

CITY OF JEANNETTE

AUDIT REPORT

DECEMBER 31, 2018

**City of Jeannette
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December 31, 2018**

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of City Council
City of Jeannette

Report on the Financial Statements

We have audited the accompanying statement of revenues, expenditures and changes in fund balance – cash basis and statement of activities – cash basis and governmental funds balance sheet/statement of net position – cash basis of the City of Jeannette as of and for the year ended December 31, 2018, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note A; 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 generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balance of each fund of the City of Jeannette as of December 31, 2018, and this respective cash receipts and disbursements, and budgetary results for the year then ended in accordance with the cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A 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 opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that budgetary comparison information of pages twenty-four and twenty-five 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 operation, 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 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.

Rennie & Associates
Ligonier, Pennsylvania
July 18, 2019

City of Jeannette
Governmental Funds
Balance Sheet/Statement of Net Position - Cash Basis
December 31, 2018

| | Combined General Fund | Community Development Fund | Non-Major Liquid Fuels Fund | Total Governmental Funds | Statement of Net Position |
|---------------------------|-----------------------------|----------------------------------|--------------------------------------|--------------------------------|---------------------------------|
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 5,503,730 | 877,325 | 272,414 | 6,653,469 | \$ 6,653,469 |
| Fund Balance | | | | | |
| Fund Balance | | | | | |
| Spendable - Unassigned | 945,054 | - | - | 945,054 | |
| Restricted | 4,558,676 | 877,325 | 272,414 | 5,708,415 | |
| Total Fund Balance | \$ 5,503,730 | 877,325 | 272,414 | \$ 6,653,469 | |
| Net Position | | | | | |
| Restricted for | | | | | |
| Act 205 - Pension Fund | | | | | \$ 1,125,635 |
| Community Development | | | | | 877,325 |
| Liquid Fuels Tax | | | | | 272,414 |
| Capital Reserve Fund | | | | | 3,433,041 |
| Unrestricted | | | | | 945,054 |
| Total Net Position | | | | | \$ 6,653,469 |

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

City of Jeannette
Statement of Activities - Cash Basis
For the Year Ended December 31, 2018

| Functions/Programs | Expenses | Charges for Services | Operating Grants & Contributions | Other Revenues | Net (Expense)/ Revenue & Change in Net Position |
|--|-----------------------|----------------------|----------------------------------|----------------|---|
| Primary Government | | | | | |
| Governmental Activities | | | | | |
| General Government | \$ (679,459) | 14,362 | 191,218 | 8,864 | \$ (465,015) |
| Public Safety | (2,294,845) | 125,040 | 18,170 | | (2,151,635) |
| Health and Human Services | (3,627) | | | | (3,627) |
| Public Works - Highway and Streets | (982,561) | 27,122 | 318,811 | 43,800 | (592,828) |
| Public Works - Sanitation | (1,025,086) | 1,089,532 | 3,377 | | 67,823 |
| Library and Recreation | (83,694) | | | | (83,694) |
| Community Development | (845,776) | | 258,679 | | (587,097) |
| payroll Tax Expense | (127,427) | | | | (127,427) |
| Insurance | (819,477) | | | | (819,477) |
| Pension Contributions | (1,197,699) | | 210,013 | | (987,686) |
| Debt - Principal Payments | (236,227) | | | | (236,227) |
| Debt - Interest Expense | (125,368) | | | | (125,368) |
| Total Governmental Activities | \$ (8,421,246) | 1,256,056 | 1,000,268 | 52,664 | \$ (6,112,258) |
| General Revenues | | | | | |
| Taxes | | | | | |
| Real Estate | | | | | 2,023,148 |
| Earned Income | | | | | 723,617 |
| Earned Income - Act 205 | | | | | 1,293,799 |
| Local Services Tax | | | | | 116,110 |
| Business Privilege Tax | | | | | 45,340 |
| Other | | | | | 105,830 |
| Licenses, Permits and Fees | | | | | 190,468 |
| Fines, Forfeitures and Penalties | | | | | 54,058 |
| Interest | | | | | 23,118 |
| Payments Received on Community Development Loans | | | | | 21,674 |
| Payments in Lieu of Taxes | | | | | 5,789 |
| Royalty Income | | | | | 111 |
| Total General Revenues | | | | | 4,603,062 |
| Change in Net Position | | | | | (1,509,196) |
| Fund Balance: Beginning of Year | | | | | 8,162,665 |
| Fund Balance: End of Year | | | | | 6,653,469 |

