government activities	\$ <u>6,719,790</u>	\$ <u>2,308,887</u>	<u>(4,410,903)</u>
General Revenues:			
Taxes:			
Real estate			2,015,625
Earned income			988,944
Other			406,195
Franchise fees			167,180
Interest			655
Payments in lieu of taxes			5,142
Loan proceeds			350,000
Gas income			72,655
Miscellaneous			45,037
Total general revenues			<u>4,051,433</u>
Change in net position			(359,470)
Net position - beginning of year			1,945,194
Net position - end of year			\$ <u><u>1,585,724</u></u>

**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

The City continues to have significant challenges in ensuring it has sufficient revenues to meet its financial demands. City Council continues to assess ways to increase revenues and decrease expenditures.

Subsequent to year end, the City was approved to increase the earned income tax rate by .50%. The funds received from this increase are to be used specifically to fund the police pension plan. Also subsequent to year end, a new mayor was elected who is very involved, with his main priority being the financial condition of the City.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of available resources. Such information is useful in assessing the City's financial requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$165,213 and the restricted fund balance, to be used for the Monsour Hospital project, was \$65,000. Fund balances in the Capital Projects Fund, Community Development Fund and Liquid Fuels Fund were \$0, \$1,353,035 and \$2,476, respectively. These amounts represent a decrease in fund balance in the Capital Projects Fund, Community Development Fund and Liquid Fuels Fund of \$297,453, \$123,574 and \$39,505, respectively. These amounts represent funds available that may be used for activities within the scope of each fund. On the statement of net position, these amounts are shown as restricted net position, because, in terms of the government as a whole, they are restricted by bond covenants (Capital Projects Funds) and grantors (Community Development Fund and Liquid Fuels Fund).

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the General Fund budget and the actual revenues/expenditures included an excess of \$528,149 in cash-basis revenues and a shortfall of \$393,774 in cash-basis expenditures and \$33,313 in other financing sources. The net of these differences resulted in an excess of revenues over expenditures in the amount of \$101,062.

**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

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**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

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**CITY OF JEANNETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2013**

**DEBT**

In 2013 the City entered into a new agreement with First Niagra Bank for a tax anticipation note in the amount of \$350,000.

At the end of the current year, the City had outstanding total long-term debt of \$3,126,224. Of this amount, \$2,136,381 is comprised of General Obligation Bonds and Notes, \$167,843 relates to equipment loans obtained during prior years and \$822,000 relates to a loan the Community Development Fund has with the Commonwealth of Pennsylvania and the U.S. Department of Housing and Urban Development.

A breakdown of the City's debt follows:

**LONG-TERM DEBT**  
**GENERAL OBLIGATION AND OTHER DEBT**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
General Obligation Bonds, 1998	\$ 1,885,000	\$ -	\$ (120,000)	\$ 1,765,000
General Obligation Note, 2010	416,035	-	(44,654)	371,381
Equipment Loans	307,527	-	(139,684)	167,843
U.S. Department of Housing and Urban Development Loan	870,000	-	(48,000)	822,000
	<u>\$ 3,478,562</u>	<u>\$ -</u>	<u>\$ (352,338)</u>	<u>\$ 3,126,224</u>

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the financial affairs of the City. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Office of the City Clerk, City of Jeannette, 110 South Second Street, Jeannette, PA 15644.

CITY OF JEANNETTE  
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION - CASH BASIS  
AS OF DECEMBER 31, 2013

Assets	General Fund	Non-Major Capital Projects Fund	Community Development Fund	Non-Major Liquid Fuels Fund	Total Governmental Funds	Statement of Net Position
Cash and cash equivalents	\$ 230,213	\$ -	\$ 1,353,035	\$ 2,476	\$ 1,585,724	\$ 1,585,724
<b>Fund Balance</b>						
Fund balance						
Spendable - Unassigned	\$ 165,213	\$ -	\$ -	\$ -	\$ 165,213	
Restricted	65,000	-	1,353,035	2,476	1,420,511	
<b>Total fund balance</b>	<b>\$ 230,213</b>	<b>\$ -</b>	<b>\$ 1,353,035</b>	<b>\$ 2,476</b>	<b>\$ 1,585,724</b>	
<b>Net Position</b>						
Restricted for						
Monsour Hospital project						65,000
Community development						1,353,035
Liquid fuels tax						2,476
Unrestricted						165,213
<b>Total net position</b>						<b>\$ 1,585,724</b>

The accompanying notes are an integral part of these financial statements.  
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**CITY OF JEANNETTE**  
**STATEMENT OF ACTIVITIES – CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities					
General government	\$ 1,044,058	\$ 245,361	\$ 86,975	\$ 65,000	\$ (646,722)
Public safety	2,576,259	49,891	170,127	-	(2,356,241)
Public works - highway and streets	928,224	-	336,448	-	(591,776)
Public works - sanitation	761,519	830,167	27,049	-	95,697
Culture and recreation	41,520	-	-	-	(41,520)
Community development	502,603	37,955	459,914	-	(4,734)
Principal paid on long-term debt	702,338	-	-	-	(702,338)
Interest paid on long-term debt	163,269	-	-	-	(163,269)
Total governmental activities	<u>\$ 6,719,790</u>	<u>\$ 1,163,374</u>	<u>\$ 1,080,513</u>	<u>\$ 65,000</u>	<u>(4,410,903)</u>
General revenues					
Taxes					
Real estate					2,015,625
Earned income					988,944
Local Services Tax					156,051
Business privilege tax					105,488
Tax collected - county					69,487
Other					75,169
Franchise fees					167,180
Interest					655
Payments in lieu of taxes					5,142
Loan proceeds					350,000
Gas income					72,655
Miscellaneous					<u>45,037</u>
Total general revenues					<u>4,051,433</u>
Change in net position					(359,470)
Net position					
Beginning of year					<u>1,945,194</u>
End of year					\$ 1,585,724

The accompanying notes are an integral part of these financial statements.

