CITY OF COATESVILLE
COATESVILLE, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

CITY OF COATESVILLE

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 12
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Position	13
- Statement of Activities	14
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	15
- Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	16
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
- Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	18
- Budgetary Comparison Statement - General Fund	19
- Statement of Net Position - Proprietary Funds	20
- Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	21
- Statement of Cash Flows - Proprietary Funds	22
- Statement of Net Position - Fiduciary Funds	23
- Statement of Changes in Net Position - Fiduciary Funds	24
NOTES TO FINANCIAL STATEMENTS	25 - 47

CITY OF COATESVILLE

TABLE OF CONTENTS

	PAGE
SUPPLEMENTARY INFORMATION	
Combining Fund Financial Statements:	
- Combining Balance Sheet - Nonmajor Governmental Funds	48
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	49
- Combining Statement of Net Position - Fiduciary Funds	50
- Combining Statement of Changes in Net Position - Fiduciary Funds	51
OTHER REPORTS	
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*	52 - 53
Schedule of Findings and Recommendations	54 - 60

Barbacane, Thornton & Company LLP
700 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8940
F 302.468.4001
www.btcpa.com

INDEPENDENT AUDITOR'S REPORT

July 18, 2014

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, 2013, 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 represents 96.7 percent, 107.8 percent, and 73.0 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 96.7 percent, 107.8 percent, and 73.0 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation

BARBACANE
THORNTON
&COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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, 2013 (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" 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, 2013, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the 2012 statements have been restated for the inclusion of the Redevelopment Authority in the City's financial statements. Our opinion is not modified with respect to this matter.

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 pension fund schedule of funding progress, schedule of annual required contributions and notes to required supplementary schedules 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 management's discussion and analysis 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. Management has omitted the pension fund schedule of funding progress, schedule of annual contributions and notes to required supplementary schedules. Our opinion on the basic financial statements is not affected by this missing information.

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.

<u>Other Reporting Required by *Government Auditing Standards*</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2014 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

BARBACANE, THORNTON & COMPANY LLP

CITY OF COATESVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. 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 by $24,254,899 (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 $10,021,155. This includes property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
  2) Unrestricted net position of $14,233,744, which is available to fund the continued operations of the City.
- The City's governmental funds fund balances at the end of 2013 was $8,340,351.
- The City's business-type activities reported combined ending fund net deficit of $2,115,064 at the end of 2013.
- Long-term bonded debt decreased during 2013 by $68,899.

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:

1) City-wide Financial Statements
2) Fund Financial Statements
3) 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.

The *statement of net position* provides information on all of the City's assets and liabilities, with the difference reported as *total net position*. 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 expenditures 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.

1) 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.

2) 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 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 Fund:** When the City charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds (enterprise) utilize accrual accounting, the same method used by private sector businesses. Enterprise 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

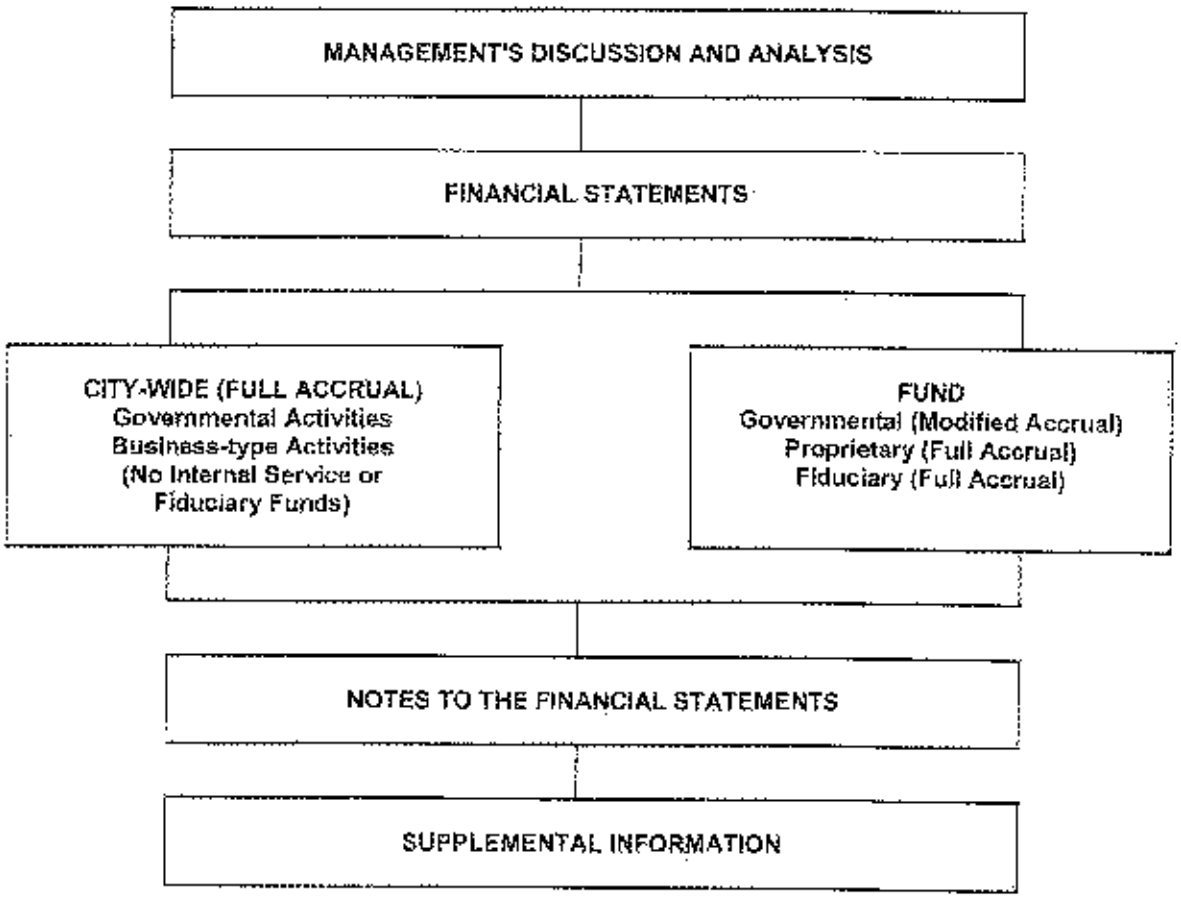


Figure I-1

Financial Analysis of the City as a Whole

The City's net position at fiscal year-end was $24,254,899. This is a decrease of $652,313 or 2.6 percent under 2012's net position of $24,907,212. Net position for governmental activities decreased $1,315,717. Also, net position for business-type activities increased $663,404.