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, 2018

| | Combined General Fund | Community Development | Non-Major Liquid Fuels | Total Governmental Funds |
|---|--------------------------|--------------------------|------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$ 4,307,844 | - | - | \$ 4,307,844 |
| Licenses, Permits & Fees | 190,468 | - | - | 190,468 |
| Fines, Forfeitures & Penalties | 54,058 | - | - | 54,058 |
| Interest | 21,201 | 951 | 966 | 23,118 |
| Intergovernmental | 404,608 | 258,679 | 318,811 | 982,098 |
| Charges for Services | 1,256,056 | - | - | 1,256,056 |
| Payment in Lieu of Taxes | 5,789 | - | - | 5,789 |
| Program Income | - | 21,674 | - | 21,674 |
| Rent/Royalty Income | 111 | - | - | 111 |
| Miscellaneous | 70,834 | - | - | 70,834 |
| Total Revenues | 6,310,969 | 281,304 | 319,777 | 6,912,050 |
| Expenditures | | | | |
| Current | | | | |
| General Government | 679,459 | - | - | 679,459 |
| Public Safety | 2,294,845 | - | - | 2,294,845 |
| Health and Human Services | 3,627 | - | - | 3,627 |
| Public Works - Highways and Streets | 721,430 | - | 261,131 | 982,561 |
| Public Works - Sanitation | 1,025,086 | - | - | 1,025,086 |
| Culture and Recreation | 83,694 | - | - | 83,694 |
| Community Development | 466,993 | 378,783 | - | 845,776 |
| Payroll Tax Expense | 127,427 | - | - | 127,427 |
| Insurance | 819,477 | - | - | 819,477 |
| Pension Contributions | 1,197,699 | - | - | 1,197,699 |
| Debt - Principal | 188,227 | 48,000 | - | 236,227 |
| Debt - Interest | 100,509 | 24,859 | - | 125,368 |
| Total Expenditures | 7,708,473 | 451,642 | 261,131 | 8,421,246 |
| Excess (Deficiency) of Revenues over Expenditures before other Financing Sources (Uses) | (1,397,504) | (170,338) | 58,646 | (1,509,196) |
| Net Change in Fund Balance | (1,397,504) | (170,338) | 58,646 | (1,509,196) |
| Fund Balance | | | | |
| Beginning of Year | 6,901,234 | 1,047,663 | 213,768 | 8,162,665 |
| End of Year | \$ 5,503,730 | 877,325 | 272,414 | |

City of Jeannette
Fiduciary Funds
Statement of Fiduciary Net Position
As of December 31, 2018

| | <u>Fire Insurance Escrow Fund</u> |
|-------------------------|---------------------------------------|
| Assets | |
| Cash & Cash Equivalents | <u>\$ 19,625</u> |
| Total Assets | <u><u>\$ 19,625</u></u> |
| Liabilities | |
| Due to Third Parties | <u>\$ 19,625</u> |
| Total Liabilities | <u><u>\$ 19,625</u></u> |

City of Jeannette
Notes to the Financial Statements
December 31, 2018

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, library-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 City reports on the cash basis of accounting and the most significant 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 assume 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, 2018.

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 on interfund activity has been eliminated from these statements.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 1 – Summary of Significant Accounting Policies – continued

Government-Wide and Fund Financial Statements – continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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.

Basis of Accounting/Masurement 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, net pension liability and pension trust funds. As the pension trust funds have been excluded from the cash basis financial statements, the requirements of GASB 67 have not been implemented.

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.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 1 – Summary of Significant Accounting Policies - continued

Basis of Accounting/Measurement Focus – continued

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 non-major governmental fund:

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.

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 three separate pension plans that have pension trust funds: the Police Plan, the Firefighter Plan, and Non-Uniform Plan. The Pension Trust Funds are not included in the financial statements, as discussed above.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 1 – Summary of Significant Accounting Policies – continued

Basis of Accounting/Measurement Focus – continued

Fund Balance

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

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 mandates 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.

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 purposes 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.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 1 – Summary of Significant Accounting Policies – continued

Fund Balance – continued

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.

Budget 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 31st.

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

City of Jeannette
Notes to the Financial Statements
December 31, 2018

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 in active markets.

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 a 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, 2018, the liability for accrued sick leave was \$200,946.

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 deposits or investment transactions during the year that were in violation of either the state statutes or the policy of the City.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 2 – Cash and Cash Equivalents – continued

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, 2018, the City's bank balance in excess of the FDIC limits was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the institutions 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 \$6,423,095 as of December 31, 2018.