**CITY OF JEANNETTE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Nonmajor Capital Projects Fund	Community Development Fund	Nonmajor Liquid Fuels Fund	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 3,410,764	\$ -	\$ -	\$ -	\$ 3,410,764
Licenses, permits and fees	218,569	-	-	-	218,569
Fines, forfeitures and penalties	48,489	-	-	-	48,489
Interest	-	-	643	12	655
Intergovernmental	415,235	-	459,914	211,605	1,086,754
Charges for services	1,019,300	-	-	-	1,019,300
Payments in lieu of taxes	5,142	-	-	-	5,142
Program income	-	-	37,955	-	37,955
Gas income	72,655	-	-	-	72,655
Refund of prior year expenditure	65,000	-	-	-	65,000
Miscellaneous	30,945	-	-	14,092	45,037
Total revenues	5,286,099	-	498,512	225,709	6,010,320
<b>Expenditures</b>					
Current					
General government	743,266	-	-	-	743,266
Public safety	2,576,259	-	-	-	2,576,259
Public works - highways and streets	714,995	-	-	213,229	928,224
Public works - sanitation	761,519	-	-	-	761,519
Culture and recreation	41,520	-	-	-	41,520
Community development	46,736	-	455,867	-	502,603
Insurance	112,900	-	-	-	112,900
Legal settlement	178,821	-	-	-	178,821
Miscellaneous	4,283	-	-	-	4,283
Capital purchases	-	4,788	-	-	4,788
Debt service					
Principal retirement	591,877	-	48,000	62,461	702,338
Interest	129,548	-	30,096	3,625	163,269
Total expenditures	5,901,724	4,788	533,963	279,315	6,719,790
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(615,625)	(4,788)	(35,451)	(53,606)	(709,470)
<b>Other financing sources (uses)</b>					
Proceeds from loan	350,000	-	-	-	350,000
Interfund transfers, net	366,687	(292,665)	(88,123)	14,101	-
Total other financing sources (uses)	716,687	(292,665)	(88,123)	14,101	350,000
<b>Net change in fund balance</b>	101,062	(297,453)	(123,574)	(39,505)	(359,470)
<b>Fund balance</b>					
Beginning of year	129,151	297,453	1,476,609	41,981	1,945,194
End of year	\$ 230,213	\$ -	\$ 1,353,035	\$ 2,476	\$ 1,585,724

The accompanying notes are an integral part of these financial statements.

**CITY OF JEANNETTE**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**AS OF DECEMBER 31, 2013**

	<u>Fire Insurance Escrow Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 18,212
Total assets	<u>18,212</u>
<b>Liabilities</b>	
Due to third parties	<u>18,212</u>
Total liabilities	\$ <u>18,212</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Jeannette, Pennsylvania (City), was incorporated and adopted its first Charter as a City in 1938. The City operates under a commission form of government and provides the following services as provided by its charter: police and fire, street, public works and sanitation, culture-recreation, planning and zoning and general administrative services.

The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The most significant of these accounting policies are as follows:

**Reporting Entity**

The City, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the City. The financial statements presented herein do not include agencies that have been formed under applicable state laws or separate and distinct units of government apart from the City.

The City has elected to adopt GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, with regards to evaluating component units. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing body and 1) the City is able to significantly influence the programs or services performed or provided by the organization, 2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization, or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City or that the City approves the budget or the issuance of debt.

Based on the foregoing criteria, the City has determined that no organizations are controlled by or dependent on the City during the year ended December 31, 2013.

**Government-Wide and Fund Financial Statements**

The government-wide cash basis 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. The effect of interfund activity has been eliminated from these statements.

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 services or privileges provided by a given function or segment, and 2) grants that are restricted to meeting the operational requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Accounting/Measurement Focus**

Basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and in the financial statements. The City has elected to present its financial statements on the cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, amounts are recognized when received or paid rather than when earned or when obligations are incurred. Inventories, principally supplies, are accounted for as expenditures when purchased. Encumbrance accounting, whereby fund balance is reserved for commitments related to unperformed contracts for goods and services, is not used by the City. Specific items excluded from this report due to the City reporting on the cash basis of accounting that would need to be included if the City's financial statements were in accordance with generally accepted accounting principles include but are not limited to: taxes receivable, other post-employment benefit liabilities, compensated absences, debt obligations, accrued payroll, pension trust funds, and any component units that may exist.

*Fund Accounting*

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The City only uses governmental funds and fiduciary funds.

*Governmental Funds*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they will be paid.

The City reports the following major governmental funds:

The *General Fund* is the principal operating fund of the City that is used to account for all financial transactions except those required to be accounted for in other funds.

The *Community Development Fund* is used to account for various grants received from the Department of Community and Economic Development.

Additionally, the City reports the following nonmajor governmental funds:

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities or acquisitions of equipment.

The *Liquid Fuels Fund* accounts for state aid revenues (liquid fuels taxes) received from the Pennsylvania Department of Transportation for building, improving, lighting and maintaining roads and bridges within the City.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Accounting/Measurement Focus (continued)**

*Fiduciary Funds*

The *pension trust funds* are used to account for assets held by the City in a trustee capacity for future payment of retirement benefits to employees or former employees. The City has two separate pension plans that have pension trust funds: the Police Plan and the Firefighter Plan. The pension trust funds are not included in the financial statements, as discussed above.

The City maintains a fire insurance escrow fund that accounts for assets held by the City as an agent for third parties to be used for repairs from fire damages. A statement of fiduciary net position has been presented to account for the activity in this agency fund.

Fund Balance

GASB Statement No. 54 establishes accounting and financial standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions as follow:

Non-spendable

The non-spendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or are legally or contractually required to be maintained intact.

Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party, such as citizens, to use resources created by enabling legislation only for the purposes specified by the legislation.



**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fund Balance (continued)

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable.

Assigned

Amounts in assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a City official delegated with that authority.

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control in the General Fund of the City. The budget is adopted on the cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City must adopt the budget for the General Fund by December 31.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deposits and Investments

The City considers all short-term investments with an original maturity of three months or less to be cash equivalents. Investments are carried at fair value based on quoted market prices.