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current assets	$ 2,945	$ 2,864	$ 710	$ 633	$ 3,655	$ 3,497
Noncurrent assets, net	24,682	25,994	5,788	4,850	30,470	30,844
TOTAL ASSETS	$ 27,627	$ 28,858	$ 6,498	$ 5,483	$ 34,125	$ 34,341
LIABILITIES						
Current liabilities	$ 592	$ 650	$ 491	$ 420	$ 1,083	$ 1,070
Noncurrent liabilities	665	522	8,122	7,842	8,787	8,364
TOTAL LIABILITIES	1,257	1,172	8,613	8,262	9,870	9,434
NET POSITION						
Net investment in capital assets	10,021	10,319	-	-	10,021	10,319
Unrestricted (Deficit)	16,349	17,367	(2,115)	(2,779)	14,234	14,588
TOTAL NET POSITION	26,370	27,686	(2,115)	(2,779)	24,255	24,907
TOTAL LIABILITIES AND NET POSITION	$ 27,627	$ 28,858	$ 6,498	$ 5,483	$ 34,125	$ 34,341

Figure I-2

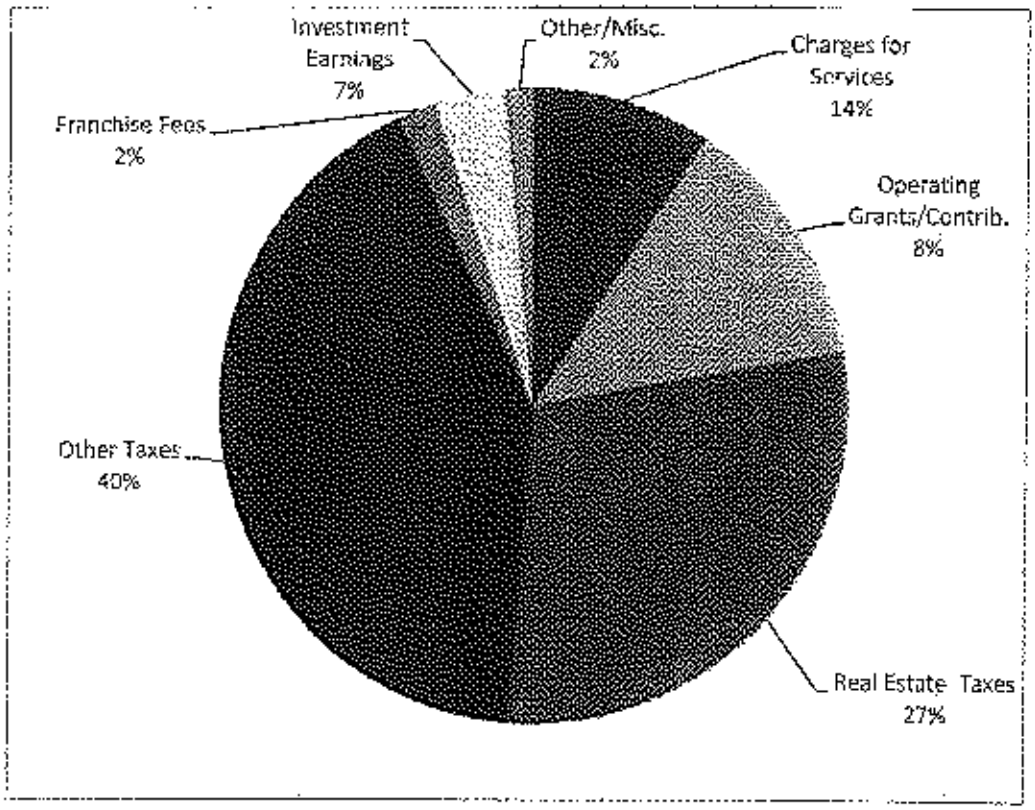
CITY OF COATESVILLE
Condensed Statement of Activities
(In Thousands of Dollars)

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	$ 1,220	$ 756	$ 783	$ 841	$ 2,003	$ 1,697
Operating grants/ contributions	726	1,056	-	-	726	1,056
General revenues:						
Real estate taxes	2,408	2,377	-	-	2,408	2,377
Other taxes/franchise fees	3,753	3,583	-	-	3,753	3,583
Investment earnings	606	292	26	29	632	321
Miscellaneous	152	115	1,782	5,728	1,934	5,843
TOTAL REVENUES	8,865	8,179	2,591	6,598	11,456	14,777
EXPENSES						
General government	1,913	2,241	-	-	1,913	2,241
Public safety	6,519	6,613	-	-	6,519	6,613
Public Works	835	750	-	-	835	750
Other Public Works	67	61	-	-	67	61
Library	11	11	-	-	11	11
Culture and recreation	277	188	-	-	277	188
Community and economic development	-	270	-	-	-	270
Interest expense	219	223	-	-	219	223
Miscellaneous	340	-	-	-	340	-
Solid waste	-	-	710	685	710	685
Redevelopment	-	-	1,217	6,410	1,217	6,410
TOTAL EXPENSES	10,181	10,357	1,927	7,095	12,108	17,452
(DECREASE) INCREASE IN NET POSITION	(1,316)	(2,178)	664	(497)	(652)	(2,675)
NET POSITION, BEGINNING OF YEAR	27,686	29,864	(2,779)	(2,282)	24,907	27,582
NET POSITION, END OF YEAR	$ 26,370	$ 27,686	$ (2,115)	$ (2,779)	$ 24,255	$ 24,907

Figure I-3

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 69 percent of governmental revenues in fiscal year 2013.