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.

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

Note 3 – Property Tax Levies

All unpaid taxes become delinquent July 1st of the same year. Any taxes still unpaid at December 31st of the same year are turned over to the Westmoreland County Tax Bureau. City property tax revenues are recognized when received.

City real estate taxes were levied for general purposes at 33.62 mills on 100% of assessed valuation, excluding exempt properties. The assessed valuation was \$61,964,910 million for the 2018 levy.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 4 – Long-Term Debt

Changes in Long-Term Debt

Changes in the City's long-term debt during 2018 were as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Payments</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|-------------------|---------------------------|
| General Obligation Bonds, 2016 | \$3,375,000 | | \$ 170,000 | \$3,205,000 |
| Equipment Loans | 14,784 | | 14,784 | -0- |
| Police Car | 3,433 | | 3,433 | -0- |
| U.S. Department of Housing and Urban Development Loan | <u>630,000</u> | <u> </u> | <u>48,000</u> | <u>582,000</u> |
| | <u>\$4,023,217</u> | <u>\$ -0-</u> | <u>\$ 236,217</u> | <u>\$3,787,000</u> |

General Obligation Bond – Series 2016

In December 2016, the City of Jeannette issued a General Obligation Bond – 2016. The purpose of the bond is to a) retire the City's General Obligation Bond dated 1998 in the amount of \$1,397,633; b) provide a lower interest rate; and c) provide funding for future capital improvement projects.

The interest rate ranges from 1.15% to 3.75%, and is scheduled to mature in 2033.

As part of the 2016 bond issue, funds were deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the 1998 bonds. As a result, the 1998 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, 2018, the principal amount outstanding relating to the 2016 bonds was \$3,205,000.

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|--------------------|-------------------|---------------------|
| 2019 | \$ 175,000 | \$ 96,755 | \$ 271,755 |
| 2020 | 180,000 | 93,424 | 273,424 |
| 2021 | 180,000 | 89,689 | 269,689 |
| 2022 | 185,000 | 85,441 | 270,441 |
| 2023-2027 | 185,000 | 80,815 | 265,815 |
| Thereafter | <u>2,300,000</u> | <u>433,698</u> | <u>2,733,698</u> |
| | <u>\$3,205,000</u> | <u>\$ 879,822</u> | <u>\$ 4,084,822</u> |

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 4 – Long-Term Debt – continued

Equipment & Vehicle Loans

The City entered into several loan agreements with local financial institutions to purchase various equipment and vehicles to be used in the general operations of the City. Annual payments of varying amounts are due monthly/annually through 2015-2018. 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, 2018 was \$0.

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 3.5% interest 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, 2018 was \$582,000.

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> |
|-------------|-------------------|------------------|-------------------|
| 2019 | \$ 48,000 | 23,362 | \$ 71,362 |
| 2020 | 48,000 | 21,778 | 69,778 |
| 2021 | 48,000 | 20,131 | 68,131 |
| 2022 | 48,000 | 18,341 | 66,341 |
| 2023 | 48,000 | 16,502 | 64,502 |
| Thereafter | <u>342,000</u> | <u>60,255</u> | <u>402,255</u> |
| | <u>\$ 582,000</u> | <u>\$160,369</u> | <u>\$ 742,369</u> |

Note 5 – 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 in the current year.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 6 – 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.

Police Pension Plan Description

The Police Pension Plan (Police Plan) is a single-employer defined benefit 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 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 completed 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, 2018, the date of the most recent pension plan actuarial report, participants in the Police Plan were as follows:

| <u>Participants</u> | <u>Police</u> |
|---|---------------|
| Active members | 9 |
| Retirees & beneficiaries receiving benefits | 26 |
| Terminated plan members with vested or deferred benefits | -0- |

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 6 – Pension Plan – continued

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 and cash equivalents. The Police Plan did not have any investment transactions with related parties during the year.

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 2018, the City paid the total annual required contribution of \$502,416. The City contributed an additional \$150,000 to fund the pension obligation.

In accordance with the Police Plan's governing resolution, members are required to contribute five percent of their compensation plus \$13 per year to the plan.

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

Non-Uniformed Plan Description

The Non-Uniformed Plan is an agent multi-employer defined benefit pension plan controlled and held by the Pennsylvania Municipal Retirement System (PMRS) for employees other than police and firemen. 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.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 6 – Pension Plans – continued

Non-Uniformed Plan Description - continued

Participants are eligible for retirement upon the completion of 10 years of continuous service or age 60 whichever comes first. Participants are fully vested in the Non-Uniformed Plan upon the completion of 20 years of continuous service. The monthly pension benefit is equal to 1.5 percent times credit services times Final Average Salary (FAS). FAS is based upon 3 years annualized salary.