Compensated Absences

The City allows teamsters' employees to accumulate unused sick leave to a max of 25 weeks. Upon retirement/termination, unused sick leave of the teamsters' employees, up to the maximum, will be paid at a rate of \$80 per day. The City allows non-uniformed employees to accumulate unused sick leave to a maximum of 25 weeks. Upon retirement/termination, unused sick leave of non-uniformed employees, up to the maximum, will be paid at the rate of 55% of their full rate per day. Non-uniform employees hired after January 1, 2013, have a maximum payout of \$5,000. Police, hired before December 31, 2005, can accumulate one month of sick leave for each year of service. Upon retirement/termination, unused sick leave will be paid at the rate of \$10 per day, up to a maximum of 12 weeks, not to exceed \$600. Police, hired after January 1, 2006, accrue five days of sick time for each year of service. Upon retirement/termination, unused sick leave will be paid at the rate of \$50 per day, up to a maximum of 25 weeks. Firemen can accumulate unused sick leave, up to a maximum of 42-24 hour days. Upon retirement/termination, unused sick leave of firemen will be paid at one-half of the shift rate. Earned vacation time is required to be used currently. As of December 31, 2013, the liability for accrued sick leave was \$104,457.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Pennsylvania statutes provide for investment of governmental funds (which exclude the Pension Trust Funds) into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes allow pooling of governmental funds for investment purposes.

The deposit and investment policy of the City adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the City.

GASB Statement No. 40, "Deposit and Investment Risk Disclosures," requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The following is a description of the City's deposit and investment risks:

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. At December 31, 2013, \$922,561 of the City's bank balance of \$1,602,948 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$1,566,510 as of December 31, 2013.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 2 – CASH AND CASH EQUIVALENTS (continued)**

In addition to the deposits noted above, included in cash and cash equivalents on the statement of net position are investments with the Pennsylvania Local Government Investment Trust (PLGIT) of \$19,214. The fair value of the City's investments with PLGIT, which is an external investment pool, is the same as the value of pooled shares.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the City's investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investments in PLGIT are short-term with maturities of less than one year.

Credit Risk - The City has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. PLGIT has a rating of AAA by Standard & Poor's at December 31, 2013.

The City has no foreign currency risks for any of its funds

**NOTE 3 – PROPERTY TAX LEVIES**

Taxes are levied on March 1 and are due and payable on or before June 30. All unpaid taxes become delinquent July 1 of the same year. Any taxes still unpaid at December 31 of the same year are turned over to the Westmoreland County Tax Collector. City property tax revenues are recognized when received.

City real estate taxes were levied for general purposes at 32.62 mills on 100% of assessed valuation, excluding exempt properties. The assessed valuation was approximately \$66 million for the 2013 levy.

**NOTE 4 – SHORT-TERM DEBT**

In January 2013, the City entered into an agreement with First Niagra Bank for a \$350,000 tax anticipation note. The 2013 tax anticipation note was due on December 31, 2013 and bears interest at a rate of 3.75%.

Changes in the City's short term debt during 2013 were as follows:

	Beginning Balance	Additions	Payments	Ending Balance
Tax Anticipation Note	-	\$ 350,000	\$ (350,000)	\$ -
	\$ -	\$ 350,000	\$ (350,000)	\$ -

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 5 – LONG-TERM DEBT**

Changes in Long-Term Debt

Changes in the City's long-term debt during 2013 were as follows:

	Beginning Balance	Additions	Payments	Ending Balance
General Obligation Bonds, 1998	\$ 1,885,000	\$ -	\$ (120,000)	\$ 1,765,000
General Obligation Note, 2010	416,035	-	(44,654)	371,381
Equipment Loans	307,527	-	(139,684)	167,843
U.S. Department of Housing and Urban Development Loan	870,000	-	(48,000)	822,000
	<u>\$ 3,478,562</u>	<u>\$ -</u>	<u>\$ (352,338)</u>	<u>\$ 3,126,224</u>

General Obligation Bond - Series 1998

In March 1998, the City issued a General Obligation Bond – Series 1998 (1998 bonds). The 1998 bond issue was to a) fund various capital projects and b) retire the City's General Obligation Bond – Series 1994 (1994 bonds). The interest rate ranges from 3.9% to 5.0% and is scheduled to mature in 2024. As part of the 1998 bond issue, funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 bonds. As a result, the 1994 bonds are considered to be defeased; and the liability for those bonds has been removed from the general long-term debt account group. At December 31, 2013, the principal amount outstanding relating to the 1998 Bonds was \$1,765,000.

The debt service requirements are as follows for the City's outstanding bonds:

Year	Principal	Interest	Total
2014	\$ 120,000	\$ 85,250	\$ 205,250
2015	130,000	79,000	209,000
2016	135,000	72,375	207,375
2017	145,000	65,375	210,375
2018	150,000	58,000	208,000
2019-2024	<u>1,085,000</u>	<u>170,125</u>	<u>1,255,125</u>
	<u>\$ 1,765,000</u>	<u>\$ 530,125</u>	<u>\$ 2,295,125</u>

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 5 – LONG-TERM DEBT (continued)**

General Obligation Note- 2010

In December 2010, the City issued a General Obligation Note, Series 2010. The note was sold to First Niagara Bank N.A. in accordance with its proposal to purchase the note. The 2010 note was issued to fund unfunded debt of the City that has accumulated as a result of performed and contracted services. Principal and interest payments of approximately \$15,409 are due quarterly for a total of forty payments beginning in March 2011 and continuing thereafter until the maturity date of December 2020. Interest on the note is at a fixed rate of 4.25% per annum on a tax-exempt fully bank-qualified basis until the maturity date. The total outstanding principal balance on the note as of December 31, 2013 was \$371,381.

The debt service requirements are as follows for the City's outstanding note:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 46,586	\$ 15,050	\$ 61,636
2015	48,598	13,038	61,636
2016	50,696	10,940	61,636
2017	52,886	8,750	61,636
2018	55,169	6,457	61,626
2019-2020	117,446	5,698	123,144
	<u>\$ 371,381</u>	<u>\$ 59,933</u>	<u>\$ 431,314</u>

Equipment Loans

In prior years, the City entered into several loan agreements with local financial institutions to purchase various equipment to be used in the general operations of the City. Annual payments of varying amounts are due monthly/annually through 2014-2018. Interest will be due at rates of 2.88% - 5.13% per annum. The total outstanding principal balance on these loans as of December 31, 2013 was \$167,843.