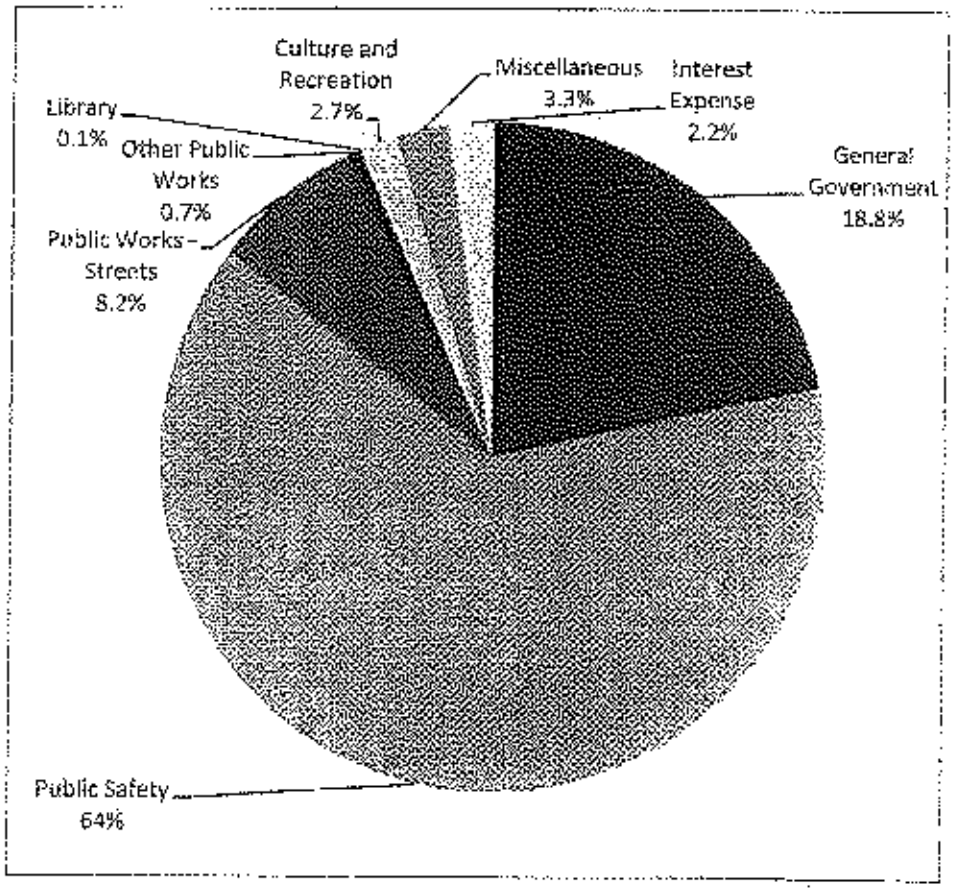
GOVERNMENTAL REVENUE
2013



TOTAL - $8,865
(In Thousands of Dollars)

Figure I-4

GOVERNMENTAL FUNCTIONAL EXPENSES
2013



TOTAL - $10,181
(In Thousands of Dollars)

Figure I-5

Figure I-5 shows the percentage of governmental expenses by functional services in 2013. Public safety, which includes police, fire, and code enforcement, accounted for 64 percent, or $6,519,398, of governmental expenses of $10,181,032. Public works accounted for 8.2 percent, or $835,158, of governmental expenses; and general government, which includes council, administration, finance, legal, human resources, information technology, and buildings and plant, accounted for 18.8 percent, or $1,913,317, of governmental expenses in fiscal year 2013. Charges for services revenues of $1,220,160, and operating grants and contributions of $726,230 reduced the net cost to taxpayers for governmental services expenses by 19 percent.

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 2013 were $782,693, a decrease of $58,707 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 $8,340,351, a decrease of $1,272,053 as compared to the prior year. The vast majority of this amount resides in the Reserve Trust Fund.

Major Governmental Funds

The General Fund is the City's primary operating fund. As of December 31, 2013, the fund balance of the General Fund was $ 625,354, an increase of $308,731 as compared to the prior year.

The Liquid Fuels Fund is a special revenue fund that is earmarked for expenses related to highways and streets; most of the expenses 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, 2013, the fund balance of the Liquid Fuels Fund was $115,132, an increase of $99,863 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 $7,590,581, representing a decrease of $2,092,126, 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

- Actual expenditures were higher than budgeted in 2013. The three areas with the greatest negative budgetary variances were as follows:

- Police	$ 333,720
- Fire	91,202
- Code Enforcement	204,118

Capital Assets

The City's total investment in capital assets as of December 31, 2013 amounts to $10,447,968, 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, 2013, the City had $228,670 in bonds outstanding versus $297,569 outstanding at December 31, 2012. In addition, the City had $198,143 outstanding in capital leases at year end.

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, 2013

	Governmental Activities	Business-type Activities *	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,113,546	$ 500,639	$ 1,614,185
Investments	1,478,070	-	1,478,070
Accounts and other receivables, net	77,642	164,966	242,608
Taxes receivable	276,006	-	276,006
Notes receivable	-	43,782	43,782
Total Current Assets	2,945,264	709,387	3,654,651
Noncurrent Assets:			
Investments	6,089,368	-	6,089,368
Depreciable capital assets, net	8,146,581	-	8,146,581
Land	2,301,387	-	2,301,387
Property held for sale	-	5,283,654	5,283,654
Interest receivable	1,145,479	-	1,145,479
Notes receivable	6,999,156	431,567	7,430,723
Project advances	-	73,000	73,000
Total Noncurrent Assets	24,681,971	5,788,221	30,470,192
TOTAL ASSETS	$ 27,627,235	$ 6,497,608	$ 34,124,843
LIABILITIES AND NET POSITION			
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued liabilities	$ 214,009	$ 69,543	$ 283,552
Accrued salaries and benefits	86,800	-	86,800
Accrued interest payable	8,799	-	8,799
Security deposits	-	7,055	7,055
Unearned revenue	-	414,582	414,582
Capital leases payable	55,858	-	55,858
Current portion of long-term debt	63,819	-	63,819
Other liabilities	162,378	-	162,378
Total Current Liabilities	591,663	491,180	1,082,843
Noncurrent Liabilities:			
Accumulated compensated absences	358,473	-	358,473
Interest payable	-	1,122,336	1,122,336
Capital leases payable	142,285	-	142,285
Long-term portion of long-term debt	164,851	6,999,156	7,164,007
Total Noncurrent Liabilities	665,609	8,121,492	8,787,101
TOTAL LIABILITIES	1,257,272	8,612,672	9,869,944
NET POSITION:			
Net investment in capital assets	10,021,155	-	10,021,155
Unrestricted (Deficit)	16,348,808	(2,115,064)	14,233,744
TOTAL NET POSITION (DEFICIT)	26,369,963	(2,115,064)	24,254,899
TOTAL LIABILITIES AND NET POSITION	$ 27,627,235	$ 6,497,608	$ 34,124,843

* Restated. See Note 16.