As of January 1, 2018, participants in the Non-Uniformed Plan were as follows:

| <u>Participants</u> | <u>Non-Uniformed</u> |
|--|----------------------|
| Active members | 19 |
| Retirees & beneficiaries receiving benefits | 28 |
| Terminated plan members with vested or deferred benefits | 4 |

Non-Uniformed Plan Summary of Significant Accounting Policies

Financial information is presented on the cash 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.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 6 – Pension Plans – continued

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 2018, the City paid the annual required contribution of \$305,087.

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

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Firemen's Pension Plan Description

The Firemen's Pension Plan (Firemen Plan) is a single-employer defined benefit 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 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 completed 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, 2018

Note 6 – Pension Plans – continued

Firemen's Pension Plan Description – continued

As of January 1, 2018, the date of the most recent pension plan actuarial report, participants in the Firemen Plan were as follows:

| <u>Participants</u> | <u>Firemen</u> |
|---|----------------|
| Active members | 3 |
| Retirees & beneficiaries receiving benefits | 5 |
| Terminated plan members with vested or deferred benefits | 0 |

Firemen Plan Summary of Significant Accounting Policies

Financial information is presented on the cash 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 2018, the City paid the total annual required contribution of \$119,459.

An additional \$100,000 was contributed by the City to fund the pension obligation.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 6 – Pension Plans – continued

Firemen Plan Contributions and Funding Policy - continued

In accordance with the Firemen Plan's governing resolution, members are required to contribute five percent of their compensation plus \$65 per year to the plan.

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

Note 7 – Post-Employment Health Care

In addition to the pension benefits described above, the City provides health care benefits to Teamster, Fire, and Police retirees in full until Medicare benefits begin. The retiree must pay any co-insurance that active employees contribute. The employer's contributions are financed on a pay-as-you-go basis. As of December 31, 2018, \$159,011 in premiums was paid on their behalf. The liability at December 31, 2018 was \$1,009,479.

Note 8 – 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 0% and 5% over various amortization periods.

City of Jeannette
Notes to the Financial Statements
December 31, 2018

Note 8 – Loan Receivable – continued

The following represents the loan activity for the year ended December 31, 2018:

| | Balance at January 1, <u>2018</u> | <u>Additions</u> | <u>Payments</u> | Balance at December 31, <u>2018</u> |
|----------|---|------------------|------------------|---|
| Loan #31 | \$ | \$ 50,000 | \$ 5,000 | \$ 45,000 |
| Loan #6 | 4,764 | | | 4,764 |
| Loan #32 | | 7,500 | 625 | 6,875 |
| Loan #11 | 8,870 | | | 8,870 |
| Loan #12 | 371 | | 134 | 237 |
| Loan #13 | 850 | | 779 | 71 |
| Loan #16 | 7,083 | | 3,334 | 3,749 |
| Loan #17 | 3,058 | | 2,294 | 764 |
| Loan #20 | 4,662 | | 2,103 | 2,559 |
| Loan #23 | 2,053 | | 788 | 1,265 |
| Loan #24 | 432 | | 172 | 260 |
| Loan #26 | 2,711 | | 952 | 1,759 |
| Loan #27 | 9,375 | | 2,291 | 7,084 |
| Loan #28 | 1,052 | | 606 | 446 |
| Loan #29 | 603 | | 153 | 450 |
| Loan #30 | <u>661</u> | <u></u> | <u>459</u> | <u>202</u> |
| | <u>\$ 46,545</u> | <u>\$ 57,500</u> | <u>\$ 19,690</u> | <u>\$ 84,355</u> |

Note 9 – Commitments and Contingencies

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 has been made for potential reimbursements in the financial statements as material amounts are considered to be unlikely and the City reports on a cash basis.

Note 10 – Subsequent Events

At the present time, there are no known liabilities, commitments or contingencies for the City.

