



**CITY OF COATESVILLE
COATESVILLE, PENNSYLVANIA**

**BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2014

CITY OF COATESVILLE

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CITY OF COATESVILLE

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INDEPENDENT AUDITOR'S REPORT

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August 3, 2015

To the Members of Council
City of Coatesville
Coatesville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coatesville, Coatesville, Pennsylvania, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Redevelopment Authority of the City of Coatesville, which is both a major fund and 95.7 percent, 112.8 percent, and 44.5 percent, respectively, of the assets, net deficit, and revenues of the business-type activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Redevelopment Authority of the City of Coatesville, a blended component unit, which represents 95.7 percent, 112.8 percent, and 44.5 percent, respectively, of the assets, net deficit, and revenues of the business-type activities. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Redevelopment Authority of the City of Coatesville, is based solely on the report of the other auditors. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

To the Members of Council
City of Coatesville

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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis of Qualified Opinion on Solid Waste Fund/Business-type Activities

Accurate detailed subsidiary records have not been maintained for solid waste receivables, and certain prior-year records and supporting data were not available for our audit. Therefore, we were not able to obtain sufficient appropriate audit evidence about the amounts at which accounts receivable are recorded in the accompanying statement of net position at December 31, 2014 (stated at \$157,195).

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Solid Waste Fund/Business-type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Solid Waste Fund and business-type activities of the City of Coatesville, Coatesville, Pennsylvania, as of December 31, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the Solid Waste Fund, and the aggregate remaining fund information of the City of Coatesville, Coatesville, Pennsylvania, as of December 31, 2014, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance; GASB Statement No. 67, "Financial Reporting for Pension Plans - An Amendment to GASB Statement No. 25." Our opinion is not modified with respect to this matter.

To the Members of Council
City of Coatesville

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and the supplementary information presented on pages 51 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Coatesville's basic financial statements. The combining nonmajor fund financial statements and combining fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and combining fiduciary fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the combining fiduciary fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2015 on our consideration of the City of Coatesville'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 Coatesville's internal control over financial reporting and compliance.


BARBACANE, THORNTON & COMPANY LLP

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2014

Within this section of the City of Coatesville's annual financial report, the City's management provides a narrative discussion and analysis of the financial activities of the City for the fiscal year ended December 31, 2014. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements following this section.

Financial Highlights

- The City's assets exceeded its liabilities and deferred inflows of resources by \$24,021,227 (total net position) for the fiscal year reported. This total includes both governmental and business-type activities.
- Total net position is comprised of the following:
 - 1) Net investment in capital assets of \$10,051,215. This includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - 2) Unrestricted net position of \$13,970,012, which is available to fund the continued operations of the City.
- The City's governmental funds total fund balance at the end of 2014 were \$7,516,680.
- The City's business-type activities reported combined ending fund net deficit of \$2,097,104 at the end of 2014. The City's Solid Waste Fund net position at the end of 2014 was \$267,602, and the Redevelopment Authority's net deficit was (\$2,364,706).
- Long-term bonded debt decreased during 2014 by \$63,819.

Overview of the Financial Statements

Management's Discussion and Analysis provides an introduction to the City's basic financial statements. The basic financial statements include:

- City-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

Additional information is also provided to supplement the basic financial statements.

City-wide Financial Statements

The City's annual report contains two City-wide financial statements. They are the *Statement of Net Position* and the *Statement of Activities*. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level is similar to that found in the private sector with its basis in full accrual accounting and the elimination or reclassification of internal activities.

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

The *Statement of Net Position* provides information on all of the City's assets, liabilities, and deferred inflows of resources. Over time, increases or decreases in net position serve as a useful indicator of whether the City's financial position is improving or deteriorating. Evaluation of the overall economic health of the City would include other non-financial factors such as changes in the taxpayer base or the condition of the City's infrastructure, in addition to the financial information provided in this report.

The *Statement of Activities* reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included in this report regardless of when cash is received or paid. An important purpose of the *Statement of Activities* is to show the financial reliance of the City's various activities or services on revenues provided by the City's taxpayers.

Both City-wide financial statements are divided into two categories.

- **Governmental Activities:** Most of the City's basic services are included here, such as general government, public safety, public works, culture and recreation, and library. These activities are principally supported by taxes and intergovernmental revenues.
- **Business-type Activities:** These include services which are intended to recover all or most of their costs through user fees and charges. The City provides solid waste collection services to its Citizens. The City also includes a separate legal entity in its report - the Redevelopment Authority of the City of Coatesville ("RDA"). The RDA is considered a blended component unit and is included with the business-type activities. Although legally separate, the RDA is important because the City is financially accountable for it.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major funds" - not the City as a whole. A fund is an accountability unit used to maintain control over resources segregated by specific sources of funding or spending on particular programs.

- Some funds are required by state law or bond covenants.
- The City establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The City has three kinds of funds:

- **Governmental Funds:** Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds' statements provide a detailed *short-term*

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the City-wide statements, additional statements are included which explain the relationship (or differences) between them.

- **Proprietary Funds:** When the City charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds utilize accrual accounting, the same method used by private-sector businesses. Proprietary Funds provide more detail and additional information, such as cash flows. Proprietary funds report activities that provide supplies and services to the general public.
- **Fiduciary Funds:** The City is the trustee, or fiduciary, for assets that belong to others, such as the pension plans. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the City-wide financial statements because it cannot use these assets to finance its operations.

ORGANIZATION OF CITY OF COATESVILLE'S ANNUAL FINANCIAL REPORT

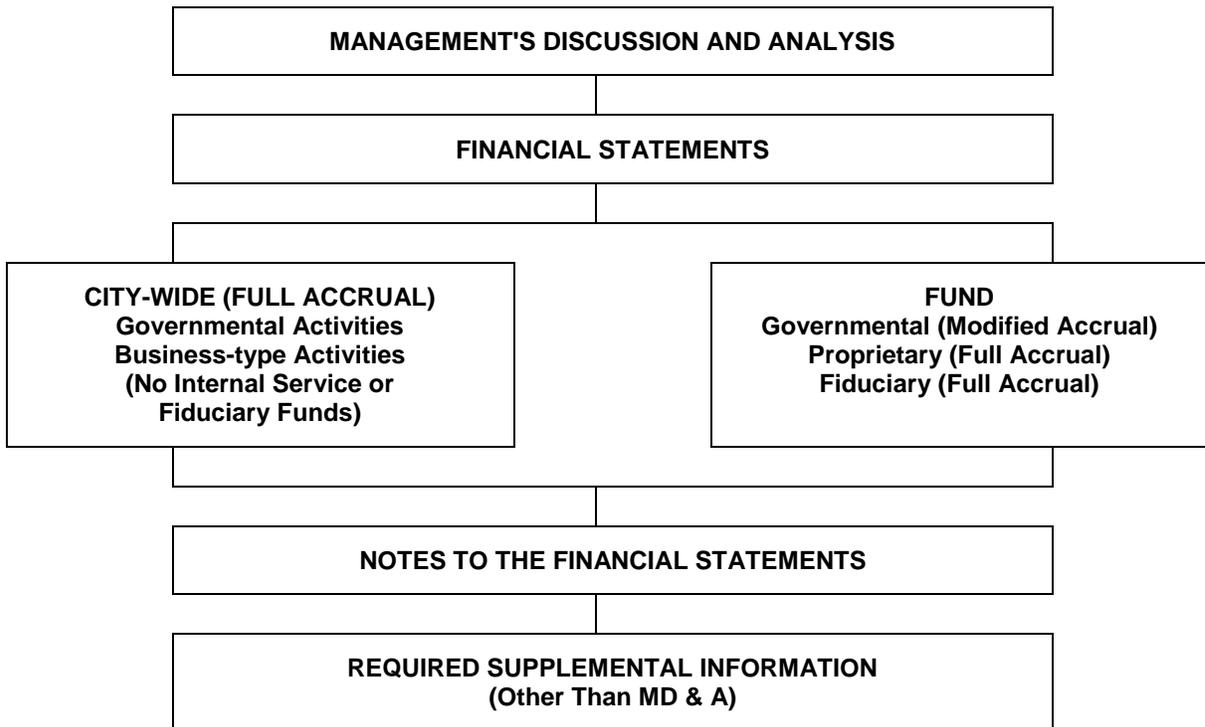


Figure I-1

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

Financial Analysis of the City as a Whole

The City's net position at fiscal year-end was \$24,021,227. This is a decrease of \$233,672 or 0.96% (percent) under 2013's net position of \$24,254,899. Net position for governmental activities decreased \$251,632. Also, net position for business-type activities increased \$17,960.

CITY OF COATESVILLE
Condensed Statement of Net Position
(In Thousands of Dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
ASSETS						
Current assets	\$ 3,218	\$ 2,945	\$ 366	\$ 710	\$ 3,584	\$ 3,655
Noncurrent assets, net	24,124	24,682	5,981	5,788	30,085	30,470
TOTAL ASSETS	<u>\$ 27,342</u>	<u>\$ 27,627</u>	<u>\$ 6,327</u>	<u>\$ 6,498</u>	<u>\$ 33,669</u>	<u>\$ 34,125</u>
LIABILITIES						
Current liabilities	\$ 658	\$ 592	\$ 22	\$ 491	\$ 680	\$ 1,083
Noncurrent liabilities	566	665	8,401	8,122	8,967	8,787
TOTAL LIABILITIES	<u>1,224</u>	<u>1,257</u>	<u>8,423</u>	<u>8,613</u>	<u>9,647</u>	<u>9,870</u>
DEFERRED INFLOWS OF RESOURCES						
	-	-	1	-	1	-
NET POSITION						
Net investment in capital assets	10,051	10,021	-	-	10,051	10,021
Unrestricted (Deficit)	16,067	16,349	(2,097)	(2,115)	13,970	14,234
TOTAL NET POSITION	<u>\$ 26,118</u>	<u>\$ 26,370</u>	<u>\$ (2,097)</u>	<u>\$ (2,115)</u>	<u>\$ 24,021</u>	<u>\$ 24,255</u>

Figure I-2

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

CITY OF COATESVILLE
Condensed Statement of Activities
(In Thousands of Dollars)