Future debt service requirements for these loans are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 79,453	\$ 7,223	\$ 86,676
2015	47,492	4,335	51,827
2016	12,310	2,435	14,745
2017	13,074	1,672	14,746
2018	15,514	861	16,375
	<u>\$ 167,843</u>	<u>\$ 16,526</u>	<u>\$ 184,369</u>

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 5 – LONG-TERM DEBT (continued)**

U.S. Department of Housing and Urban Development Loan

In June 2010, the City entered into a loan agreement in the amount of \$966,000 with the Commonwealth of Pennsylvania and the Secretary of Housing and Urban Development. Principal payments of \$48,000 are due annually and interest payments of varying amounts are due semi-annually until the maturity date in 2030. Interest on the note is at a fixed rate agreed upon and detailed in the amortization schedule provided by the Commonwealth of Pennsylvania. The total outstanding principal balance on the loan as of December 31, 2013 was \$822,000.

The debt service requirements are as follows for the City's outstanding note:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 48,000	\$ 29,453	\$ 77,453
2015	48,000	28,589	76,589
2016	48,000	27,533	75,533
2017	48,000	26,256	74,256
2018	48,000	24,859	72,859
2019-2023	240,000	100,114	340,114
2024-2028	240,000	55,297	295,297
2029-2030	102,000	6,951	108,951
	<u>\$ 822,000</u>	<u>\$ 299,052</u>	<u>\$ 1,121,052</u>

**NOTE 6 – RISK MANAGEMENT**

The risk of losses is covered by commercial insurance for the following areas: property and liability, workers' compensation and dishonesty. For insured areas, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year.

**NOTE 7 – PENSION PLANS**

The City administers three defined benefit pension plans covering substantially all full-time employees: the Police Pension Plan, the Non-Uniformed Pension Plan, and the Firemen Pension Plan (Plans). The Plans operate under the authority of various City ordinances and provide retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living allowances are provided at the discretion of the Plans. The Non-Uniformed Pension Plan is an agent multiple-employer plan. The Police Pension Plan and the Firemen Pension Plan are single-employer plans.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 7 – PENSION PLANS (continued)**

Police Pension Plan Description

The Police Pension Plan (Police Plan) is a single-employer defined pension plan. The plan was established on December 17, 1959 and is available to all full-time City police officers under Act 208 of the Commonwealth of Pennsylvania (Act). The Police Plan is governed by the City Council which may amend the plan provisions, and which are responsible for the management of the Police Plan assets. The City Council has delegated the authority to manage the plan assets to a third party investment manager, separate from the Police Plan's trustee.

Participants are eligible for retirement upon the completion of 20 years of continuous service. Participants are fully vested in the Police Plan upon the completion of 12 years of continuous service. The monthly pension benefit is equal to 50 percent of the greater of the participant's monthly salary at retirement or the average monthly compensation over the participant's five highest years, plus a service increment of 1/40 of regular pension for each year of competed service in excess of 20 years, prior to the age of 65, up to a maximum increment of \$100 per month.

As of January 1, 2011, the date of the most recent actuarial valuation, participants in the Police Plan were as follows:

<u>Participants</u>	<u>Police</u>
Active members	13
Retirees and beneficiaries receiving benefits	22
Terminated plan members with vested or deferred benefits	-

Police Plan Summary of Significant Accounting Policies

Financial information is presented on the cash basis of accounting. Employer contributions to the Police Plan are recognized when contributions are made. Benefits and refunds are recognized when received in accordance with the terms of the Police Plan.

Police Plan assets are reported at fair value. Police Plan assets are invested primarily in equities, fixed income securities and cash or cash equivalents. The Police Plan did not have any investment transactions with related parties during the year.



**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 7 – PENSION PLANS (continued)**

Police Plan Contributions and Funding Policy

Act 205 requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO), which is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act. The Commonwealth of Pennsylvania (Commonwealth) allocates certain funds to assist in pension funding, which is funded by state foreign casualty insurance tax. Any financial requirement established by the MMO that exceeds the Commonwealth allocations must be funded by the City (and could include employee contributions). In 2013, the City paid the 2012 MMO from the general fund in the amount of \$414,406. The 2013 MMO was not funded as of December 31, 2013.

In accordance with the Police Plan's governing resolution, members are required to contribute five percent of their compensation plus \$1 per month to the plan.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the Police Plan and funded by investment earnings.

Police Plan Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/2011	\$ 347,276	100%	\$ -
12/31/2012	414,406	100%	-
12/31/2013	536,956	0%	536,956

Police Plan Funded Status

The City's funded status and related information as of the latest actuarial valuation date, January 1, 2011, is as follows:

<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Excess of Assets Over (Under) AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Excess (Deficiency) as a Percentage of Covered Payroll</u>
\$ 5,796,039	\$ 9,847,389	\$ (4,051,347)	58.86%	\$ 1,014,282	(399.43%)

The required schedule of funding progress included as required supplementary information immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule of funding progress also lists key changes in assumptions that occurred for the January 1, 2011 actuarial valuation.



**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 7 – PENSION PLANS (continued)**

Non-Uniformed Plan Description

The Non-Uniformed Plan is a single-employer defined benefit pension plan controlled by an agent multi-employer plan held by the Pennsylvania Municipal Retirement System (PMRS) for employees other than police. Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205. PMRS is separately audited and a separate audit report for PMRS is available through the City administrative offices.

At January 1, 2011, the date of the most recent actuarial valuation, participants in the Non-Uniformed plan were as follows:

<u>Participants</u>	<u>Non-Uniformed</u>
Active members	22
Retirees and beneficiaries receiving benefits	25
Terminated plan members with vested or deferred benefits	2

Non-Uniformed Plan Summary of Significant Accounting Policies

Financial information is presented on the accrual basis of accounting. Employer contributions to the Non-Uniformed Plan are recognized when earned. Benefits and refunds are recognized when incurred in accordance with the terms of the Non-Uniformed Plan.