SUPPLEMENTAL INFORMATION

City of Jeannette
Combined General Fund
Revenue and Expenses - Cash Basis
For the Year Ended December 31, 2018

| | General Fund | Act 205 Fund | Capital Reserve Account | Bond Proceeds | Combined General Fund Accounts |
|-------------------------------------|-------------------|------------------|-------------------------------|--------------------|---|
| Revenues | | | | | |
| Taxes | \$ 3,014,045 | 1,293,799 | | | \$ 4,307,844 |
| Licenses | 190,468 | | | | 190,468 |
| Fines | 54,058 | | | | 54,058 |
| Interest | 5,230 | 3,822 | 12,149 | | 21,201 |
| Intergovernmental | 404,608 | | | | 404,608 |
| Charges for Service | 1,256,056 | | | | 1,256,056 |
| Payment in Lieu of Taxes | 5,789 | | | | 5,789 |
| Royalty | 111 | - | - | - | 111 |
| Miscellaneous | 70,834 | | | | 70,834 |
| Total Income | 5,001,199 | 1,297,621 | 12,149 | - | 6,310,969 |
| Expenses | | | | | |
| General Government | 469,363 | | | 210,096 | 679,459 |
| Public Safety | 1,742,145 | | | 552,700 | 2,294,845 |
| Health and Human Services | 3,627 | | | | 3,627 |
| Public Works - Highways and Streets | 461,643 | | | 259,787 | 721,430 |
| Public Works - Sanitation | 682,070 | | | 343,016 | 1,025,086 |
| Culture and Recreation | 83,694 | | | | 83,694 |
| Community Development | 53,344 | | 254,700 | 115,917 | 423,961 |
| Payroll Tax Expense | 127,427 | | | | 127,427 |
| Insurance | 819,477 | | | | 819,477 |
| Pension Contributions | 1,197,699 | | | | 1,197,699 |
| Debt - Principal | 188,227 | | | | 188,227 |
| Debt - Interest | 100,509 | | | - | 100,509 |
| Return of Prior Year Funds | 43,032 | | | | 43,032 |
| Total Expense | 5,972,257 | - | 254,700 | 1,481,516 | 7,708,473 |
| Inter-General Fund Transfers | 143,376 | (171,986) | (20,190) | 48,800 | - |
| Change in Fund Balance | (827,682) | 1,125,635 | (262,741) | (1,432,716) | (1,397,504) |
| Cash Beginning of Year | 1,572,218 | - | 3,695,782 | 1,633,234 | 6,901,234 |
| Cash Ending of Year | \$ 744,536 | 1,125,635 | 3,433,041 | 200,518 | \$ 5,503,730 |

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, 2018

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---------------------------------------|---------------|---------------|-----------------|
| Revenues | | | |
| Taxes | \$ 2,866,404 | 3,014,045 | \$ 147,641 |
| Licenses | 180,500 | 190,468 | 9,968 |
| Fines, Forfeitures and Penalties | 34,500 | 54,058 | 19,558 |
| Interest | 2,000 | 5,230 | 3,230 |
| Intergovernmental | 400,663 | 404,608 | 3,945 |
| Charges for Service | 1,083,438 | 1,256,056 | 172,618 |
| Payments in Lieu of Taxes | 5,900 | 5,789 | (111) |
| Royalty Income | - | 111 | 111 |
| Miscellaneous | 4,000 | 70,834 | 66,834 |
| | | | |
| Total Revenues | 4,577,405 | 5,001,199 | 423,794 |
| Expenditures | | | |
| General Government | 457,312 | 469,363 | (12,051) |
| Public Safety | 1,596,110 | 1,742,145 | (146,035) |
| Health and Human Services | 5,900 | 3,627 | 2,273 |
| Public Works - Highways and Streets | 478,726 | 461,643 | 17,083 |
| Public Works - Sanitation | 697,037 | 682,070 | 14,967 |
| Library and Recreation | 87,112 | 83,694 | 3,418 |
| Community Development | 54,688 | 53,344 | 1,344 |
| Payroll Tax Expense | 119,836 | 127,427 | (7,591) |
| Insurance | 848,670 | 819,477 | 29,193 |
| Pension Contributions | 847,559 | 1,197,699 | (350,140) |
| Debt - Principal | 188,238 | 188,227 | 11 |
| Debt - Interest | 100,509 | 100,509 | - |
| Return of Prior Year Funds | - | 43,032 | (43,032) |
| | | | |
| Total Expenditures | 5,481,697 | 5,972,257 | (490,560) |
| Other Financing Sources (Uses) | | | |
| Interfund Transfers, Net | 904,292 | 143,376 | 1,047,668 |
| | | | |
| Total other Financing Sources (Uses) | 904,292 | 143,376 | 1,047,668 |
| | | | |
| Net Change in Fund Balance | \$ - | (827,682) | \$ (1,114,434) |