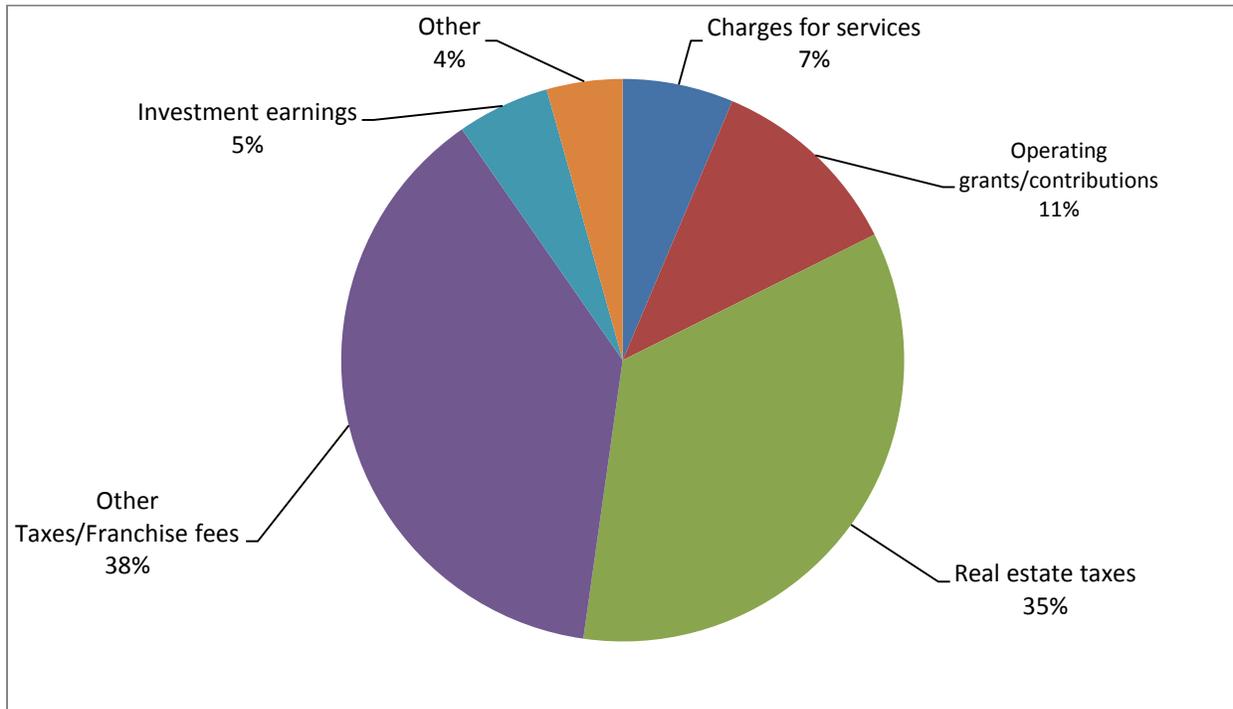
	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program revenues:						
Charges for services	\$ 633	\$ 1,220	\$ 919	\$ 783	\$ 1,552	\$ 2,003
Operating grants/ contributions	1,119	726	-	-	1,119	726
General revenues:						
Real estate taxes	3,438	2,408	-	-	3,438	2,408
Other taxes/franchise fees	3,785	3,753	-	-	3,785	3,753
Investment earnings	528	290	23	26	551	316
Other	433	152	534	1,782	967	1,934
TOTAL REVENUES	9,936	8,549	1,476	2,591	11,412	11,140
EXPENSES						
General government	1,796	1,913	-	-	1,796	1,913
Public safety	6,885	6,519	-	-	6,885	6,519
Public Works	918	835	-	-	918	835
Other Public Works	74	67	-	-	74	67
Library	11	11	-	-	11	11
Culture and recreation	274	277	-	-	274	277
Interest expense	230	219	-	-	230	219
Miscellaneous	-	24	-	-	-	24
Solid waste	-	-	717	710	717	710
Redevelopment	-	-	741	1,217	741	1,217
TOTAL EXPENSES	10,188	9,865	1,458	1,927	11,646	11,792
(DECREASE) INCREASE IN NET POSITION	(252)	(1,316)	18	664	(234)	(652)
NET POSITION, BEGINNING OF YEAR	26,370	27,686	(2,115)	(2,779)	24,255	24,907
NET POSITION, END OF YEAR	\$ 26,118	\$ 26,370	\$ (2,097)	\$ (2,115)	\$ 24,021	\$ 24,255

Figure I-3

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

As indicated in the condensed statement of activities (Figure I-3) and on the chart below (Figure I-4), the City is heavily dependent upon local tax revenues, which include real estate taxes, earned income taxes, local services taxes, real estate transfer taxes, business privilege taxes, mechanical device taxes, and franchise fees. Local taxes and franchise fees comprised 73% (percent) of governmental revenues in fiscal year 2014.

**GOVERNMENTAL REVENUE
2014**

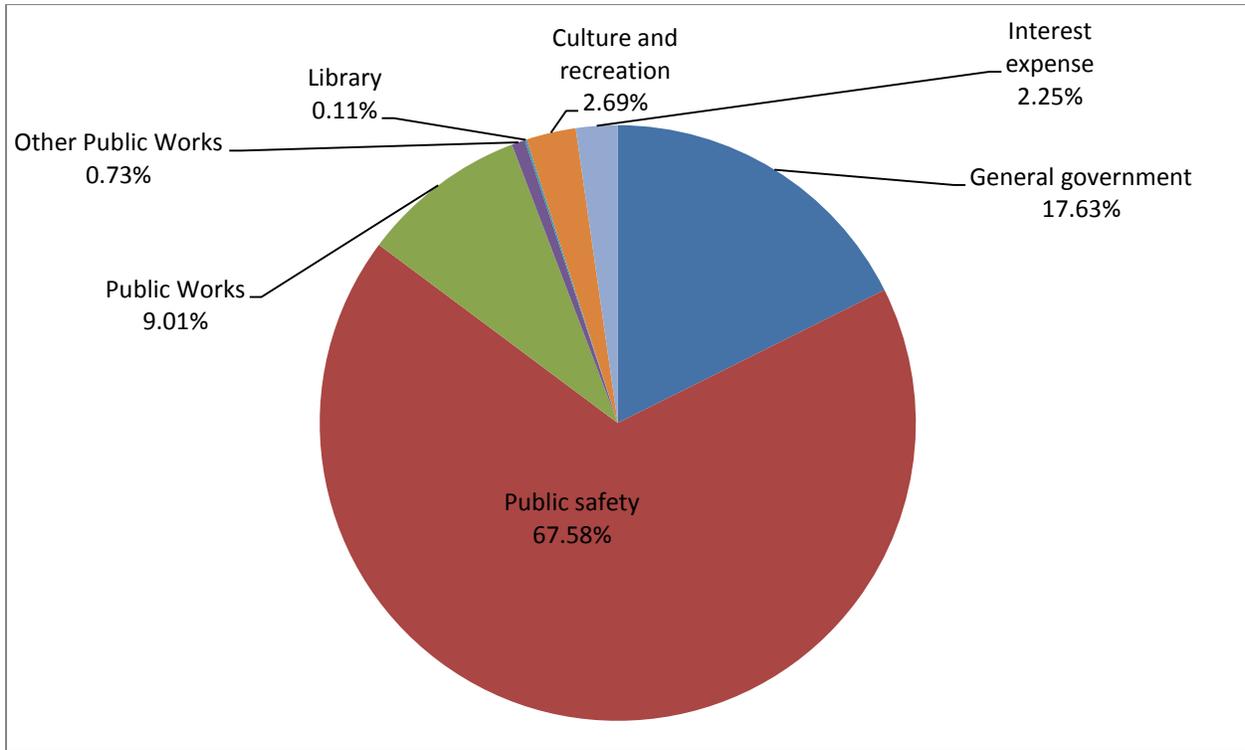


TOTAL - \$9,936
(In Thousands of Dollars)

Figure I-4

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

GOVERNMENTAL FUNCTIONAL EXPENSES
2014



TOTAL - \$10,188
(In Thousands of Dollars)

Figure I-5

Figure I-5 shows the percentage of governmental expenses by functional services in 2014. Public safety, which includes police, fire, and code enforcement, accounted for 67.58% (percent), or \$6,884,274, of governmental expenses of \$10,188,303. Public works accounted for 9.01% (percent), or \$918,384, of governmental expenses; and general government, which includes council, administration, finance, legal, human resources, information technology, and buildings and plant, accounted for 17.63% (percent), or \$1,796,312, of governmental expenses in fiscal year 2014. Charges for services revenues of \$633,233, and operating grants and contributions of \$1,118,511 reduced the net cost to taxpayers for governmental services expenses by 17.2% (percent).

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

Business-type Activities

The City's primary business-type activity is its solid waste collection. The City also has a Redevelopment Authority which is presented in the financial statements as a blended component unit. Total charges for services in fiscal year 2014 were \$919,001, an increase of \$136,308 from the prior year.

Financial Analysis of the City's Funds

Governmental Funds

Governmental funds are reported in the fund statements with a short-term focus on the inflow and outflow of financial resources. This information is valuable in assessing resources available for upcoming financial requirements. Governmental funds reported combining ending fund balances of \$7,516,680, a decrease of \$823,671 as compared to the prior year. A majority of this amount is accounted for in the Reserve Trust Fund.

Major Governmental Funds

The General Fund is the City's primary operating fund. As of December 31, 2014, the fund balance of the General Fund was \$1,526,245, an increase of \$900,891 as compared to the prior year.

The Liquid Fuels Fund is a special revenue fund that is earmarked for expenditures related to highways and streets; most of the expenditures are directed towards the cost of electricity for street and traffic signal lighting. The City receives annual funding through the Commonwealth's fuels tax. As of December 31, 2014, the fund balance of the Liquid Fuels Fund was \$171,253, an increase of \$56,121 as compared to the prior year.

The Reserve Trust Fund accounts for the proceeds from the sale of the City of Coatesville Water Authority assets. The fund balance at fiscal year end was \$5,794,869, representing a decrease of \$1,795,712, compared to the prior year.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors contributing to the finances of these funds have already been discussed in the section outlining the City's business-type activities.

General Fund Budgetary Highlights

The City amended the 2014 adopted budget reducing estimated revenue from \$8,045,657 to \$7,922,657 and reducing appropriations from \$9,612,539 to \$9,384,688.

CITY OF COATESVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED DECEMBER 31, 2014

In 2014, actual revenues exceeded budgeted revenues by \$559,453. Three quarters of that revenue surplus is attributable to the Earned Income Tax which succeeded the Real Estate Tax in 2014 as the City's single largest revenue source. Actual expenditures were lower than the amended budget.

The majority of departments came in under budget with notable exceptions of Police (\$55,606) and Public Works (\$18,235).

Capital Assets

The City's total investment in capital assets as of December 31, 2014 amounts to \$10,358,351, net of accumulated depreciation. The investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, and infrastructure.

Long-term Debt

As of December 31, 2014, the City had \$164,851 in bonds outstanding versus \$228,670 outstanding at December 31, 2013. The City also had \$142,285 in capital lease payables outstanding at December 31, 2014 versus \$198,143 outstanding at December 31, 2013. In addition, the City had \$374,551 in compensated absences payable at December 31, 2014 versus \$358,473 at December 31, 2013.

OUTSTANDING LONG TERM DEBT
(in thousands of dollars)

	Governmental Activities	
	2014	2013
Bonds Payable	\$ 165	\$ 229
Leases Payable	\$ 142	\$ 198
Compensated Absences	\$ 375	\$ 358
	\$ 682	\$ 785

Figure I-6

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to accountability. If you have any questions about this report or need additional information, please contact the Finance Office at One City Hall Place, Coatesville, PA 19320.