Non-Uniformed Plan assets are reported at fair value. Non-Uniformed Plan assets are invested primarily in equities, fixed income securities and cash or cash equivalents. The Non-Uniformed Plan did not have any investment transactions with related parties during the year.

Non-Uniformed Plan Contributions and Funding Policy

Act 205 requires that annual contributions be based upon the calculation of the MMO. The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining and City policies. The Commonwealth allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth allocation must be funded by the City (and could include employee contributions). In 2013, the MMO for the Non-Uniformed Plan was \$208,071, which was paid by the General Fund.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings.

In accordance with the Non-Uniformed Plan's governing resolution, members are required to contribute five percent of their compensation to the plan.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 7 – PENSION PLANS (continued)**

Non-Uniformed Plan Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/2011	\$ 165,947	100%	\$ -
12/31/2012	162,059	100%	-
12/31/2013	208,071	100%	-

Non-Uniformed Plan Funded Status

The City's funded status and related information as of the latest actuarial valuation date, January 1, 2011, is as follows:

<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Excess of Assets Over (Under) AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Excess (Deficiency) as a Percentage of Covered Payroll</u>
\$ 2,647,624	\$ 3,547,169	\$ (899,545)	74.64%	\$ 888,731	(101.22%)

The required schedule of funding progress included as required supplementary information immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule of funding progress also lists key changes in assumptions that occurred for the January 1, 2011 actuarial valuation.

Firemen's Pension Plan Description

The Firemen's Pension Plan (Firemen Plan) is a single-employer defined pension plan. The plan was established on February 3, 1966 and is available to all full-time City firemen under Act 208 of the Commonwealth of Pennsylvania (Act). The Firemen Plan is governed by the City Council which may amend the plan provisions, and which are responsible for the management of the Firemen Plan assets. The City Council has delegated the authority to manage the plan assets to a third party investment manager, separate from the Firemen Plan's trustee.

Participants are eligible for retirement upon the completion of 20 years of continuous service. Participants are fully vested in the Firemen Plan upon the completion of 12 years of continuous service. The monthly pension benefit is equal to 50 percent of the greater of the participant's monthly salary at retirement or the average monthly compensation over the participant's five highest years, plus a service increment of 1/40 of regular pension for each year of competed service in excess of 20 years, prior to the age of 65, up to a maximum increment of \$100 per month.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 7 – PENSION PLANS (continued)**

Firemen's Pension Plan Description (continued)

As of January 1, 2011, the date of the most recent actuarial valuation, participants in the Firemen Plan were as follows:

<u>Participants</u>	<u>Firemen</u>
Active members	3
Retirees and beneficiaries receiving benefits	4
Terminated plan members with vested or deferred benefits	-

Firemen Plan Summary of Significant Accounting Policies

Financial information is presented on the accrual basis of accounting. Employer contributions to the Firemen Plan are recognized when earned. Benefits and refunds are recognized when incurred in accordance with the terms of the Firemen Plan.

Firemen Plan assets are reported at fair value. Firemen Plan assets are invested primarily in equities, fixed income securities and cash or cash equivalents. The Firemen Plan did not have any investment transactions with related parties during the year.

Firemen Plan Contributions and Funding Policy

Act 205 requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO), which is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act. The Commonwealth of Pennsylvania (Commonwealth) allocates certain funds to assist in pension funding, which is funded by state foreign casualty insurance tax. Any financial requirement established by the MMO that exceeds the Commonwealth allocations must be funded by the City (and could include employee contributions). In 2013, the MMO for the Firemen was \$87,146, which was paid by the general fund.

In accordance with the Firemen Plan's governing resolution, members are required to contribute five percent of their compensation plus \$1 per month to the plan.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 7 – PENSION PLANS (continued)**

Firemen Plan Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/2011	\$ 55,146	100%	\$ -
12/31/2012	54,476	100%	-
12/31/2013	87,146	100%	-

Firemen Plan Funded Status

The City's funded status and related information as of the latest actuarial valuation date, January 1, 2011, is as follows:

<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL) Entry Age</u>	<u>Assets Over (Under) AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>(Deficiency) as a Percentage of Covered Payroll</u>
678,227	1,166,618	(488,391)	58.14%	180,563	(270.48%)

The required schedule of funding progress included as required supplementary information immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule of funding progress also lists key changes in assumptions that occurred for the January 1, 2011 actuarial valuation.

**NOTE 8 – POST-EMPLOYMENT HEALTH CARE**

In addition to the pension benefits described above, the City provided health care benefits to Teamster and Police retirees in full until Medicare benefits begin. The employer's contributions are financed on a pay-as-you-go basis. As of December 31, 2013, five retirees benefited under this plan, and \$41,123 in premiums were paid on their behalf. All other retirees must reimburse the City 100% of the premiums paid on their behalf.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 9 – LOAN RECEIVABLE**

The City's Community Development fund provides no and low interest loans to proprietors that use Jeannette as their place of business. These funds are repaid to the City at interest rates that range between 2% and 5% over various amortization periods.

The following represents the loan activity for the year ended December 31, 2013:

	Balance at January 1, 2013	Additions	Payments	Balance at December 31, 2013
Loan #1	\$ 464	\$ 4,536	\$ (5,000)	\$ -
Loan #2	2,162	-	(2,162)	-
Loan #3	17,948	-	(17,948)	-
Loan #4	13,634	-	(2,224)	11,410
Loan #5	5,554	-	(1,971)	3,583
Loan #6	13,333	-	(3,002)	10,331
Loan #7	4,988	-	(1,425)	3,563
Loan #8	5,375	-	(1,500)	3,875
Loan #9	4,250	-	(1,250)	3,000
Loan #10	4,755	-	(994)	3,761
Loan #11	-	15,000	-	15,000
Loan #12	-	1,527	-	1,527
Loan #13	-	4,250	(113)	4,137
	<u>\$ 72,463</u>	<u>\$ 25,313</u>	<u>\$ (37,589)</u>	<u>\$ 60,187</u>

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The City is currently engaged in a lawsuit with a local citizen. The City reports on the cash basis of accounting, therefore, the financial statements do not reflect if any provisions were made due to the ultimate resolution of a lawsuit not being reasonably estimable. In the opinion of management and legal counsel, such matters are not material to the financial statements, either individually or in the aggregate, since the claim would essentially be covered by insurance; and the only cost to the City would be the payment of the insurance deductible.