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

CITY OF COATESVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities*	Totals
GOVERNMENTAL ACTIVITIES:							
General government	$ 1,913,317	$ 185,341	$ 133,603	$ -	$ (1,594,373)	$ -	$ (1,594,373)
Public safety	6,519,398	995,276	370,171	-	(5,153,951)	-	(5,153,951)
Public works - highways and streets	835,158	29,179	216,506	-	(589,473)	-	(589,473)
Other public works	66,426	-	-	-	(66,426)	-	(66,426)
Library	11,000	-	-	-	(11,000)	-	(11,000)
Culture and recreation	276,454	10,364	5,950	-	(260,140)	-	(260,140)
Unrealized loss	340,008	-	-	-	(340,008)	-	(340,008)
Interest expense	219,271	-	-	-	(219,271)	-	(219,271)
TOTAL GOVERNMENTAL ACTIVITIES	10,181,032	1,220,160	726,230	-	(8,234,642)	-	(8,234,642)
BUSINESS-TYPE ACTIVITIES							
Solid waste	709,921	699,367	-	-	-	(10,554)	(10,554)
Redevelopment	1,217,432	83,326	-	-	-	(1,134,106)	(1,134,106)
TOTAL BUSINESS-TYPE ACTIVITIES	1,927,353	782,693	-	-	-	(1,144,660)	(1,144,660)
TOTAL PRIMARY GOVERNMENT	$ 12,108,385	$ 2,002,853	$ 726,230	$ -	(8,234,642)	(1,144,660)	(9,379,302)
		GENERAL REVENUES:					
		Taxes:					
		Real estate taxes			2,407,876	-	2,407,876
		Real estate transfer taxes			182,107	-	182,107
		Earned income taxes			3,250,880	-	3,250,880
		Local services taxes			93,995	-	93,995
		Business privilege taxes			36,521	-	36,521
		Mechanical device taxes			546	-	546
		Franchise fees			189,180	-	189,180
		Investment earnings			606,206	25,744	631,950
		Gain on sale of capital assets			3,700	-	3,700
		Other			145,857	-	145,857
		Intergovernmental grant revenue			-	1,784,375	1,784,375
		Transfers			2,055	(2,055)	-
		TOTAL GENERAL REVENUES AND TRANSFERS			6,918,925	1,808,064	8,726,989
		CHANGE IN NET POSITION			(1,315,717)	663,404	(652,313)
		NET POSITION (DEFICIT), BEGINNING OF YEAR			27,685,680	(2,778,468)	24,907,212
		NET POSITION (DEFICIT), END OF YEAR			$ 26,369,963	$ (2,115,064)	$ 24,254,899

* Restated. See Note 16.

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

CITY OF COATESVILLE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	Major Funds				
	General Fund	Liquid Fuels Fund	Reserve Trust Fund	Nonmajor Governmental Funds	Totals
ASSETS					
Cash and cash equivalents	$ 920,831	$ 132,698	$ -	$ 60,017	$ 1,113,546
Investments	-	-	7,567,438	-	7,567,438
Accounts receivable	77,642	-	-	-	77,642
Taxes receivable	276,006	-	-	-	276,006
Due from other funds	50,000	-	-	-	50,000
Interest receivable	-	-	1,145,479	-	1,145,479
Notes receivable	-	-	6,999,156	-	6,999,156
TOTAL ASSETS	$ 1,324,479	$ 132,698	$ 15,712,073	$ 60,017	$ 17,229,267
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES:					
Accounts payable	$ 195,710	$ 17,566	$ -	$ 733	$ 214,009
Accrued salaries and benefits	86,800	-	-	-	86,800
Due to other funds	-	-	-	50,000	50,000
Other liabilities	162,378	-	-	-	162,378
TOTAL LIABILITIES	444,888	17,566	-	50,733	513,187
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - property taxes	254,237	-	-	-	254,237
Unavailable revenue - long-term receivable	-	-	8,121,492	-	8,121,492
TOTAL DEFERRED INFLOWS OF RESOURCES	254,237	-	8,121,492	-	8,375,729
FUND BALANCES:					
Restricted	-	115,132	-	-	115,132
Committed	-	-	7,590,581	-	7,590,581
Assigned	-	-	-	10,524	10,524
Unassigned (Deficit)	625,354	-	-	(1,240)	624,114
TOTAL FUND BALANCES	625,354	115,132	7,590,581	9,284	8,340,351
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 1,324,479	$ 132,698	$ 15,712,073	$ 60,017	$ 17,229,267

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, 2013

TOTAL GOVERNMENTAL FUND BALANCES		$ 8,340,351
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.		10,447,968
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.		8,375,729
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	$ (358,473)	
Capital lease payable	(198,143)	
Accrued interest payable	(8,799)	
Long-term debt	(228,670)	(794,085)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 26,369,963