**CITY OF COATESVILLE
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,119,936	\$ 144,129	\$ 2,264,065
Investments	430,287	-	430,287
Accounts and other receivables, net	95,115	173,979	269,094
Prepaid expenses	800	-	800
Taxes receivable	571,801	-	571,801
Notes receivable	-	48,190	48,190
Total Current Assets	<u>3,217,939</u>	<u>366,298</u>	<u>3,584,237</u>
Noncurrent Assets:			
Investments	5,341,343	-	5,341,343
Depreciable capital assets, net	8,056,964	-	8,056,964
Land	2,301,387	-	2,301,387
Property held for sale	-	5,514,037	5,514,037
Interest receivable	1,425,541	-	1,425,541
Notes receivable	6,999,156	383,377	7,382,533
Project advances	-	63,000	63,000
Total Noncurrent Assets	<u>24,124,391</u>	<u>5,960,414</u>	<u>30,084,805</u>
TOTAL ASSETS	<u><u>\$ 27,342,330</u></u>	<u><u>\$ 6,326,712</u></u>	<u><u>\$ 33,669,042</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 218,385	\$ 14,733	\$ 233,118
Accrued salaries and benefits	151,609	-	151,609
Accrued interest payable	8,807	-	8,807
Security deposits	-	6,905	6,905
Capital leases payable	57,227	-	57,227
Current portion of long-term debt	58,686	-	58,686
Other liabilities	163,511	-	163,511
Total Current Liabilities	<u>658,225</u>	<u>21,638</u>	<u>679,863</u>
Noncurrent Liabilities:			
Accumulated compensated absences	374,551	-	374,551
Interest payable	-	1,402,302	1,402,302
Capital leases payable	85,058	-	85,058
Long-term portion of long-term debt	106,165	6,999,156	7,105,321
Total Noncurrent Liabilities	<u>565,774</u>	<u>8,401,458</u>	<u>8,967,232</u>
TOTAL LIABILITIES	<u><u>1,223,999</u></u>	<u><u>8,423,096</u></u>	<u><u>9,647,095</u></u>
DEFERRED INFLOWS OF RESOURCES			
Grants received in advance	-	720	720
NET POSITION:			
Net investment in capital assets	10,051,215	-	10,051,215
Unrestricted (Deficit)	16,067,116	(2,097,104)	13,970,012
TOTAL NET POSITION (DEFICIT)	<u><u>26,118,331</u></u>	<u><u>(2,097,104)</u></u>	<u><u>24,021,227</u></u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u><u>\$ 27,342,330</u></u>	<u><u>\$ 6,326,712</u></u>	<u><u>\$ 33,669,042</u></u>

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

**CITY OF COATESVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES:						
General government	\$ 1,796,312	\$ 225,735	\$ -	\$ (1,437,644)	-	\$ (1,437,644)
Public safety	6,884,274	297,188	-	(6,169,851)	-	(6,169,851)
Public works - highways and streets	918,384	237,108	-	(608,480)	-	(608,480)
Other public works	74,185	350,000	-	275,815	-	275,815
Library	11,000	-	-	(11,000)	-	(11,000)
Culture and recreation	243,248	8,480	-	(224,499)	-	(224,499)
Community and economic development	31,029	-	-	(31,029)	-	(31,029)
Interest expense	229,871	-	-	(229,871)	-	(229,871)
TOTAL GOVERNMENTAL ACTIVITIES	10,188,303	1,118,511	-	(8,436,559)	-	(8,436,559)
BUSINESS-TYPE ACTIVITIES						
Solid waste	716,720	-	-	-	102,982	102,982
Redevelopment	741,238	-	-	-	(641,939)	(641,939)
TOTAL BUSINESS-TYPE ACTIVITIES	1,457,958	-	-	(538,957)	(538,957)	(538,957)
TOTAL PRIMARY GOVERNMENT	\$ 11,646,261	\$ 1,118,511	\$ -	(8,436,559)	(538,957)	(8,975,516)
GENERAL REVENUES						
Taxes:						
Real estate taxes				3,438,205	-	3,438,205
Real estate transfer taxes				254,165	-	254,165
Earned income taxes				3,212,107	-	3,212,107
Local services taxes				83,311	-	83,311
Business privilege taxes				36,007	-	36,007
Mechanical device taxes				3,435	-	3,435
Franchise fees				195,996	-	195,996
Fines and forfeits				332,316	-	332,316
Investment earnings				527,906	22,888	550,794
Other				101,479	-	101,479
Intergovernmental grant revenue				-	534,029	534,029
TOTAL GENERAL REVENUES AND TRANSFERS				8,184,927	556,917	8,741,844
CHANGE IN NET POSITION				(251,632)	17,960	(233,672)
NET POSITION (DEFICIT), BEGINNING OF YEAR				26,369,963	(2,115,064)	24,254,899
NET POSITION (DEFICIT), END OF YEAR				\$ 26,118,331	\$ (2,097,104)	\$ 24,021,227

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

**CITY OF COATESVILLE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	Major Funds			
	General Fund	Liquid Fuels Fund	Reserve Trust Fund	
				Totals
ASSETS				
Cash and cash equivalents	\$ 1,913,413	\$ 181,477	\$ -	\$ 2,119,936
Investments	-	-	5,771,630	5,771,630
Accounts receivable	95,115	-	-	95,115
Taxes receivable	571,801	-	-	571,801
Prepaid expenditures	800	-	-	800
Interest receivable	-	-	1,425,541	1,425,541
Notes receivable	-	-	6,999,156	6,999,156
TOTAL ASSETS	\$ 2,581,129	\$ 181,477	\$ 14,196,327	\$ 16,983,979
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 207,428	\$ 10,224	\$ -	\$ 218,385
Accrued salaries and benefits	151,609	-	-	151,609
Other liabilities	163,511	-	-	163,511
TOTAL LIABILITIES	522,548	10,224	-	533,505
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - property taxes	532,336	-	-	532,336
Unavailable revenue - long-term receivable	-	-	8,401,458	8,401,458
TOTAL DEFERRED INFLOWS OF RESOURCES	532,336	-	8,401,458	8,933,794
FUND BALANCES:				
Nonspendable	800	-	-	800
Restricted	-	171,253	-	171,253
Committed	-	-	5,794,869	5,794,869
Assigned	-	-	-	24,313
Unassigned	1,525,445	-	-	1,525,445
TOTAL FUND BALANCES	1,526,245	171,253	5,794,869	7,516,680
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,581,129	\$ 181,477	\$ 14,196,327	\$ 16,983,979

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

**CITY OF COATESVILLE
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
DECEMBER 31, 2014**

TOTAL GOVERNMENTAL FUND BALANCES \$ 7,516,680

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 10,358,351

Some of the City's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds. 8,933,794

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	\$	(374,551)	
Capital lease payable		(142,285)	
Accrued interest payable		(8,807)	
Long-term debt		<u>(164,851)</u>	<u>(690,494)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 26,118,331

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

CITY OF COATESVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Major Funds			Reserve	Nonmajor	Totals
	General	Liquid	Trust	Trust	Governmental	
	Fund	Fuels	Fund	Fund	Funds	
REVENUES						
Taxes	\$ 6,749,131	-	-	-	-	\$ 6,749,131
Licenses, fees, and permits	268,792	-	-	-	-	268,792
Fines, forfeits, and costs	332,316	-	-	-	-	332,316
Interest, dividends, and rents	32,609	242	215,015	-	74	247,940
Intergovernmental revenues	522,923	237,108	-	-	350,000	1,110,031
Charges for services/fees	560,437	-	-	-	-	560,437
Contributions/miscellaneous	15,902	-	-	-	4,969	20,871
TOTAL REVENUES	<u>8,482,110</u>	<u>237,350</u>	<u>215,015</u>	<u>215,015</u>	<u>355,043</u>	<u>9,289,518</u>
EXPENDITURES						
Current:						
General government	1,627,536	-	10,727	-	82,957	1,721,220
Public safety	6,278,663	-	-	-	36,502	6,315,165
Public works - highways and streets	695,542	181,229	-	-	-	876,771
Other public works	74,185	-	-	-	302,127	376,312
Library	11,000	-	-	-	-	11,000
Culture and recreation	223,030	-	-	-	-	223,030
Community and economic development	28,449	-	-	-	-	28,449
Insurance	300,790	-	-	-	-	300,790
Debt service:						
Principal	-	-	-	-	119,677	119,677
Interest and other charges	14,240	-	-	-	215,623	229,863
TOTAL EXPENDITURES	<u>9,253,435</u>	<u>181,229</u>	<u>10,727</u>	<u>10,727</u>	<u>756,886</u>	<u>10,202,277</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(771,325)</u>	<u>56,121</u>	<u>204,288</u>	<u>204,288</u>	<u>(401,843)</u>	<u>(912,759)</u>
OTHER FINANCING SOURCES (USES)						
Refund of prior year expenditures	89,088	-	-	-	-	89,088
Proceeds from short-term debt	1,280,000	-	-	-	-	1,280,000
Repayment of short-term debt	(1,280,000)	-	-	-	-	(1,280,000)
Transfers in	2,038,177	-	-	-	455,112	2,493,289
Transfers out	(455,049)	-	(2,000,000)	-	(38,240)	(2,493,289)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,672,216</u>	<u>-</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>416,872</u>	<u>89,088</u>
NET CHANGE IN FUND BALANCES	900,891	56,121	(1,795,712)	15,029	(823,671)	(823,671)
FUND BALANCES, BEGINNING OF YEAR	625,354	115,132	7,590,581	9,284	8,340,351	8,340,351
FUND BALANCES, END OF YEAR	<u>\$ 1,526,245</u>	<u>\$ 171,253</u>	<u>\$ 5,794,869</u>	<u>\$ 24,313</u>	<u>\$ 7,516,680</u>	<u>\$ 7,516,680</u>

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

**CITY OF COATESVILLE
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (823,671)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlays	\$ 412,212	
Depreciation expense	<u>(501,829)</u>	(89,617)