A legal case previously mentioned in the 2011 audit report was settled and paid in 2013.

Certain revenues provided to the City by the federal government are subject to audit by respective grantor agencies. Potential reimbursements may be required as a result of such audits. No provision would have been made for potential reimbursements in the financial statements as material amounts are considered to be unlikely.

**CITY OF JEANNETTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 11 – GOING CONCERN**

During 2013, the City increased its general fund balance by \$101,062, leading to an ending general fund balance of \$230,213 as of December 31, 2013. However, the 2013 police pension payment in the amount of \$536,956 was not paid as of December 31, 2013. As of the date of this report, the City has paid approximately \$170,000 of the 2013 pension obligation. The information above has contributed to uncertainty as to whether the City will have the necessary funds to pay significant expenditures it has incurred and is expected to incur in 2014. The City's plans in response to this situation have included cost reductions enacted during the year as well as increased monitoring of the City's cash flows on an ongoing basis. Furthermore, the City proposed an amendment to the earned income tax rate ordinance to increase revenue. The proposal was accepted and the City increased the earned income tax rate by .50%. Management has estimated the increase to result in an additional \$700,000 of tax revenue. The .50% increase will be directly deposited into a separate account and will be used entirely for the payment of the police pension fund. Through discussions with management and legal counsel they are not aware of any other lawsuits that would require payments, except as previously noted, above and beyond their insurance deductible. The ability of the City to continue as a going concern is dependent upon its ability to maintain the necessary funds to pay the significant expenditures expected to be incurred in 2014. The financial statements do not include any adjustments that might be necessary if the City is unable to continue as a going concern.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF JEANNETTE**  
**SCHEDULES OF FUNDING PROGRESS**  
**DECEMBER 31, 2013**

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Assets		Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
				Over (Under)	AAL			
<b>Non-Uniformed</b>	1/1/2001	\$ 952,486	\$ 1,876,088	\$ (923,602)		50.77%	\$ 918,171	(100.59%)
	1/1/2003	1,067,748	2,093,204	(1,025,456)		51.01%	883,697	(116.04%)
	1/1/2005	1,727,434	2,696,911	(969,477)		64.05%	886,696	(109.34%)
	1/1/2007	1,992,115	2,771,420	(779,305)		71.88%	834,758	(93.36%)
	1/1/2009	2,423,864	3,131,895	(708,031)		77.39%	1,005,179	(70.44%)
	1/1/2011	2,647,624	3,547,169	(899,545)		74.64%	888,731	(101.22%)
<b>Police</b>	1/1/2001	\$ 7,478,411	\$ 6,475,586	\$ 1,002,825		115.49%	\$ 905,213	110.78%
	1/1/2003	6,473,445	6,749,081	(275,636)		95.92%	1,006,360	(27.39%)
	1/1/2005	6,253,354	7,341,592	(1,088,238)		85.18%	861,259	(126.35%)
	1/1/2007	6,332,222	7,709,913	(1,377,691)		82.13%	893,985	(154.11%)
	1/1/2009	5,794,711	8,739,050	(2,944,339)		66.31%	1,042,985	(282.30%)
	1/1/2011	5,796,039	9,847,386	(4,051,347)		58.86%	1,014,282	(399.43%)
<b>Firemen</b>	1/1/2001	\$ 940,815	\$ 752,271	\$ 188,544		125.06%	\$ 138,029	136.60%
	1/1/2003	802,151	820,610	(18,459)		97.75%	181,887	(10.15%)
	1/1/2005	756,314	773,224	(16,910)		97.81%	178,089	(9.50%)
	1/1/2007	774,173	938,845	(164,672)		82.46%	150,393	(109.49%)
	1/1/2009	695,460	1,029,109	(333,649)		67.58%	176,661	(188.86%)
	1/1/2011	678,227	1,166,618	(488,391)		58.14%	180,563	(270.48%)

See independent auditors' report and accompanying note to required supplementary information.



**CITY OF JEANNETTE**  
**SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS**  
**DECEMBER 31, 2013**

Calendar Year	Non-Uniformed		Police		Firemen	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2008	\$ 160,015	100%	\$ 217,836	100%	\$ 24,145	100%
2009	155,976	100%	254,809	100%	42,543	100%
2010	150,994	100%	255,258	100%	41,144	100%
2011	165,947	100%	347,276	100%	55,146	100%
2012	162,059	100%	414,406	100%	54,476	100%
2013	208,071	100%	536,956	0%	87,146	100%

Note: Contributions include state pension aid

See independent auditors' report and accompanying note to required supplementary information.

**CITY OF JEANNETTE**  
**NOTE TO SUPPLEMENTARY PENSION SCHEDULES**  
**DECEMBER 31, 2013**

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

	<u>Non-uniform</u>	<u>Police</u>	<u>Firemen</u>
Actuarial valuation date	1/1/2011	1/1/2011	1/1/2011
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Asset valuation method	Fair Value	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	5.99 Years	18 Years (aggregate)	22 Years
Actuarial assumptions			
Investment rate of return	6.00%	7.00%	7.00%
Projected salary increases	5.20%	5.00%	5.00%
Underlying inflation rate	n/a	3.00%	3.00%
Cost of living adjustment, if applicable	n/a	n/a	n/a