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, 2013

	Major Funds				
	General Fund	Liquid Fuels Fund	Reserve Trust Fund	Nonmajor Governmental Funds	Totals
REVENUES					
Taxes	$ 5,932,871	$ -	$ -	$ -	$ 5,932,871
Licenses, fees, and permits	267,663	-	-	-	267,663
Fines, forfeits, and costs	347,554	-	-	-	347,554
Interest, dividends, and rents	10,093	172	315,903	72	326,240
Intergovernmental revenues	490,658	216,506	-	13,116	720,280
Charges for services/fees	794,123	-	-	-	794,123
Contributions/miscellaneous	57,998	-	-	34,290	92,288
TOTAL REVENUES	7,900,960	216,678	315,903	47,478	8,481,019
EXPENDITURES					
Current:					
General government	1,698,724	-	12,499	34,472	1,745,695
Public safety	6,056,676	-	-	51,832	6,108,508
Public works - highways and streets	675,975	178,770	-	-	854,745
Other public works	66,426	-	-	-	66,426
Library	11,000	-	-	-	11,000
Culture and recreation	249,861	-	-	2,416	252,277
Insurance	349,372	-	-	-	349,372
Debt service:					
Principal	-	-	-	88,915	88,915
Interest and other charges	12,499	-	-	206,860	219,059
TOTAL EXPENDITURES	9,120,733	178,770	12,499	384,495	9,696,497
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,219,773)	37,908	303,404	(337,017)	(1,215,478)
OTHER FINANCING SOURCES (USES)					
Refund of prior year expenditures	59,519	-	-	-	59,519
Proceeds from sale of assets	-	-	-	3,700	3,700
Proceeds from short-term debt	1,109,000	-	-	-	1,109,000
Repayment of short-term debt	(1,109,000)	-	-	-	(1,109,000)
Realized and unrealized losses on investments	-	-	(340,008)	-	(340,008)
Proceeds from capital lease	218,159	-	-	-	218,159
Transfers in	2,057,577	61,955	-	744,796	2,864,328
Transfers out	(806,751)	-	(2,055,522)	-	(2,862,273)
TOTAL OTHER FINANCING SOURCES (USES)	1,528,504	61,955	(2,395,530)	748,496	(56,575)
NET CHANGE IN FUND BALANCES (DEFICIT)	308,731	99,863	(2,092,126)	411,479	(1,272,053)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	316,623	15,269	9,682,707	(402,195)	9,612,404
FUND BALANCES, END OF YEAR	$ 625,354	$ 115,132	$ 7,590,581	$ 9,284	$ 8,340,351

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, 2013

NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS		$ (1,272,053)
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	$ 303,697	
Depreciation expense	(470,212)	(166,515)
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		(64,295)
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.		319,622
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the net book value of the capital assets sold and the fair market value of capital assets traded in.		(2,420)
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.		(129,244)
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		(212)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (1,315,717)

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, 2013

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
REVENUES				
Taxes:				
Real estate	$ 2,532,500	$ 2,532,500	$ 2,368,820	$ (163,680)
Real estate - transfer	140,000	140,000	182,107	42,107
Earned income	2,700,000	2,700,000	3,250,880	550,880
Local services tax	100,000	100,000	93,995	(6,005)
Business privilege	45,000	45,000	36,521	(8,479)
Mechanical device tax	1,000	1,000	548	(452)
Licenses, fees, and permits	249,900	249,900	267,663	17,763
Fines, forfeits, and costs	277,000	277,000	347,554	70,554
Interest, dividends, and rents	14,700	14,700	10,093	(4,607)
Intergovernmental revenues	515,814	515,814	490,658	(25,156)
Charges for services/fees	487,290	487,290	794,123	306,833
Miscellaneous	21,000	21,000	52,048	31,048
Contributions	-	-	5,950	5,950
TOTAL REVENUES	7,084,204	7,084,204	7,900,960	816,756
EXPENDITURES				
Current:				
General government				
Council	130,240	130,240	94,324	35,916
Administration	335,380	335,380	367,104	(31,724)
Finance	553,898	553,898	486,379	67,519
Legal	456,000	456,000	363,754	92,246
Human resources	86,716	86,716	83,034	3,682
Information technology	72,600	72,600	109,256	(36,656)
Buildings and plant	215,500	215,500	194,873	20,627
Total General Government	1,850,334	1,850,334	1,698,724	151,610
Public safety				
Police	3,777,409	3,777,409	4,111,129	(333,720)
Fire	1,098,368	1,098,368	1,189,570	(91,202)
Code enforcement	517,981	517,981	722,099	(204,118)
Planning and zoning	46,300	46,300	33,878	12,422
Total Public Safety	5,440,058	5,440,058	6,056,676	(616,618)
Public works - highways and streets	565,452	565,452	675,975	(110,523)
Transit system	69,000	69,000	66,426	2,574
Library	11,000	11,000	11,000	-
Culture and recreation	223,124	223,124	249,861	(26,737)
Community and economic development	23,180	23,180	-	23,180
Insurance	363,000	363,000	349,872	13,128
Debt service - interest	23,000	23,000	12,199	10,801
TOTAL EXPENDITURES	8,568,148	8,568,148	9,120,733	(552,585)
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,483,944)	(1,483,944)	(1,219,773)	264,171
OTHER FINANCING SOURCES (USES)				
Refunds of prior year expenditures	45,000	45,000	59,619	14,619
Proceeds from short-term debt	-	-	1,109,000	1,109,000
Repayment of short-term debt	-	-	(1,109,000)	(1,109,000)
Proceeds from capital lease	-	-	218,159	218,159
Transfers in	1,731,200	1,731,200	2,057,577	326,377
Transfers out	(275,000)	(275,000)	(806,751)	(531,751)
TOTAL OTHER FINANCING SOURCES	1,501,200	1,501,200	1,528,504	27,304
NET CHANGE IN FUND BALANCE	17,256	17,256	308,731	291,475
FUND BALANCE, BEGINNING OF YEAR	316,623	316,623	316,623	-
FUND BALANCE, END OF YEAR	$ 333,879	$ 333,879	$ 625,354	$ 291,475

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

CITY OF COATESVILLE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2013

	Major Funds		
	Solid Waste Fund	Redevelopment Authority	Total*
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	$ 59,196	$ 441,443	$ 500,639
Accounts receivable, net	157,195	7,771	164,966
Notes receivable	-	43,782	43,782
Total Current Assets	216,391	492,996	709,387
NONCURRENT ASSETS:			
Notes receivable	-	431,567	431,567
Property held for resale	-	5,283,654	5,283,654
Project advances	-	73,000	73,000
Total Noncurrent Assets	-	5,788,221	5,788,221
TOTAL ASSETS	$ 216,391	$ 6,281,217	$ 6,497,608
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	$ 51,903	$ 17,640	$ 69,543
Security deposits	-	7,055	7,055
Unearned revenues	-	414,582	414,582
Total Current Liabilities	51,903	439,277	491,180
NONCURRENT LIABILITIES:			
Note payable	-	6,999,156	6,999,156
Interest payable	-	1,122,336	1,122,336
TOTAL LIABILITIES	51,903	8,560,769	8,612,672
NET POSITION (DEFICIT):			
Unrestricted (Deficit)	164,488	(2,279,552)	(2,115,064)
TOTAL NET POSITION (DEFICIT)	164,488	(2,279,552)	(2,115,064)
TOTAL LIABILITIES AND NET POSITION	$ 216,391	$ 6,281,217	$ 6,497,608

* See Note 16.