In the statement of activities, certain operating expenses – compensated absences (vacations and sick leave) – are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Compensated absences		(16,078)
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Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unavailable revenues increased by this amount this year.		558,065
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Debt proceeds are reported as financing sources in the governmental funds and, thus, contribute to the change in fund balance. In the statement of net position, however, incurring debt increases liabilities and does not affect the statement of activities. Similarly, repayment is an expenditure in the governmental funds but reduces the liability in the statement of net position.		119,677
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Accrued interest payable		<u>(8)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ (251,632)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF COATESVILLE
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
REVENUES				
Taxes:				
Real estate	\$ 3,356,236	\$ 3,356,236	\$ 3,160,106	\$ (196,130)
Real estate - transfer	175,000	175,000	254,165	79,165
Earned income	2,800,000	2,800,000	3,212,107	412,107
Local services tax	86,000	86,000	83,311	(2,689)
Business privilege	42,000	42,000	36,007	(5,993)
Mechanical device tax	1,000	1,000	3,435	2,435
Licenses, fees, and permits	208,500	208,500	268,792	60,292
Fines, forfeits, and costs	277,000	277,000	332,316	55,316
Interest, dividends, and rents	13,000	13,000	32,609	19,609
Intergovernmental revenues	472,321	472,321	522,923	50,602
Charges for services/fees	593,600	470,600	560,437	89,837
Miscellaneous	21,000	21,000	7,422	(13,578)
Contributions	-	-	8,480	8,480
TOTAL REVENUES	<u>8,045,657</u>	<u>7,922,657</u>	<u>8,482,110</u>	<u>559,453</u>
EXPENDITURES				
Current:				
General government				
Council	131,240	107,940	100,200	7,740
Administration	348,426	315,586	308,379	7,207
Finance	605,785	554,381	512,869	41,512
Legal	456,000	316,000	275,217	40,783
Human resources	91,654	90,079	91,269	(1,190)
Information technology	199,983	166,669	170,390	(3,721)
Buildings and plant	225,400	192,000	169,212	22,788
Total General Government	<u>2,058,488</u>	<u>1,742,655</u>	<u>1,627,536</u>	<u>115,119</u>
Public safety				
Police	4,257,666	4,257,666	4,313,272	(55,606)
Fire	1,173,377	1,283,168	1,232,633	50,535
Code enforcement	662,743	730,059	714,910	15,149
Planning and zoning	61,000	18,000	17,848	152
Total Public Safety	<u>6,154,786</u>	<u>6,288,893</u>	<u>6,278,663</u>	<u>10,230</u>
Public works - highways and streets	670,057	677,307	695,542	(18,235)
Transit system	69,000	69,000	74,185	(5,185)
Library	11,000	11,000	11,000	-
Culture and recreation	209,533	227,878	223,030	4,848
Community and economic development	33,675	32,715	28,449	4,266
Insurance	383,000	321,000	300,790	20,210
Debt service - interest	23,000	14,240	14,240	-
TOTAL EXPENDITURES	<u>9,612,539</u>	<u>9,384,688</u>	<u>9,253,435</u>	<u>131,253</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,566,882)</u>	<u>(1,462,031)</u>	<u>(771,325)</u>	<u>690,706</u>
OTHER FINANCING SOURCES (USES)				
Refunds of prior year expenditures	25,000	25,000	89,088	64,088
Proceeds from short-term debt	-	-	1,280,000	1,280,000
Repayment of short-term debt	-	-	(1,280,000)	(1,280,000)
Transfers in	2,050,000	2,000,000	2,038,177	38,177
Transfers out	(440,000)	(455,050)	(455,049)	1
TOTAL OTHER FINANCING SOURCES	<u>1,635,000</u>	<u>1,569,950</u>	<u>1,672,216</u>	<u>102,266</u>
NET CHANGE IN FUND BALANCE	68,118	107,919	900,891	792,972
FUND BALANCE, BEGINNING OF YEAR	<u>625,354</u>	<u>625,354</u>	<u>625,354</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 693,472</u>	<u>\$ 733,273</u>	<u>\$ 1,526,245</u>	<u>\$ 792,972</u>

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

CITY OF COATESVILLE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2014

	Major Funds		Total
	Solid Waste Fund	Redevelopment Authority	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 117,657	\$ 26,472	\$ 144,129
Accounts receivable, net	157,195	16,784	173,979
Notes receivable	-	48,190	48,190
Total Current Assets	<u>274,852</u>	<u>91,446</u>	<u>366,298</u>
NONCURRENT ASSETS:			
Notes receivable	-	383,377	383,377
Property held for resale	-	5,514,037	5,514,037
Project advances	-	63,000	63,000
Total Noncurrent Assets	<u>-</u>	<u>5,960,414</u>	<u>5,960,414</u>
TOTAL ASSETS	<u><u>\$ 274,852</u></u>	<u><u>\$ 6,051,860</u></u>	<u><u>\$ 6,326,712</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	\$ 7,250	\$ 7,483	\$ 14,733
Security deposits	-	6,905	6,905
Total Current Liabilities	<u>7,250</u>	<u>14,388</u>	<u>21,638</u>
NONCURRENT LIABILITIES			
Note payable	-	6,999,156	6,999,156
Interest payable	-	1,402,302	1,402,302
Total Noncurrent Liabilities	<u>-</u>	<u>8,401,458</u>	<u>8,401,458</u>
TOTAL LIABILITIES	<u>7,250</u>	<u>8,415,846</u>	<u>8,423,096</u>
DEFERRED INFLOWS OF RESOURCES			
Grants received in advance	-	720	720
NET POSITION (DEFICIT):			
Unrestricted (Deficit)	<u>267,602</u>	<u>(2,364,706)</u>	<u>(2,097,104)</u>
TOTAL NET POSITION (DEFICIT)	<u>267,602</u>	<u>(2,364,706)</u>	<u>(2,097,104)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u><u>\$ 274,852</u></u>	<u><u>\$ 6,051,860</u></u>	<u><u>\$ 6,326,712</u></u>

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

CITY OF COATESVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Major Funds		Total
	Solid Waste Fund	Redevelopment Authority	
OPERATING REVENUES			
Charges for service	\$ 809,742	\$ -	\$ 809,742
Rental income	-	94,837	94,837
Other	9,960	4,462	14,422
Total Operating Revenues	<u>819,702</u>	<u>99,299</u>	<u>919,001</u>
OPERATING EXPENSES			
Salaries and fringe benefits	-	8,330	8,330
Solid waste and recycling collection	701,724	-	701,724
General administrative expenses	-	6,090	6,090
Relocation and housing assistance	-	13,000	13,000
Professional services	14,996	79,861	94,857
Property taxes	-	21,921	21,921
Rent expense	-	37,375	37,375
Repairs and maintenance	-	29,865	29,865
Utilities	-	789	789
Total Operating Expenses	<u>716,720</u>	<u>197,231</u>	<u>913,951</u>
OPERATING INCOME (LOSS)	<u>102,982</u>	<u>(97,932)</u>	<u>5,050</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	132	22,756	22,888
Interest expense	-	(279,966)	(279,966)
Intergovernmental grant revenue	-	534,029	534,029
Impairment loss on property held for resale	-	(264,041)	(264,041)
Total Nonoperating Revenues	<u>132</u>	<u>12,778</u>	<u>12,910</u>
CHANGE IN NET POSITION	103,114	(85,154)	17,960
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>164,488</u>	<u>(2,279,552)</u>	<u>(2,115,064)</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ 267,602</u>	<u>\$ (2,364,706)</u>	<u>\$ (2,097,104)</u>

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

CITY OF COATESVILLE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Major Funds		Total
	Solid Waste Fund	Redevelopment Authority	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 809,742	\$ 84,814	\$ 894,556
Other receipts	9,960	4,462	14,422
Cash paid to suppliers	(761,373)	(199,058)	(960,431)
Cash paid to employees	-	(8,330)	(8,330)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	58,329	(118,112)	(59,783)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Intergovernmental grant revenue	-	121,027	121,027
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	121,027	121,027
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of property held for sale	-	(494,424)	(494,424)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(494,424)	(494,424)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	132	22,756	22,888
Proceeds received from notes receivable	-	43,782	43,782
Project advances	-	10,000	10,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	132	76,538	76,670
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,461	(414,971)	(356,510)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	59,196	441,443	500,639
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 117,657	\$ 26,472	\$ 144,129
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 102,982	\$ (97,932)	\$ 5,050
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
(Increase) Decrease in assets:			
Accounts receivable, net	-	(9,013)	(9,013)
Increase (Decrease) in liabilities:			
Accounts payable and accrued liabilities	(44,653)	(10,157)	(54,810)
Unearned revenue	-	(860)	(860)
Security deposits	-	(150)	(150)
NET CASH USED BY OPERATING ACTIVITIES	\$ 58,329	\$ (118,112)	\$ (59,783)

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

**CITY OF COATESVILLE
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2014**

	<u>Pension Trust Funds</u>
ASSETS	
Investments, at fair value	<u>\$ 15,058,226</u>
TOTAL ASSETS	<u><u>\$ 15,058,226</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	\$ -
NET POSITION	
Restricted for pensions	<u>15,058,226</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 15,058,226</u></u>

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

CITY OF COATESVILLE
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
State aid	\$ 336,923
Employer contributions	117,787
Employee contributions	106,164
Total Contributions	<u>560,874</u>
Investment income:	
Investment earnings	123
Net appreciation in fair value of investments	907,645
Net Investment Gain	<u>907,768</u>
TOTAL ADDITIONS	<u>1,468,642</u>
DEDUCTIONS	
Pension payments	972,590
Administrative expenses	82,878
TOTAL DEDUCTIONS	<u>1,055,468</u>
CHANGE IN NET POSITION	413,174
NET POSITION, BEGINNING OF YEAR	<u>14,645,052</u>
NET POSITION, END OF YEAR	<u><u>\$ 15,058,226</u></u>

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

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Coatesville have been prepared, based on available information in conformity with generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant of the government's accounting policies are described below.

Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the City of Coatesville is considered to be an independent reporting entity.

Blended Component Unit – The purpose of the Redevelopment Authority of the City of Coatesville is to perform all the redevelopment functions within the City of Coatesville. The Authority is considered a blended component unit and is shown in the financial statements as part of the City of Coatesville's proprietary funds. The Authority is audited by other auditors, whose report dated July 13, 2015 is publicly available through the offices of the City of Coatesville.

Basis of Presentation

Entity-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements exclude fiduciary activities such as pension and agency funds.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the City and for each governmental function. Expenses are those that are specifically associated with a service or program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by each function and the grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the City.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The nonmajor governmental funds are presented in a single column on the governmental fund financial statements. Fiduciary fund financial statements are represented by fund type.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general tax revenues of the City, as well as other resources received and not designated for a specific purpose, are accounted for in the General Fund.
- The Liquid Fuels Fund accounts for receipts from the Commonwealth of Pennsylvania Motor License Fund (gasoline tax distribution) and the approved expenditures of such monies for highway purposes.
- The Reserve Trust Fund accounts for the proceeds from the sale of the City of Coatesville Water Authority assets. These funds are to be preserved and maintained so as to produce income stabilization for future annual operating budgets.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The City reports the following proprietary funds:

- The Solid Waste Fund accumulates resources necessary to fund solid waste collection in the City.
- The Redevelopment Authority of the City of Coatesville performs all the redevelopment functions within the City.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the "susceptible to accrual" concept under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property and earned income tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues for state and federally funded projects are recognized at the time all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Property tax and earned income tax receivables collected after 60 days from year end, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property and earned income tax receivables are recorded and deferred until they become available.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest in general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are solid waste fees and rental income.

Operating expenses for the City's proprietary funds includes solid waste disposal, recycling, professional services, and housing-related expenses. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Trust Funds – Trust Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. These consist of the Pension Trust Funds. Pension Trust Funds are accounted for in essentially the same manner as proprietary funds since the measurement of the economic resources is critical.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- At least 45 days before the end of the fiscal year, the City Manager and Finance Director submit to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of an ordinance.
- Each department director is authorized to transfer budgeted amounts within a department; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- Budgets lapse at year end. Any subsequent budget amendments must be approved by Council.

CITY OF COATESVILLE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Excess of Expenditures Over Appropriations

For the year ended December 31, 2014, expenditures exceeded General Fund appropriations (the legal level of budgetary control) in the following functions:

Human resources	\$	1,190
Public works - highways and streets	\$	18,235
Transit system	\$	5,185
Police	\$	55,606
Information technology	\$	3,721

The excess of expenditures over appropriations was financed with revenues which exceeded budget.

Cash and Cash Equivalents

The City of Coatesville maintains various cash accounts, including accounts required by contractual obligation. For purposes of the statement of cash flows, the City of Coatesville considers all highly liquid debt investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at fair value.

Property Held for Resale

Property held for resale is stated at the lower of cost or fair market value. In addition, all costs associated with preparing the property for resale, including improvements and feasibility studies, are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Since the intent of the City is to hold these properties for resale, there is no depreciation associated with property held for resale.