n/a = not applicable

**CITY OF JEANNETTE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**CASH BASIS – BUDGET AND ACTUAL GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budget	Actual	Variance
<b>Revenues</b>			
Taxes	\$ 3,045,500	\$ 3,410,764	\$ 365,264
Licenses, permits and fees	161,000	218,569	57,569
Fines, forfeitures and penalties	45,000	48,489	3,489
Intergovernmental	262,350	415,235	152,885
Charges for service	870,600	1,019,300	148,700
Payments in lieu of taxes	5,000	5,142	142
Gas income	-	72,655	72,655
Refund of prior year expenditures	-	65,000	65,000
Miscellaneous	368,500	30,945	(337,555)
<b>Total revenues</b>	<b>4,757,950</b>	<b>5,286,099</b>	<b>528,149</b>
<b>Expenditures</b>			
General government	634,316	743,266	(108,950)
Public safety	2,619,152	2,576,259	42,893
Public works - highways and streets	475,766	714,995	(239,229)
Public works - sanitation	646,179	761,519	(115,340)
Culture and recreation	30,000	41,520	(11,520)
Community development	91,786	46,736	45,050
Insurance	89,232	112,900	(23,668)
Legal settlement	235,000	178,821	56,179
Miscellaneous	9,000	4,283	4,717
Debt service			
Principal retirement	677,519	591,877	85,642
Interest	-	129,548	(129,548)
<b>Total expenditures</b>	<b>5,507,950</b>	<b>5,901,724</b>	<b>(393,774)</b>
<b>Other financing sources (uses)</b>			
Proceeds from loan	350,000	350,000	-
Interfund transfers, net	400,000	366,687	(33,313)
<b>Total other financing sources (uses)</b>	<b>750,000</b>	<b>716,687</b>	<b>(33,313)</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ 101,062</b>	<b>\$ 101,062</b>

See independent auditors' report

**REPORTS REQUIRED BY THE GOVERNMENTAL AUDITING STANDARDS AND  
THE SINGLE AUDIT ACT**



351 Harvey Avenue, Suite A  
Greensburg, PA 15601-1911  
724 838 8322  
www.DeluzioCPA.com

Charles A. Deluzio, CPA  
Jeffrey P. Anzovino, CPA, MSA  
Joseph E. Petrillo, CPA  
Stacey A. Sanders, CPA, CSEP  
Lisa M. Altschaffl, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITORS' REPORT**

City Council and Mayor  
City of Jeannette

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Jeannette as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Jeannette's basic financial statements, and have issued our report thereon dated June 12, 2014.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City of Jeannette's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Jeannette's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Jeannette's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2013-01, 2013-02, 2013-03, 2013-04, and 2013-05.

(continued)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITORS' REPORT**

*(continued)*

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Jeannette's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**City of Jeannette's Response to Findings**

The City of Jeannette's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Jeannette's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deluzio & Company LLP*

Greensburg, PA  
June 12, 2014



351 Harvey Avenue, Suite A  
Greensburg, PA 15601-1911  
724 838 8322  
www.DeluzioCPA.com

Charles A. Deluzio, CPA  
Jeffrey P. Anzovino, CPA, MSA  
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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT**

City Council and Mayor  
City of Jeannette

**Report on Compliance for Each Major Federal Program**

We have audited the City of Jeannette's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

*(continued)*

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT**

*(continued)*

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Jeannette as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 12, 2014, which contained unmodified opinions on those financial statements.

*(continued)*



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT**

*(continued)*

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 (continued)**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Deluzio & Company, LLP*

Greensburg, Pennsylvania  
September 22, 2014

**CITY OF JEANNETTE**  
**SCHEDULE OF FEDERAL EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor & Pass Through / Program Title	Federal CFDA Number	Contract Number	Grant Period From - To	Award Amount	Total Received For Year	Expenditures
<b>U.S. Department of Housing and Urban Development</b>						
<u>PA Department of Community and Economic Development</u>						
Community Development Block Grant	14.228	C000052832	10/11/12 - 10/10/17	\$ 300,000	\$ 43,310	\$ 43,310
Community Development Block Grant	14.228	C000052055	2/1/12 - 1/31/17	319,638	70,849	70,849
Community Development Block Grant	14.228	C000049538	8/24/10 - 8/23/15	382,047	168,609	168,609
Community Development Block Grant	14.228	C000046535	10/2/09 - 10/1/14	352,178	91,874	91,874
Community Development Block Grant	14.228	C000043412	3/25/09 - 3/24/14	346,685	2,284	2,284
<b>Total Community and Economic Development Pass Through</b>				<u>1,700,548</u>	<u>376,926</u>	<u>376,926</u>
<u>U.S. Department of Housing and Urban Development</u>						
Community Development Block Grant -						
Section 108 Loan Guarantees	14.248	B-04-DC-42-0001	6/30/10- 7/31/15	\$ 966,000	\$ -	\$ 65,617
Brownfields Economic Development (BEDI) Grant	14.246	B-07-BD-42-0011	6/30/10- 7/31/15	480,000	59,940	60,060
<b>Total U.S. Department of Housing and Urban Development</b>				<u>1,446,000</u>	<u>59,940</u>	<u>125,677</u>
Total Federal Assistance				<u>\$ 3,146,548</u>	<u>\$ 436,866</u>	<u>\$ 502,603</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule

See Independent Auditors' Report on Compliance for each Major Program and Report on Internal Control over Compliance in accordance with OMB Circular A-133

**CITY OF JEANNETTE**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

1. **Basis of Accounting**

This schedule is prepared on the same basis of accounting as the City of Jeannette's (City) financial statements. The City uses the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. **Federal Loan Guarantees/Grants**

The City was approved by the Department of Housing and Urban Development to receive a loan guarantee totaling \$966,000 and a grant totaling \$480,000 to fund the South Sixth Street Revitalization Project. Loan proceeds are considered used when expensed. The balance of the loan as of December 31, 2013 was \$822,000. Current year expenditures of the loan are considered federal expenditures on the Schedule of Expenditures of Federal Awards. For the year ended December 31, 2013, the Section 108 Loan Guarantee and the Brownfields Economic Development (BEDI) grant are considered a cluster for single audit purposes.

**CITY OF JEANNETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Identification of major programs:

<u>Name of Federal Grant</u>	<u>CFDA Number</u>
Community Development Block Grant	14.228

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**CITY OF JEANNETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**Section II – Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**Material Weaknesses**

**2013-01: Financial Reporting**

**Finding Type:** Material Weakness in Internal Control over Financial Reporting

*Criteria:* During our audit, we identified limited effective controls in certain areas as it relates to the City's overall financial reporting and payroll processes.