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, 2013

	Major Funds		
	Solid Waste Fund	Redevelopment Authority	Total
OPERATING REVENUES			
Charges for service	$ 699,367	$ -	$ 699,367
Rental income	-	80,268	80,268
Other	-	3,058	3,058
Total Operating Revenues	699,367	83,326	782,693
OPERATING EXPENSES			
Salaries and fringe benefits	-	8,251	8,251
Solid waste and recycling collection	696,412	-	696,412
General administrative expenses	49	5,442	5,491
Relocation and housing assistance	-	347,563	347,563
Professional services	13,460	119,653	133,113
Property taxes	-	32,972	32,972
Rent expense	-	39,309	39,309
Repairs and maintenance	-	8,115	8,115
Utilities	-	2,074	2,074
Total Operating Expenses	709,921	563,379	1,273,300
OPERATING LOSS	(10,554)	(480,053)	(490,607)
NONOPERATING REVENUES (EXPENSES)			
Interest income	100	25,644	25,744
Interest expense	-	(279,968)	(279,968)
Intergovernmental grant revenue	-	1,784,375	1,784,375
Passthrough grant expense	-	(374,087)	(374,087)
Total Nonoperating Revenues	100	1,155,966	1,156,066
INCOME (LOSS) BEFORE TRANSFERS	(10,454)	675,913	665,459
Transfers in	200,000	-	200,000
Transfers out	(202,055)	-	(202,055)
CHANGE IN NET POSITION	(12,509)	675,913	663,404
NET POSITION (DEFICIT), BEGINNING OF YEAR	176,997	(2,955,465)	(2,778,468)
NET POSITION (DEFICIT), END OF YEAR	$ 164,488	$ (2,279,552)	$ (2,115,064)

* See Note 16.

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, 2013

	Major Funds		
	Solid Waste Fund	Redevelopment Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 701,422	$ 79,949	$ 781,371
Other receipts	-	3,058	3,058
Cash paid to suppliers	(707,705)	(551,219)	(1,258,924)
Cash paid to employees	-	(8,251)	(8,251)
NET CASH USED BY OPERATING ACTIVITIES	(6,283)	(476,463)	(482,746)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Intergovernmental grant revenue	-	1,847,002	1,847,002
Payment of passthrough grant	-	(374,087)	(374,087)
Transfers from other funds	200,000	-	200,000
Transfers to other funds	(202,055)	-	(202,055)
NET CASH (USED) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(2,055)	1,472,915	1,470,860
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of property held for sale	-	(996,281)	(996,281)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(996,281)	(996,281)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	100	25,844	25,944
Proceeds received from notes receivable	-	43,723	43,723
Project advances	-	12,092	12,092
NET CASH PROVIDED BY INVESTING ACTIVITIES	100	81,459	81,559
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,238)	81,630	73,392
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	67,434	359,813	427,247
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 59,196	$ 441,443	$ 500,639
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating loss	$ (10,554)	$ (480,053)	$ (490,607)
Adjustments to reconcile operating loss to net cash used by operating activities:			
(Increase) Decrease in assets:			
Accounts receivable, net	2,055	(3,428)	(1,373)
Increase (Decrease) in liabilities:			
Accounts payable and accrued liabilities	2,216	3,909	6,125
Unearned revenue	-	860	860
Security deposits	-	2,249	2,249
NET CASH USED BY OPERATING ACTIVITIES	$ (6,283)	$ (476,463)	$ (482,746)

* See Note 16.

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

CITY OF COATESVILLE
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2013

	Pension Trust Funds
ASSETS	
Investments, at fair value	$ 14,645,052
TOTAL ASSETS	$ 14,645,052
LIABILITIES AND NET POSITION	
LIABILITIES	$ -
NET POSITION	
Held in trust for pension benefits and pool participants	14,645,052
TOTAL LIABILITIES AND NET POSITION	$ 14,645,052

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, 2013

	Pension Trust Funds
ADDITIONS	
Contributions:	
State aid	$ 345,708
Employer contributions	44,720
Employee contributions	126,041
Total Contributions	516,469
Investment income:	
Investment earnings	50
Net appreciation in fair value of investments	1,697,019
Net Investment Gain	1,697,069
TOTAL ADDITIONS	2,213,538
DEDUCTIONS	
Pension payments	907,478
Administrative expenses	53,226
TOTAL DEDUCTIONS	960,704
CHANGE IN NET POSITION	1,252,834
NET POSITION, BEGINNING OF YEAR	13,392,218
NET POSITION, END OF YEAR	$ 14,645,052

The accompanying notes are an integral part of these 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 April 21, 2014 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 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.

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

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.

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.

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

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.

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.

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

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 between departments within any fund; 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.

Excess of Expenditures Over Appropriations

For the year ended December 31, 2013, expenditures exceeded General Fund appropriations (the legal level of budgetary control) in the following functions:

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

Culture and recreation	$ 26,737
Public works - highways and streets	$ 110,523
Code enforcement	$ 204,118
Fire	$ 91,202
Police	$ 333,720
Information technology	$ 36,656
Administration	$ 31,724

The excess of expenditures over appropriations was financed with approved transfers from the City's reserve trust fund.

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.

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.

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

Non-Uniformed Employees

AFSCME union employees and non-union employees shall receive vacation pay prorated from the date of the most recent 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

Deferred inflows of resources consist of revenues that have not met all requirements of revenue recognition 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.

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:

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

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, 2013, 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.

As of December 31, 2013, fund balances are composed of the following:

	General Fund	Liquid Fuels Fund	Reserve Trust Fund	Nonmajor Funds	Total Governmental Funds
Restricted:					
Highways	$ -	$ 115,132	$ -	$ -	$ 115,132
Committed:					
Income stabilization	-	-	7,590,581	-	7,590,581
Assigned:					
Debt service	-	-	-	10,524	10,524
Unassigned (Deficit)	625,354	-	-	(1,240)	624,114
Total Fund Balances (Deficit)	$ 625,354	$ 115,132	$7,590,581	$ 9,284	$ 8,340,351

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

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, 2013 was $356,114.