Compensated Absences

The City's policy concerning compensatory time, vacation, and sick leave is as follows:

Police

Total compensatory hours accumulated shall not exceed 48 hours. Compensatory time not used will be paid at the applicable rate of one and one-half for each hour of overtime. A police officer may choose compensatory time in lieu of overtime.

Police officers shall be permitted to carry over from one year to the next, up to one-half of their vacation time. Police officers shall be paid for all unused and accrued vacation leave at retirement or voluntary resignation.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Police officers employed full-time on or before April 1, 1988 shall be compensated for their unused sick time up to a maximum of 640 hours.

Non-Uniformed Employees

AFSCME union employees and non-union employees shall receive vacation pay prorated from the date of hire. Subject to the prior approval of the City Manager, full-time employees may elect to carry over up to one half of their earned and unused annual vacation leave from one year to the next, but not to exceed two weeks in any such case. Any vacation carried over must be used in the next calendar year prior to that year's vacation leave. Unused sick leave benefits will not be paid to employees while they are employed or upon termination of employment.

Historically, the General Fund has been responsible for liquidation of compensated absences associated with governmental activities.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and the fund level statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Grants received in advance that have met all eligibility requirements, other than time requirements are recorded as deferred inflows of resources in the government-wide statements and the proprietary fund statements. The governmental funds report revenues that have not met all requirements of revenue recognition as deferred inflows of resources in the fund financial statements and include uncollected property taxes and long-term notes receivable that are not available resources.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets are reported in the governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment, and infrastructure assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Machinery and equipment	5-10 years
Vehicles	5-20 years
Land improvements/infrastructure	15-60 years
Buildings and improvements	50 years

Long-term Obligations

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred.

Fund Balances

As of December 31, 2014, fund balances of the governmental funds are classified, if applicable as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributions, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the members of Council. The Council is the highest level of decision-making authority for the City of Coatesville. Commitments may be established, modified, or rescinded only through resolutions approved by the Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Council has designated the City Manager the authority to assign amounts for specific purposes.

Unassigned – all other spendable amounts.

CITY OF COATESVILLE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

As of December 31, 2014, fund balances are composed of the following:

	General Fund	Liquid Fuels Fund	Reserve Trust Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable	\$ 800	\$ -	\$ -	\$ -	\$ 800
Restricted:					
Highways	-	171,253	-	-	171,253
Committed:					
Income stabilization	-	-	5,794,869	-	5,794,869
Assigned:					
Debt service	-	-	-	2,260	2,260
Capital projects	-	-	-	22,053	22,053
Unassigned	<u>1,525,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,525,445</u>
Total Fund Balances	<u>\$1,526,245</u>	<u>\$ 171,253</u>	<u>\$5,794,869</u>	<u>\$ 24,313</u>	<u>\$ 7,516,680</u>

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed. Administrative expenses are paid with the use of unrestricted resources. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Allowance for Doubtful Accounts

The City has established an allowance for doubtful accounts in the business-type activities and the Solid Waste Fund based upon historical trends and the periodic aging of accounts receivable related to the collection of solid waste fees. The City's allowance for estimated uncollectible solid waste receivables at December 31, 2014 was \$356,114.

Implementation of GASB Statement

During the current year, the City implemented GASBS Statement No. 67, "Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25." The objective of this statement is to improve financial reporting by state and local governmental pension plans. The implementation of this statement had no material effect on the financial position of the City.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

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. At December 31, 2014, the carrying amount of the City's deposits was \$2,264,065, and the bank balance was \$2,413,078. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$1,913,078 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the City's name.

Investments

The Third Class City Code authorizes the City to invest in U.S. Treasury bills, short-term obligations of the U.S. Government or its agencies or instrumentalities, deposits in savings accounts or time deposits or share amounts of institutions, and certificates of deposit insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. The City is also authorized to invest in obligations of the United States of America or any of its instrumentalities or agencies backed by the full faith and credit of the United States of America or the Commonwealth of Pennsylvania or any of its agencies or instrumentalities. Additionally, the City may invest in shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for City funds.

As of December 31, 2014, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More Than Ten Years</u>
Money market funds - U.S. Treasury	\$ 430,287	\$ 430,287	\$ -	\$ -	\$ -
U.S. agencies: Government National Mortgage Assn (GNMA)	<u>5,341,343</u>	<u>-</u>	<u>1,186,457</u>	<u>886,512</u>	<u>3,268,374</u>
TOTAL	<u>\$ 5,771,630</u>	<u>\$ 430,287</u>	<u>\$ 1,186,457</u>	<u>\$ 886,512</u>	<u>\$ 3,268,384</u>

Investments in GNMA's are securities of the U.S. Government that have an explicit guarantee.

Interest Rate Risk

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.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

Credit Risk

The City has no investment policy that would limit its investment choices to those with certain credit ratings. As of December 31, 2014, GNMA's were rated as AAA by a nationally recognized statistical rating organization.

Concentration Risk

The City places no limit on the amount it may invest in any one issuer. As of December 31, 2014, 93 percent of the City's investments were in GNMA's.

The above does not include pension fund investments reflected in Notes 12, 13, and 14.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,301,387	\$ -	\$ -	\$ 2,301,387
Total Capital Assets Not Being Depreciated	<u>2,301,387</u>	<u>-</u>	<u>-</u>	<u>2,301,387</u>
Capital Assets Being Depreciated:				
Buildings	3,065,930	-	-	3,065,930
Infrastructure/land improvements	13,923,779	350,000	-	14,273,779
Machinery and equipment	924,469	27,000	-	951,469
Vehicles	2,532,161	35,212	267,699	2,299,674
Total Capital Assets Being Depreciated	<u>20,446,339</u>	<u>412,212</u>	<u>267,699</u>	<u>20,590,852</u>
Less accumulated depreciation for:				
Buildings	1,464,424	71,474	-	1,535,898
Infrastructure/land improvements	8,226,551	263,433	-	8,489,984
Machinery and equipment	660,918	58,682	-	719,600
Vehicles	1,947,865	108,240	267,699	1,788,406
Total Accumulated Depreciation	<u>12,299,758</u>	<u>501,829</u>	<u>267,699</u>	<u>12,533,888</u>
Total Capital Assets Being Depreciated, Net	<u>8,146,581</u>	<u>(89,617)</u>	<u>-</u>	<u>8,056,964</u>
Governmental Activities, Net	<u>\$ 10,447,968</u>	<u>\$ (89,617)</u>	<u>\$ -</u>	<u>\$ 10,358,351</u>

CITY OF COATESVILLE
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to the following functions:

Governmental Activities:	
General government	\$ 92,254
Public safety	355,895
Public works	39,426
Culture and recreation	<u>14,254</u>
 Total depreciation expense - governmental activities	 <u>\$ 501,829</u>

NOTE 4 CAPITAL LEASES - LESSEE

The City has entered into lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

Vehicles	\$ 218,159
Less: accumulated depreciation	<u>(65,448)</u>
 TOTAL	 <u>\$ 152,711</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014 were as follows:

Year Ending December 31,

2015	\$ 60,300
2016	52,188
2017	20,254
2018	<u>15,191</u>
Total minimum lease payments	147,933
Less: amount representing interest	<u>(5,648)</u>
 Present value of minimum lease payments	 <u>\$ 142,285</u>

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 5 OPERATING LEASES

The City currently is obligated under operating lease agreements for office equipment. The following is a schedule by years of future minimum lease payments:

<u>Year Ending December 31,</u>	
2015	\$ 10,497
2016	6,258
2017	3,684
2018	<u>614</u>
Total	<u>\$ 21,053</u>

The total amount charged to expense for the year ended December 31, 2014 was \$11,832.

NOTE 6 NOTES RECEIVABLE

Penn Crossing Condominium Association, Inc. Note

On May 15, 2002, the Redevelopment Authority of the City of Coatesville entered into an agreement with Cansler Investment Group, Inc. and Penn Crossing Condominium Association, Inc. (the "Association") whereby the Redevelopment Authority loaned \$500,000 to these two parties with the understanding that it will develop Penn Crossing Condominiums. In July 2005, the note was transferred solely to the Penn Crossing Condominium Association, Inc. The note required monthly payments of \$3,276, including interest accruing at 4.34 percent.

In January 2008, the Executive Board of the Association approved a resolution to terminate the note, and the Association discontinued its payments to the Redevelopment Authority. As a result, the Authority pursued legal action against the Association for a default under the note. In March 2011, the Authority and Association entered into a settlement agreement whereby the Association will pay the Authority a total of \$362,000 as follows: (a) \$87,000 upon execution of the settlement agreement, and (b) \$275,000 to be paid in 120 equal payments of \$2,380, including interest at 4.35 percent, commencing March 2011.

As of December 31, 2014, the amount due to the Redevelopment Authority under the notes was \$183,408.

Downtown Revival Note

In March of 2002, the Redevelopment Authority of the City of Coatesville entered into an agreement with the Downtown Revival Limited Partnership whereby the Redevelopment Authority loaned \$420,000 to the Downtown Revival Limited Partnership for the development, construction, and rehabilitation of property which, when completed, will result in 22 units of residential housing

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 6 NOTES RECEIVABLE (cont'd)

and six commercial spaces. This note requires annual payments of \$35,385, including interest accruing at 5.75 percent. As of December 31, 2014, the amount receivable to the Redevelopment Authority, including accrued interest, is \$248,159.

Refer to Note 17 for details of the related party note transaction.

NOTE 7 LONG-TERM DEBT

Long-term debt is comprised of the following:

Governmental Activities

Capital Appreciation Bonds, Series of 1992, dated December 1, 1992, in the amount of \$3,244,352, accreting interest from 4.20% to 5.95% and maturing December 15, 1996 to December 15, 2017. Principal and interest is payable annually on December 15. The bonds were issued for the purpose of purchasing municipal building improvements and equipment.

\$ 164,851

The annual requirements to amortize debt outstanding are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 58,686	\$ 211,314	\$ 270,000
2016	54,869	215,131	270,000
2017	<u>51,296</u>	<u>218,704</u>	<u>270,000</u>
	<u>\$ 164,851</u>	<u>\$ 645,149</u>	<u>\$ 810,000</u>

A schedule of changes in long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds payable	\$ 228,670	\$ -	\$ 63,819	\$ 164,851	\$ 58,686
Leases payable	198,143	-	55,858	142,285	57,227
Compensated absences	<u>358,473</u>	<u>16,078</u>	<u>-</u>	<u>374,551</u>	<u>-</u>
Total Long-term Liabilities - Governmental Activities	<u>\$ 785,286</u>	<u>\$ 16,078</u>	<u>\$ 119,677</u>	<u>\$ 681,687</u>	<u>\$ 115,913</u>

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 8 SHORT-TERM DEBT

Short-term debt provides financing for governmental activities. In January 2014, the City issued a Tax Anticipation Note, Series of 2014, in the amount of \$1,280,000. This debt was issued for interim financing of General Fund operations. The City repaid the note plus \$14,240 in interest at a rate of 2.25 percent.

A schedule of changes in short-term debt is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Tax Anticipation Note	\$ -	\$ 1,280,000	\$ 1,280,000	\$ -

NOTE 9 TAXES

For 2014, the following tax was levied on assessed value of real estate:

Real estate bills: Mailed February 1, discount period through March 31, face period through May 31, penalty period subsequent to May 31, lien date: December 31.