*Condition:* Effective oversight and adequate internal controls should exist to properly monitor the City's overall financial operations and reporting process and to identify and resolve any issues identified in a timely manner.

*Potential Effect:* Due to the limited controls over certain areas of the financial reporting and payroll processes, there is an increased risk that errors, misstatements or fraudulent activity could occur without being properly identified.

*Recommendation:* We recommend that the City implement appropriate internal controls to improve oversight of the financial and payroll activity which will improve the accuracy and effectiveness of the financial reporting and payroll processes.

*Management Response:* The City recognizes its lack of effective controls in the financial area as well as with the recording process the City has in place currently. The City is currently in the process of implementing a new accounting system. The City's initial priorities are to address the issues related to financial reporting, reconciliation and posting of general ledger accounts and payroll.

*(continued)*

**CITY OF JEANNETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

*(continued)*

**Section II – Financial Statement Findings (continued)**

**Material Weaknesses (continued)**

**2013-02: Segregation of Duties**

**Finding Type:** Material Weakness in Internal Control over Cash Disbursements and Payroll

*Criteria:* During our audit, we identified a lack of adequate segregation of duties in several key accounting processes.

*Condition:* Responsibilities for custody, accounting and control of the City's assets should be segregated.

*Potential Effect:* Due to the lack of an adequate segregation of duties in several key accounting processes, there is an increased risk of unauthorized, fraudulent or erroneous transactions to occur, especially in the areas of cash disbursements and payroll. This could also lead to incomplete documentation and inaccurate recording of transactions.

*Recommendation:* Although the City's resources are limited, duties for processing cash disbursements and payroll should be segregated as much as possible in order to strengthen internal controls over these areas.

*Management Response:* Management is aware of the lack of effective segregation of duties in certain key accounting areas and will continue to look to segregate duties in these areas going forward in the most cost-effective manner.

**2013-03: Accuracy and Completeness of Financial Information**

**Finding Type:** Material Weakness in Internal Control over General Ledger Transactions

*Criteria:* While conducting our audit, obtaining an accurate and complete general ledger was problematic, as was also the case for the production of supporting schedules for several balances in the general ledger.

*Condition:* The general ledger provided should be accurate and complete, and all subsidiary ledgers and other supporting documentation should be properly reconciled to the general ledger balances.

*Potential Effect:* The lack of an accurate general ledger contributed to delays in the ability to finalize the audit and led to significant audit adjustments.

*Recommendation:* We recommend that employees with financial reporting responsibilities obtain additional training to improve and/or acquire the necessary knowledge in preparing accurate financial information. Additional training and proper reconciliation procedures would lead to a more effective and efficient financial reporting process.

*Management Response:* Management believes that the current personnel are capable of performing accounting functions and that with some additional training, would become more efficient in the performance of these functions.

*(continued)*

**CITY OF JEANNETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

*(continued)*

**Section II – Financial Statement Findings (continued)**

**Material Weaknesses (continued)**

**2013-04: Online Banking Access: Cash Transfers**

**Finding Type:** Material Weakness in Internal Control over Online Banking

*Criteria:* During our audit, we identified that individuals within the City of Jeannette's accounting and finance department have online access to the bank accounts. Although we understand the need for such access and the convenience it offers, we caution you that such access permissions are frequently bundled with other features as well. For example, often the ability to transfer funds to other accounts is available as a component of online access. Furthermore, debit cards might also be made available to individuals who have access authorization.

*Condition:* We noted numerous transfers between cash accounts without proper approval, backup, and segregation of duties related to the transfer of cash were limited.

*Potential Effect:* Due to numerous cash transfers and lack of oversight there is an increased risk that errors, misstatements or fraudulent activity could occur without being properly identified.

*Recommendation:* We strongly recommend that the City of Jeannette receive a complete and clear understanding from the banking institution of the abilities granted as a function of online access. Transfer authorization should only be made accessible to a limited number of people, and transfers should be restricted to only the City of Jeannette's accounts within the bank. Policies and procedures should be developed that incorporate effective controls and safeguards over cash activities for any online access situation. We also recommend two separate employees sign off when each transfer is initiated. We also recommend transfers be kept to a minimum and only be used when completely necessary. When they do occur proper documentation, sign offs and approvals should be obtained.

*Management Response:* Management is aware of the possibilities that may occur with online banking access and cash transfers. Subsequent to year end, the City has implemented a new policy that required two employees to authorize transfers between cash accounts. The financial institution is involved and will not transfer funds until the two employees authorize the transaction.

*(continued)*

**CITY OF JEANNETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

*(continued)*

**Section II – Financial Statement Findings (continued)**

**Material Weaknesses (continued)**

**2013-05: Cash: Reconciling Statements Regularly**

**Finding Type:** Material Weakness in Internal Control over the Reconciliation Process

*Criteria:* During our audit, we noted that bank statements for the City of Jeannette's various accounts were not reconciled to the general ledger. Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the City's procedures.

*Condition:* All bank statements should be reconciled monthly to ensure cash balances are accurate.

*Potential Effect:* Due to several cash accounts not being reconciled there were transactions and transfers that were not recorded in the City's general ledger or were recorded improperly in the general ledger leading to significant audit adjustments.

*Recommendation:* We recommend all bank accounts be reconciled monthly to the general ledger and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.

*Management Response:* Management believes that the current personnel are capable of performing accounting functions and that with some additional training, would become more efficient in the performance of these functions.

**Section III – Federal Award Findings and Questioned Costs**

This section identifies the audit findings to be reported by Section 510(a) of Circular A-133 (e.g. report significant deficiencies, material weaknesses and instances of noncompliance, including questioned costs).

None

**Section IV – Prior Year Findings – Federal Award Findings and Questioned Costs**

This section identifies the audit findings to be reported by Section 510(a) of Circular A-133 (e.g. report significant deficiencies, material weaknesses and instances of noncompliance, including questioned costs).

None