Implementation of GASB Statements

During the current year, the City elected to implement GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This new guidance establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The City's financial statements have been revised to reflect this new standard.

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.

Property Held for Resale

Property held for resale is stated at the cost of acquisition or at fair market value if contributed. In addition, all costs associated with preparing the property for resale are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Since the intent of the Authority is to hold these properties for resale, there is no depreciation association with property held for resale.

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, 2013, the carrying amount of the City's deposits was $1,614,185 and the bank balance was $1,795,468. Of the bank balance, $250,000 was covered by federal

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

depository insurance and $1,545,468 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, 2013, the City had the following investments and maturities:

		Investment Maturities (In Years)			
Investment Type	Fair Value	Less Than One Year	One to Five Years	Six to Ten Years	More Than Ten Years
Money market funds - U.S. Treasury	$ 1,478,070	$ 1,478,070	$ -	$ -	$ -
U.S. agencies:					
Government National Mortgage Assn (GNMA)	6,089,368	-	772,447	1,847,275	3,469,646
TOTAL	$ 7,567,438	$ 1,478,070	$ 772,447	$ 1,847,275	$ 3,469,646

Investments in GNMAs 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.

Credit Risk

The City has no investment policy that would limit its investment choices to those with certain credit ratings. As of December 31, 2013, GNMAs 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, 2013, 80 percent of the City's investments were in GNMAs.

The above does not include pension fund investments reflected in Notes 11, 12, and 13.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 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	2,301,387	-	-	2,301,387
Capital Assets Being Depreciated:				
Buildings	3,065,930	-	-	3,065,930
Infrastructure/land improvements	13,923,779	-	-	13,923,779
Machinery and equipment	838,931	85,538	-	924,469
Vehicles	2,477,143	218,159	163,141	2,532,161
Total Capital Assets Being Depreciated	20,305,783	303,697	163,141	20,446,339
Less accumulated depreciation for:				
Buildings	1,389,425	74,999	-	1,464,424
Infrastructure/land improvements	7,974,785	251,766	-	8,226,551
Machinery and equipment	601,305	59,613	-	660,918
Vehicles	2,024,752	83,834	160,721	1,947,865
Total Accumulated Depreciation	11,990,267	470,212	160,721	12,299,758
Total Capital Assets Being Depreciated, Net	8,315,516	(166,515)	2,420	8,146,581
Governmental Activities, Net	$ 10,616,903	$ (166,515)	$ 2,420	$ 10,447,968

Depreciation expense was charged to the following functions:

Governmental Activities:	
General government	$ 89,340
Public safety	329,148
Public works	37,617
Culture and recreation	14,107
Total depreciation expense - governmental activities	$ 470,212

NOTE 4 CAPITAL LEASES - LESSEE

The City has entered into lease agreements as lessee for financing the acquisition of capital assets. These lease agreements quality 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	(21,816)
TOTAL	$ 196,343

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013 were as follows:

Year Ending June 30,	
2014	$ 60,300
2015	60,300
2016	52,188
2017	20,254
2018	15,191
Total minimum lease payments	208,233
Less: amount representing interest	(10,090)
Present value of minimum lease payments	$ 198,143

Total expenditures under these leases amounted to $20,016 during the fiscal year ended December 31, 2013.

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:

Year Ending June 30,	
2014	$ 6,493
2015	6,493
2016	6,258
2017	3,684
2018	614
Total	$ 23,542

The total amount charged to expense for the year ended December 31, 2013 was $5,571.

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 pursed 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 $360,000 as follows: (a) $87,000 upon executions 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, 2013, the amount due to the development Authority under the notes was $206,717.

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 and six commercial spaces. This note requires annual payments of $35,385, including interest accruing at 5.75 percent payable on March 31. As of December 31, 2013, the amount receivable to the Redevelopment Authority, including accrued interest, is $268,632.

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.	$ 228,670

NOTE 7 LONG-TERM DEBT (cont'd)

The annual requirements to amortize debt outstanding are as follows:

Year Ending December 31,	Principal	Interest	Total
2014	$ 63,819	$ 211,181	$ 275,000
2015	58,636	211,364	270,000
2016	54,869	215,131	270,000
2017	51,346	218,654	270,000
	$ 228,670	$ 856,330	$ 1,085,000

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds payable	$ 297,569	$ -	$ 68,899	$ 228,670	$ 63,819
Leases payable	-	218,159	20,016	198,143	55,858
Compensated absences	294,178	64,296	-	358,473	-
Total Long-term Liabilities - Governmental Activities	$ 591,747	$ 309,482	$ 88,935	$ 785,286	$ 119,677

NOTE 8 SHORT-TERM DEBT

Short-term debt provides financing for governmental activities. In January 2013, the City issued a Tax Anticipation Note, Series of 2013, in the amount of $1,109,000. This debt was issued for interim financing of General Fund operations. The City repaid the note plus $12,199 in interest at a rate of 2.25 percent.

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

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Tax Anticipation Note	$ -	$ 1,109,000	$ 1,109,000	$ -

NOTE 9 TAXES

For 2013, 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.

NOTE 9 TAXES (cont'd)

The taxable assessed valuation of property as of December 31, 2013 was $259,866,621, and the millage rate was 9.415 mills ($9.415 per $1,000 of assessed valuation).

Other taxes levied in 2013:

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 INTERFUND BALANCES AND TRANSFERS

Interfund balances at December 31, 2013 consisted of the following:

Receivable To	Payable From	Amount
General Fund	Nonmajor governmental fund - Capital Reserve Fund	$ 50,000
Transfers In	**Transfers Out**	
General fund	Reserve Trust Fund	$ 1,855,522
Liquid Fuels Fund	General Fund	$ 61,955
Nonmajor governmental fund:		
Capital Grants Fund	General Fund	$ 331,031
Vehicle Replacement	General Fund	$ 43,417
Capital Reserve Fund	General Fund	$ 80,205
Sinking Fund	General Fund	$ 290,143
General Fund	Solid Waste Fund	$ 202,055
Solid Waste Fund	Reserve Trust Fund	$ 200,000

Interfund balances represent routine temporary loans to provide cash flows assistance.

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 11 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.