The taxable assessed valuation of property as of December 31, 2014 was \$257,622,411, and the millage rate was 12.915 mills (\$12.915 per \$1,000 of assessed valuation).

Other taxes levied in 2014:

- Real Estate Transfer Tax - one and one-half percent of sale price
- Earned Income Tax - two and one-half percent of earned income
- Local Services Tax - \$52 annually

NOTE 10 IMPAIRMENT LOSS

The Redevelopment Authority reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is to be measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During the year ended December 31, 2014, the Authority recognized an impairment loss of \$264,041 on the 101-109 East Lincoln Highway property which resulted from the carrying amount of the property exceeding its fair market value.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 11 INTERFUND TRANSFERS

The City reports interfund balances between the governmental activities and the business-type activities. There were no interfund balances at December 31, 2014.

Interfund transfers for the year ended December 31, 2014 are as follows:

<u>Transfers In:</u>	<u>Transfers Out:</u>	
General fund	Reserve Trust Fund	\$ 2,000,000
Nonmajor governmental fund:		
Capital Reserve Fund	Capital Grants Fund	\$ 63
Capital Reserve Fund	General Fund	\$ 180,049
Sinking Fund	General Fund	\$ 275,000
General Fund	Capital Reserve	\$ 38,177

Interfund transfers represent funds set aside for future capital need, to provide funds for debt service principal and interest payments, and to assist in funding the operations of the City.

NOTE 12 POLICE PENSION FUND

Plan description and provisions:

All of the City's full-time police employees participate in the defined benefit pension plan for the police officers of the City of Coatesville, as established by City Ordinance No. 76-1 as amended. The City Council has delegated the authority to manage certain plan assets to MassMutual Financial Group. The Police Pension Fund is a defined benefit plan.

Plan Membership

At December 31, 2014, pension plan membership consisted of the following:

Active employees	26
Inactive members and beneficiaries	
currently receiving benefits	30
Inactive members entitled to but not yet	
receiving benefits	<u>2</u>
TOTAL	<u>58</u>

Eligibility Requirements and Benefit Provisions

Each full-time police officer of the City joins the City Police Pension Fund upon employment.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 12 POLICE PENSION FUND (cont'd)

Members attaining the age of 50 who have completed 20 years of service are entitled to a monthly benefit equal to 50 percent of average monthly compensation based on rate of pay during month of retirement plus an incremental pension of 2.5 percent of average monthly pay times years of service over 20 years but not including service after age 65. The maximum incremental pension is \$300 per month.

An employee with a service related disability is eligible for a disability pension equal to 50 percent of average monthly pay. An employee with a non-service related disability who has completed five years of service is eligible for a disability pension equal to 12.5 percent of average monthly pay. If a member has completed 10 years of service and is disabled, he/she is eligible for a disability pension equal to 25 percent of average monthly pay. If a member has completed 15 years of service and is disabled, he/she is eligible for a disability pension equal to 50 percent of average monthly pay.

An active member who terminates employment with the City or ceases to be a member, whether by reason of nonactive disability or resignation, may elect to receive a refund of all contributions made by that employee then on deposit in the trust fund without interest; or may (if vested) elect to leave all contributions, plus interest in the fund, so as to receive a vested pension benefit to start at normal retirement date.

If a member dies after becoming eligible for retirement, a death benefit is payable to that member's surviving spouse, provided the surviving spouse is not remarried, or to dependent children under age 18 in an amount equal to 50 percent of the benefit the member would have been receiving had the member been retired at the time of death.

Benefits vest after 12 years of service. Members shall pay into the fund at the rate of five percent of base compensation plus \$3 per month.

Funding Policy

Act 205 requires that annual contributions be based upon the minimum municipal obligation ("MMO"). The MMO is based upon the plan's biennial actuarial valuation. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds the state and employee contributions must be funded by the employer in accordance with Act 205. State aid allocations and City contributions amounted to \$209,125 and \$68,175, respectively, for the year ended December 31, 2014. In addition, the employees contributed \$85,668.

Method Used to Value Investments

In accordance with GASB Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

CITY OF COATESVILLE
NOTES TO FINANCIAL STATEMENTS

NOTE 12 POLICE PENSION FUND (cont'd)

Investments

The investment objective of the City of Coatesville Police Pension Fund is to maintain a balanced portfolio comprised of equity, fixed income, and cash-equivalent securities and, as such, is intended to be structured less aggressively than equity-oriented portfolios.

As of December 31, 2014, the Police Pension Fund had the following investments:

	<u>Fair Value</u>	<u>Less Than One Year</u>
Mutual funds	\$ 12,260,442	\$ 12,260,442
TOTAL	\$ 12,260,442	\$ 12,260,442

Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Money Weighted Rate of Return

For the year ended December 31, 2014, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense was 6.39 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The net pension liability was measured at December 31, 2014, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2013. No significant events or changes in assumptions occurred between the valuation date and the end of the year. The components of the net pension liability of the Township at December 31, 2014, were as follows:

Total pension liability	\$ 15,488,072
Plan fiduciary net position	<u>(12,260,442)</u>
Net pension liability	\$ <u>3,227,630</u>
 Plan fiduciary net position as a percentage of the total pension liability	 79.16%

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 12 POLICE PENSION FUND (cont'd)

Actuarial Assumptions

The total pension liability in the January 1, 2013 actuarial evaluation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	5.0 percent, average, including inflation
Investment rate of return	7.0 percent including inflation

Mortality rates were based on the UP1984 Table with a five-year age setback for females. This table does not include projected mortality improvements.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	44%	7.0%
International Equity	12%	6.0%
Fixed Income	35%	2.5%
Cash	1%	0.0%
Real Estate	8%	7.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of unfunded liability.

Sensitivity of Net Position Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.0 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 12 POLICE PENSION FUND (cont'd)

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	<u> </u>	<u> </u>	<u> </u>
Plan's net pension liability	\$ 5,497,988	\$ 3,227,630	\$ 1,686,896

NOTE 13 NON-UNIFORMED PENSION PLAN

Plan description and provisions:

The City of Coatesville Non-Uniformed Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 89-10, adopted pursuant to the City Code. The Plan is governed by the City Council, which is responsible for the management of plan assets. The City Council has delegated the authority to manage certain plan assets to MassMutual Financial Group.

Plan Membership

At December 31, 2014, pension plan membership consisted of the following:

Active employees	25
Inactive members and beneficiaries	
currently receiving benefits	23
Inactive members entitled to but not yet	
receiving benefits	<u>43</u>
TOTAL	<u>91</u>

Eligibility Requirements and Benefit Provisions

All employees of the City, excluding police officers and firemen, who work 1,000 or more hours per year join the Non-Uniformed Pension Plan upon employment.

A member is eligible for normal retirement after attainment of age 65. The normal retirement pension is payable monthly during the member's lifetime. The amount of monthly pension is equal to \$55 per year of service completed by the member.

A member is eligible for early retirement after attainment of age 55 and completion of 10 years of service. The monthly early retirement pension is equal to the actuarial equivalent of the benefit accrued to the early retirement date.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 13 NON-UNIFORMED PENSION PLAN (cont'd)

If a member is eligible for retirement and has been married for at least one year, a death benefit is payable to the member's surviving spouse in an amount equal to 50 percent of the benefit the member would have been receiving had the member retired at the time of death.

Benefits vest after five years of service.

Funding Policy

Act 205 requires that annual contributions be based upon the minimum municipal obligation ("MMO"). The MMO is based upon the plan's biennial actuarial valuation. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds the state and employee contributions must be funded by the employer in accordance with Act 205. Employees are not required to contribute. State aid allocations and employer contributions amounted to \$96,817 and \$5,686, respectively, for the year ended December 31, 2014. In addition, the employees contributed \$8,608.

Method Used to Value Investments

In accordance with GASB Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The investment objective of the City of Coatesville Non-Uniformed Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income, and cash-equivalent securities and, as such, is intended to be structured less aggressively than equity-oriented portfolios.

As of December 31, 2014, the Non-Uniformed Pension Plan had the following investments:

	<u>Fair Value</u>	<u>Less Than One Year</u>
Mutual funds	\$ 1,960,534	\$ 1,960,534
TOTAL	<u>\$ 1,960,534</u>	<u>\$ 1,960,534</u>

Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Money Weighted Rate of Return

For the year ended December 31, 2014, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense was 6.28 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 13 NON-UNIFORMED PENSION PLAN (cont'd)

Net Pension Liability

The net pension liability was measured at December 31, 2014, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2013. No significant events or changes in assumptions occurred between the valuation date and the end of the year. The components of the net pension liability of the Township at December 31, 2014, were as follows:

Total pension liability	\$ 2,036,772
Plan fiduciary net position	<u>(1,960,534)</u>
Net pension liability	<u>\$ 76,238</u>
Plan fiduciary net position as a percentage of the total pension liability	96.26%

Actuarial Assumptions

The total pension liability in the January 1, 2013 actuarial evaluation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	5.0 percent, average, including inflation
Investment rate of return	7.0 percent including inflation

Mortality rates were based on the UP1984 Table with a five-year age setback for females. This table does not include projected mortality improvements.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates by the target asset allocation percentage and then adding expected inflation.

The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	43%	7.0%
International Equity	13%	6.0%
Fixed Income	36%	2.5%
Cash	1%	0.0%
Real Estate	7%	7.0%

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 13 NON-UNIFORMED PENSION PLAN (cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of unfunded liability.

Sensitivity of Net Position Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.0 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Plan's net pension liability (asset)	\$ 407,810	\$ 76,238	\$ (65,098)

NOTE 14 FIREFIGHTERS' PENSION PLAN

Plan description and provisions:

The City of Coatesville Firefighters' Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 1304-2008, adopted pursuant to the City Code. The Plan is governed by the City Council, which is responsible for the management of plan assets. The City Council has delegated the authority to manage certain plan assets to MassMutual Financial Group.

Plan Membership

At December 31, 2014, pension plan membership consisted of the following:

Active employees	4
Inactive members and beneficiaries	
currently receiving benefits	-
Inactive members entitled to but not yet	
receiving benefits	-
	<u> </u>
TOTAL	<u>4</u>

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 14 FIREFIGHTERS' PENSION PLAN (cont'd)

Eligibility Requirements and Benefit Provisions

All full-time firemen of the City join the Firefighter's Pension Plan upon employment.

A member is eligible for normal retirement after attainment of age 50. The normal retirement pension is payable monthly during the member's lifetime. The amount of monthly pension is equal to 50 percent of average monthly compensation based on rate of pay during month of retirement plus an incremental pension of 2.5 percent of average monthly pay times years of service over 20 years but not including service after age 65. The maximum incremental pension is \$100 per month.

If a member is eligible for retirement, a death benefit is payable to the member's surviving spouse or dependent under the age of 18 in an amount equal to 100 percent of the benefit the member would have been receiving had the member retired at the time of death.

Funding Policy

The Commonwealth of Pennsylvania Act 205 ("Act 205") requires that annual contributions be based upon the minimum municipal obligation ("MMO"). The MMO is based upon the plan's biennial actuarial valuation. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds the state contribution must be funded by the employer in accordance with Act 205. State aid allocations and employer contributions amounted to \$30,981 and \$43,926, respectively, for the year ended December 31, 2014. Members contribute five percent of compensation, plus \$1 per month. For the year ended December 31, 2014, members contributed \$11,888 to the plan.

Method Used to Value Investments

In accordance with GASB Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Investments

The investment objective of the City of Coatesville Firefighters' Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income, and cash-equivalent securities and, as such, is intended to be structured less aggressively than equity-oriented portfolios.

As of December 31, 2014, the Firefighters' Pension Plan had the following investments:

	<u>Fair Value</u>	<u>Less Than One Year</u>
Mutual funds	\$ 837,250	\$ 837,250
TOTAL	<u>\$ 837,250</u>	<u>\$ 837,250</u>

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 14 FIREFIGHTERS' PENSION PLAN (cont'd)

Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Money Weighted Rate of Return

For the year ended December 31, 2014, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense was 6.07 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The net pension liability was measured at December 31, 2014, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2013. No significant events or changes in assumptions occurred between the valuation date and the end of the year. The components of the net pension liability of the Township at December 31, 2014, were as follows:

Total pension liability	\$ 1,270,527
Plan fiduciary net position	<u>(837,250)</u>
Net pension liability	<u>\$ 433,277</u>
Plan fiduciary net position as a percentage of the total pension liability	65.90%

Actuarial Assumptions

The total pension liability in the January 1, 2013 actuarial evaluation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	5.0 percent, average, including inflation
Investment rate of return	7.0 percent including inflation

Mortality rates were based on the UP1984 Table with a five- year age setback for females. This table does not include projected mortality improvements.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates by the target asset allocation percentage and then adding expected inflation.

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 14 FIREFIGHTERS' PENSION PLAN (cont'd)

The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	42.0%	7.0%
International Equity	13.0%	6.0%
Fixed Income	37.0%	2.5%
Cash	1.0%	0.0%
Real Estate	7.0%	7.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer has always met the funding requirements of Act 205. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of unfunded liability.

Sensitivity of Net Position Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.0 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Plan's net pension liability	\$ 598,594	\$ 433,277	\$ 294,906

NOTE 15 DEFICIT FUND BALANCES

The Redevelopment Authority finished the year ended December 31, 2014 with a deficit in net position of \$2,364,706. The deficit can be attributed to delays in the City's revitalization program due to extensive regulatory requirements imposed by government agencies and unfavorable economic conditions. In addition, the Redevelopment Authority has suffered recurring losses from operations and has exhausted its borrowing availability. In response to these conditions, management plans to (a) sell the property held for resale; (b) generate development revenue

CITY OF COATESVILLE

NOTES TO FINANCIAL STATEMENTS

NOTE 15 DEFICIT FUND BALANCES (cont'd)

sources through tax increments and government funding; and (c) generate sufficient cash flows to pay liabilities as they become due. Furthermore, the City has agreed not to demand repayment of the note payable and to defer interest accrued on the note payable as of December 31, 2014 for a period of one year. The City has also extended the term of the note through December 31, 2019.

NOTE 16 CONTINGENT LIABILITIES AND COMMITMENTS

The City of Coatesville is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of any additional matters. However, management feels that any additional claims outstanding are adequately covered through the City's insurance.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The City cannot determine the amount, if any, of any claims that may be disallowed by the grantors, although the City expects such amounts, if any, to be immaterial.

NOTE 17 RELATED PARTY TRANSACTIONS

In November 2009, the City of Coatesville paid the principal due on the Guaranteed Urban Redevelopment Note, Series of 2004, of \$6,999,156 on behalf of the Redevelopment Authority of the City of Coatesville, and the Authority issued a promissory note to the City in the same amount. The note bears interest at four percent; the interest is payable when demanded by the City, but not more frequently than quarterly. The note is secured by a first mortgage lien on all properties held for resale. At the time of sale of any property held for resale by the Authority, a payment of at least 95 percent of the net proceeds from that sale must be paid to the City in order to reduce the principal balance of the note. In return for such payment, the City must release the sold property held for resale from the mortgage lien issued to secure the note.

As noted in Note 15, the City has agreed not to demand repayment of the note payable and to defer interest accrued on the note payable as of December 31, 2014 for a period of one year. Also, the principal was due in its entirety on November 30, 2014 but the City has extended the term of the note through December 31, 2019.

NOTE 18 SUBSEQUENT EVENTS

The City has evaluated all subsequent events through August 3, 2015, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COATESVILLE
SCHEDULE OF CHANGES IN NET PENSION LIABILITY, RELATED RATIOS, AND
INVESTMENT RETURNS - NON-UNIFORMED PENSION FUND

REQUIRED SUPPLEMENTARY INFORMATION

TOTAL PENSION LIABILITY	
Service cost	\$ 47,380
Interest on total pension liability	135,534
Benefit payments	<u>(69,924)</u>
Net change in total pension liability	112,990
Total pension liability, beginning	1,923,782
Total pension liability, ending (a)	<u><u>\$ 2,036,772</u></u>
FIDUCIARY NET POSITION	
Employer contributions	\$ 5,686
State aid	96,817
Member contributions	8,608
Investment income net of investment expenses	127,816
Benefit/refund payments	(69,924)
Administrative expenses	<u>(34,277)</u>
Net change in fiduciary net position	134,726
Fiduciary net position, beginning	1,825,808
Fiduciary net position, ending (b)	<u><u>\$ 1,960,534</u></u>
Net pension liability [(a) - (b)]	<u><u>\$ 76,238</u></u>
Plan fiduciary net position as a percentage of the total pension liability	96.26%
Covered payroll	\$ 1,301,110
Net pension liability as a percentage of covered payroll	5.86%
Annual money weighted return, net of investment expenses	6.28%

Note on Cumulative Information:

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a 10-year trend is available.

CITY OF COATESVILLE
SCHEDULE OF CHANGES IN NET PENSION LIABILITY, RELATED RATIOS, AND
INVESTMENT RETURNS - POLICE PENSION FUND

REQUIRED SUPPLEMENTARY INFORMATION

TOTAL PENSION LIABILITY	
Service cost	\$ 461,027
Interest on total pension liability	1,042,765
Benefit payments	<u>(902,666)</u>
Net change in total pension liability	<u>601,126</u>
Total pension liability, beginning	14,886,946
Total pension liability, ending (a)	<u><u>\$ 15,488,072</u></u>
FIDUCIARY NET POSITION	
Employer contributions	\$ 68,175
State aid	209,125
Member contributions	85,668
Investment income net of investment expenses	735,841
Benefit/refund payments	(902,666)
Administrative expenses	<u>(30,639)</u>
Net change in fiduciary net position	<u>165,504</u>
Fiduciary net position, beginning	12,094,938
Fiduciary net position, ending (b)	<u><u>\$ 12,260,442</u></u>
Net pension liability [(a) - (b)]	<u><u>\$ 3,227,630</u></u>
Plan fiduciary net position as a percentage of the total pension liability	79.16%
Covered payroll	\$ 2,104,183
Net pension liability as a percentage of covered payroll	153.39%
Annual money weighted return, net of investment expenses	6.39%

Note on Cumulative Information:

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a 10-year trend is available.

CITY OF COATESVILLE
SCHEDULE OF CHANGES IN NET PENSION LIABILITY, RELATED RATIOS, AND
INVESTMENT RETURNS - FIREFIGHTERS' PENSION FUND

REQUIRED SUPPLEMENTARY INFORMATION

TOTAL PENSION LIABILITY	
Service cost	\$ 63,819
Interest on total pension liability	83,119
Net change in total pension liability	<u>146,938</u>
Total pension liability, beginning	1,123,589
Total pension liability, ending (a)	<u>\$ 1,270,527</u>
FIDUCIARY NET POSITION	
Employer contributions	\$ 43,926
State aid	30,981
Member contributions	11,888
Investment income net of investment expenses	44,111
Administrative expenses	(17,962)
Net change in fiduciary net position	<u>112,944</u>
Fiduciary net position, beginning	724,306
Fiduciary net position, ending (b)	<u>\$ 837,250</u>
Net pension liability [(a) - (b)]	<u>\$ 433,277</u>
Plan fiduciary net position as a percentage of the total pension liability	65.90%
Covered payroll	\$ 288,629
Net pension liability as a percentage of covered payroll	150.12%
Annual money weighted return, net of investment expenses	6.07%

Note on Cumulative Information:

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a 10-year trend is available.

CITY OF COATESVILLE
SCHEDULE OF EMPLOYER CONTRIBUTIONS - NON-UNIFORMED PENSION FUND

REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contributions Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2014	\$ 102,184	\$ 102,503	\$ (319)	\$ 1,301,110	7.88%

Notes to Schedule

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	Nine years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	3.0%
Salary increases	5.0%
Investment rate of return	7.0%
Mortality	Based on the UP-1984 Table, with five-year age setback used for females. This table does not include projected mortality improvements.

Note on Cumulative Information:

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a 10-year trend is available.

CITY OF COATESVILLE
SCHEDULE OF EMPLOYER CONTRIBUTIONS - POLICE PENSION FUND

REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contributions Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2014	\$ 271,871	\$ 277,300	\$ (5,429)	\$ 2,104,183	13.18%

Notes to Schedule

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	12 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	3.0%
Salary increases	5.0%
Investment rate of return	7.0%
Mortality	Based on the UP-1984 Table, with a five-year age setback used for females. This table does not include projected mortality improvements.

Note on Cumulative Information:

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a 10-year trend is available.

**CITY OF COATESVILLE
SCHEDULE OF EMPLOYER CONTRIBUTIONS - FIREFIGHTERS' PENSION FUND**

REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contributions Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2014	\$ 74,425	\$ 74,907	\$ (482)	\$ 288,629	25.95%

Notes to Schedule

Actuarial Methods and Significant Assumptions

Valuation date	January 1, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	Six years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	3.0%
Salary increases	5.0%
Investment rate of return	7.0%
Mortality	Based on the UP-1984 Table, with a five-year age setback used for females. This table does not include projected mortality improvements.

Note on Cumulative Information:

In accordance with GASB Statement No. 67, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a 10-year trend is available.

SUPPLEMENTARY INFORMATION

**CITY OF COATESVILLE
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2014**

	Capital Reserve Fund	Police Equipment Fund	Sinking Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 13,042	\$ 9,744	\$ 2,260	\$ 25,046
TOTAL ASSETS	\$ 13,042	\$ 9,744	\$ 2,260	\$ 25,046
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 733	\$ -	\$ 733
TOTAL LIABILITIES	\$ -	\$ 733	\$ -	\$ 733
FUND BALANCES:				
Assigned	13,042	9,011	2,260	24,313
TOTAL FUND BALANCES	13,042	9,011	2,260	24,313
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,042	\$ 9,744	\$ 2,260	\$ 25,046

**CITY OF COATESVILLE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

	Capital Reserve Fund	Police Equipment Fund	Sinking Fund	Totals
REVENUES				
Interest, rents, and royalties	\$ 59	9	6	\$ 74
Intergovernmental revenues	350,000	-	-	350,000
Other	2,859	2,110	-	4,969
TOTAL REVENUES	352,918	2,119	6	355,043
EXPENDITURES				
Current:				
General government	82,932	-	25	82,957
Public safety	35,212	1,290	-	36,502
Public works	302,127	-	-	302,127
Debt service:				
Principal	55,858	-		55,858
Interest and other charges	4,442	-	63,819	68,261
TOTAL EXPENDITURES	480,571	1,290	275,025	756,886
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(127,653)	829	(275,019)	(401,843)
OTHER FINANCING SOURCES (USES)				
Transfers in	180,112	-	275,000	455,112
Transfers out	(38,177)	(63)	-	(38,240)
TOTAL OTHER FINANCING SOURCES (USES)	141,935	(63)	275,000	455,112
NET CHANGE IN FUND BALANCES (DEFICIT)	14,282	766	(19)	15,029
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	(1,240)	8,245	2,279	9,284
FUND BALANCE, END OF YEAR	\$ 13,042	\$ 9,011	\$ 2,260	\$ 24,313

CITY OF COATESVILLE
COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2014

	Police Pension Trust Fund	Firefighters' Pension Trust Fund	Non-Uniformed Pension Trust Fund	Total
ASSETS				
Investments, at fair value	\$ 12,260,442	\$ 837,250	\$ 1,960,534	\$ 15,058,226
TOTAL ASSETS	<u>\$ 12,260,442</u>	<u>\$ 837,250</u>	<u>\$ 1,960,534</u>	<u>\$ 15,058,226</u>
LIABILITIES AND NET POSITION				
LIABILITIES	\$ -	\$ -	\$ -	\$ -
NET POSITION				
Restricted for pensions	12,260,442	837,250	1,960,534	15,058,226
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,260,442</u>	<u>\$ 837,250</u>	<u>\$ 1,960,534</u>	<u>\$ 15,058,226</u>

**CITY OF COATESVILLE
 COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

	Police Pension Trust Fund	Firefighters' Pension Trust Fund	Non-Uniformed Pension Trust Fund	Total
ADDITIONS AND INVESTMENT INCOME				
Contributions:				
State aid	\$ 209,125	\$ 30,981	\$ 96,817	\$ 336,923
Employer contributions	68,175	43,926	5,686	117,787
Employee contributions	85,668	11,888	8,608	106,164
Total Contributions	362,968	86,795	111,111	560,874
Investment income:				
Investment earnings	120	1	2	123
Net appreciation in fair value of investments	750,454	44,110	113,081	907,645
Net Investment Income	750,574	44,111	113,083	907,768
Transfers in	-	-	14,733	14,733
TOTAL ADDITIONS AND INVESTMENT INCOME	1,113,542	130,906	238,927	1,483,375
DEDUCTIONS				
Pension payments	902,666	-	69,924	972,590
Administrative expenses	30,639	17,962	34,277	82,878
Transfers out	14,733	-	-	14,733
TOTAL DEDUCTIONS	948,038	17,962	104,201	1,070,201
CHANGE IN NET POSITION	165,504	112,944	134,726	413,174
NET POSITION, BEGINNING OF YEAR	12,094,938	724,306	1,825,808	14,645,052
NET POSITION, END OF YEAR	\$ 12,260,442	\$ 837,250	\$ 1,960,534	\$ 15,058,226

INDEPENDENT AUDITOR'S
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

August 3, 2015

To the Members of Council
City of Coatesville
Coatesville, Pennsylvania

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coatesville, Coatesville, Pennsylvania, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise City of Coatesville's basic financial statements. In our report dated August 3, 2015, we issued a qualified opinion on the Solid Waste Fund and business-type activities because accurate detailed subsidiary records were not maintained for solid waste receivables.

Our report includes a reference to other auditors who audited the financial statements of the Redevelopment Authority of the City of Coatesville, as described in our report on the City of Coatesville's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Coatesville'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Coatesville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Coatesville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

To the Members of Council
City of Coatesville

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 City'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 recommendations as items #12-3, #12-4, #12-7, and #13-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items #12-9 and #14-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Coatesville'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*.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP

**SCHEDULE OF
FINDINGS AND RECOMMENDATIONS**

CITY OF COATESVILLE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

INVESTMENT POLICY

12-1 Finding

During our prior year audit, we noted that the City and its pension trust funds did not have investment policies that address the reporting requirements as stipulated by generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB").

Recommendation

We recommended that management develop investment policies for the City and its pension trust funds to address the new reporting model for deposits and investments as required by generally accepted accounting principles.

Status

The City has adopted an investment policy for its pension trust funds. Also, for all the other funds, the City has elected to adhere to the requirements of the Pennsylvania Third Class City Code relating to authorized investments. This finding is no longer applicable.

COMPUTER SECURITY PASSWORDS

12-2 Finding

During our prior year audit, we noted that there are no policies or procedures in place for password changes. We noted that the City does not have a schedule to change passwords of users of the City's computer systems on a regular basis. For security purposes, changing passwords on a regular basis creates an added layer of protection in addition to the security measures that the City already has in place. Also, the City does not have an IT strategic plan or risk management policy to address technology risks.

Recommendation

We recommended that procedures be implemented for password changes. We also recommended that the City begin changing passwords of the users of the City's computer system at least on a semi-annual basis. The City also should consider developing and implementing an IT strategic plan to help mitigate risk.

Status

The City has implemented the process of requiring employees to change passwords quarterly. In addition, the City has contracted with an outside vendor for anti-virus protection, maintenance of a firewall for the City's computer networks, and for off-site back-up of network files. This finding is no longer applicable.

CITY OF COATESVILLE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

ESCROW ACCOUNTS

12-3 Finding

During our prior year audit, we noted that the City did not have an accurate record of the escrow accounts for each developer or third party.

Recommendation

We recommended that the City establish detailed records for each developer or third party with Escrow Accounts. Such detailed records should be reconciled to the general ledger balances of the Escrow Accounts on a monthly basis.

Status

The City has reconciled its fire escrow account records to indicate to whom the amounts on deposit are held in escrow for and that the related liability account in the general ledger matches with the deposits held in escrow. A procedure is in place now for release of fire escrow funds. The City's developer escrow is still under review for accounting for deposits held in escrow, and a procedure will need to be put in place for release of developer escrow funds. This finding is still applicable for the current year.

SOLID WASTE RECEIVABLE SUBSIDIARY LEDGER

12-4 Finding

During our prior year audit, we noted that the City does not have an accurate subsidiary ledger of solid waste receivable. We also noted incorrect information is inadvertently included in the subsidiary ledger.

Recommendation

We recommended that the City reconcile the subsidiary ledger of solid waste receivables to determine the actual amount owed by residents for solid waste billings. Also, procedures need to be developed to accurately describe the process of billing, collection, posting, and reconciling on a monthly basis. By implementing procedures to monitor receivables, the City will be better able to determine the amounts that should be billed, are collected, and remain outstanding at any point in time.

Status

The City has initiated a process for updating its solid waste billing database through the distribution of trash mobile carts and will continue to update the solid waste billing database with the distribution of recycling mobile carts in 2015. The City has also acquired a new software module to aid in billing and maintaining records for solid waste fees. This finding is still applicable for the current year.

CITY OF COATESVILLE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

APPROVAL OF CHANGES IN DEPARTMENT HEADS' PAY RATE CHANGES

12-5 Finding

During our the prior year audit, we noted that changes in department heads' pay rates during the year are not being authorized by the City Council, and such changes are only approved by the City Manager. It is a good practice and control procedure that any changes in the department heads' pay rates be approved by the City Council.

Recommendation

We recommended that all changes in department heads' pay rates be authorized by the City Council and documented in minutes of Council meetings.

Status

The City has implemented the practice of having all department head salaries authorized by City Council and recorded in the Council minutes. This finding is no longer applicable.

PAY RATE CHANGES IN THE PAYROLL SYSTEM

12-6 Finding

During our prior year audit, we noted that salary changes in the payroll system were being made even if the Employee Change of Status Report was still being processed.

Recommendation

We recommended that salary changes in the payroll system be made only after all approvals of the Employee Change of Status Report are duly noted. In addition, we recommended that all Employee Change of Status Reports include an approval by the Director of Finance so that appropriate financial consideration can be given to the budgetary impact.

Status

The Employee Change of Status Report form has been updated to include the Director of Finance as a required signer along with the Department Head, Human Resources Manager, and City Manager, and is used when any changes are made for an employee, e.g. hiring, pay rate changes, and terminations. This finding is no longer applicable.

CITY OF COATESVILLE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

CAPITAL ASSETS

12-7 Finding

During our prior year audit, we noted that the City failed to track and record capital asset additions, deletions, and related depreciation expense. Also, the City did not review its fixed assets listings for any assets which were no longer in service and may need to be written off.

Recommendation

We recommended that the City investigate and update capital records to ensure correct recording of all capital additions, deletions, and depreciation expense. We also recommended that the City review the fixed assets listings for any items which are no longer in service. Assets determined to be no longer in service should be written off in the fixed assets listing.

Status

During our current year audit, we noted that the City updated its capital asset records for current year additions but is still in the process of updating its capital asset records to write off all fully depreciated assets which are no longer in service. This finding is still applicable for the current year.

CAPITALIZATION POLICY

12-9 Finding

During our prior year audit, we noted that the City's capitalization policy calls for the capitalization of capital assets over \$5,000 and a useful life of one year. However, the City's capitalization policy does not specify the useful life for each type of asset (buildings, vehicles, infrastructure, and equipment).

Recommendation

We recommended that, in order to assure that depreciation of the City's capital assets is calculated consistently from year to year, the City revise its capitalization policy to specify the useful life for each asset type.

Status

Management is still in the process of updating its capitalization policy. This finding is still applicable for the current year.

CITY OF COATESVILLE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

COMPENSATED ABSENCES TRACKING

13-1 Finding

During our prior year audit, we noted that there was no system in place to accurately track and record time off for department heads. There are no controls in place to assure there is any validity to what the employee reports. This could lead to potential misstatements when recording the compensated absence liability.

Recommendation

We recommended that a system be put in place where the Human Resources department would have to approve the department head's request for personal time off.

Status

The City has put in place a system where the Finance Department, in collaboration with the Human Resource Department, tracks and approves all time off requests by Department Heads. This finding is no longer applicable.

PAYROLL TIMESHEETS

13-2 Finding

During our prior year test of payroll controls, we noted 11 instances out of our sample of 40 payroll transactions where we could not obtain evidence to determine if hourly employees completed timesheets which were reviewed and approved by their department heads. Failure to complete timesheets and have them approved before payroll is processed can lead to inaccurate or fraudulent payroll reporting.

Recommendation

We recommended that procedures be set in place where all hourly employees are required to complete timesheets that are approved by a department supervisor before payroll is processed.

Status

The City has instituted procedures where all non-union hourly employees complete timesheets for hours worked. AFSCME employees use a swipe card with the time clock to record their time in and out, and police officers have their time noted and approved by their individual police shift supervisors on a daily log form. However, during our current year test of payroll controls, we again noted two instances where we could not obtain evidence to determine if hourly employees completed timesheets which were reviewed and approved by their department heads. This finding is still applicable in the current year.

CITY OF COATESVILLE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

PAYROLL

14-1 Finding

During our current year test of payroll controls, we noted four instances out of our sample of 40 payroll transactions where the number of hours recorded on the time sheets did not agree to the number of hours recorded per the payroll register. In addition, we noted one instance where the timesheet was not approved by the department head. The conditions noted above can lead to inaccurate or fraudulent payroll reporting.

Recommendation

We recommend that management review all payroll documentation before processing payroll ensuring that all required documentation is available and approved by the appropriate individuals.