NOTE 11 POLICE PENSION FUND (cont'd)

Plan Membership

Actuarial valuation report Form 205, filed with the Public Employee Retirement Study Commission and dated as of January 1, 2013, disclosed that pension plan membership consisted of:

Active employees	27
Retirees and beneficiaries currently receiving benefits	29
TOTAL	56

Eligibility Requirements and Benefit Provisions

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

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.

NOTE 11 POLICE PENSION FUND (cont'd)

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 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, 2013, the Police Pension Fund had the following investments:

	Fair Value	Less Than One Year
Mutual funds	$ 12,094,938	$ 12,094,938
TOTAL	$ 12,094,938	$ 12,094,938

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..

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 $207,494 and $26,829, respectively, for the year ended December 31, 2013. In addition, the employees contributed $106,081.

Funded Status and Funding Progress

The funded status of the Fund as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	$11,316,129	$14,309,943	$ 2,993,814	79.1%	$ 1,967,062	152.2%

NOTE 11 POLICE PENSION FUND (cont'd)

Three-Year Trend Information

Year Ended December 31	Annual Pension Cost (APC)	Percentage Contributed
2011	$ 82,018	516%
2012	$ 270,257	133%
2013	$ 234,323	100%

Actuarial Valuation Information

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0% per annum, compounded annually
Projected salary increases	5.0% per annum, compounded annually
Cost of living adjustments	6.0%

NOTE 12 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

Actuarial valuation report Form 205, filed with the Public Employee Retirement Study Commission and dated as of January 1, 2013, disclosed that pension plan membership consisted of:

Active employees	25
Retirees and beneficiaries currently receiving benefits	23
Vested terminated members	42
TOTAL	90

NOTE 12 NON-UNIFORMED PENSION PLAN (cont'd)

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 $50 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.

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.

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, 2013, the Non-Uniformed Pension Plan had the following investments:

	Fair Value	Less Than One Year
Mutual funds	$ 1,825,808	$ 1,825,808
TOTAL	$ 1,825,808	$ 1,825,808

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.

NOTE 12 NON-UNIFORMED PENSION PLAN (cont'd)

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 $75,399 and $9,756, respectively, for the year ended December 31, 2013. In addition, the employees contributed $7,417.

Funded Status and Funding Progress

The funded status of the Plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2013	$1,496,953	$ 1,794,615	$ 297,662	83.4%	$1,056,000	28.2%

Three-Year Trend Information

Year Ended December 31	Annual Pension Cost (APC)	Percentage Contributed
2011	$ 101,873	126%
2012	$ 94,574	101%
2013	$ 85,154	100%

Actuarial Valuation Information

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0% per annum, compounded annually
Projected salary increases	5.0% per annum, compounded annually

NOTE 13 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

Actuarial valuation report Form 205, filed with the Public Employee Retirement Commission and dated as of January 1, 2013, the most recent actuarial valuation, disclosed that pension plan membership consisted of:

Active employees	4
Retirees and beneficiaries currently receiving benefits	-
Vested terminated members	-
TOTAL	4

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.

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.

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.

NOTE 13 FIREFIGHTERS' PENSION PLAN (cont'd)

As of December 31, 2013, the Firefighters' Pension Plan had the following investments:

	Fair Value	Less Than One Year
Mutual funds	$ 724,306	$ 724,306
TOTAL	$ 724,306	$ 724,306

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.

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 $62,815 and $8,136, respectively, for the year ended December 31, 2013. Members contribute five percent of compensation, plus $1 per month. For the year ended December 31, 2013, members contributed $12,543 to the plan.

Funded Status and Funding Progress

The funded status of the Plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	$ 579,136	$ 989,303	$ 410,167	58.5%	$ 314,129	130.6%

Year Ended December 31	Annual Pension Cost (APC)	Percentage Contributed
2011	$ 67,540	104%
2012	$ 74,794	100%
2013	$ 70,951	100%

NOTE 14 DEFICIT FUND BALANCES

As of December 31, 2013, the Capital Reserve Fund reported a deficit fund balance of $1,240. The deficit resulted from internal transfer activities. The deficit will be eliminated through future transfers from the General Fund.

The Redevelopment Authority finished the year ended December 31, 2013 with a deficit in net position of $2,279,552. 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 under its Guaranteed Urban Redevelopment Note. In response to these conditions, management plans to (a) sell the property held for resale; (b) generate development revenue sources through tax increments and government funding; and (c) generate sufficient cash flows to pay liabilities as they become due.

NOTE 15 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 16 RESTATEMENT

The City restated its January 1, 2013 business-type activities net position due to the inclusion of the Redevelopment Authority as a blended component unit in the City's financial statements. The net position of the business-type activities as of January 1, 2013 was reduced by $2,955,465.

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

NOTE 17 RELATED PARTY TRANSACTIONS (cont'd)

City, but not more frequently than quarterly. The principal is due in its entirety on November 30, 2014. 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.

The City has agreed to not demand repayment of the note payable and to defer interest accrued on the note payable as of December 31, 2013 for a period of one year.

NOTE 18 SUBSEQUENT EVENTS

The City has evaluated all subsequent events through July 18, 2014, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CITY OF COATESVILLE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	Capital Reserve Fund	Vehicle Replacement Fund	Capital Grants Fund	Sinking Fund	Totals
ASSETS					
Cash and cash equivalents	$ 48,760	$ -	$ 8,978	$ 2,279	$ 60,017
TOTAL ASSETS	$ 48,760	$ -	$ 8,978	$ 2,279	$ 60,017
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	$ -	$ -	$ 733	$ -	$ 733
Due to other funds	50,000	-	-	-	50,000
TOTAL LIABILITIES	50,000	-	733	-	50,733
FUND BALANCES (DEFICIT):					
Assigned	-	-	8,245	2,279	10,524
Unassigned (Deficit)	(1,240)	-	-	-	(1,240)
TOTAL FUND BALANCES (DEFICIT)	(1,240)	-	8,245	2,279	9,284
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$ 48,760	$ -	$ 8,978	$ 2,279	$ 60,017

CITY OF COATESVILLE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Capital Reserve Fund	Vehicle Replacement Fund	Capital Grants Fund	Sinking Fund	Totals
REVENUES					
Interest, rents, and royalties	$ 25	$ -	$ 44	$ 3	$ 72
Intergovernmental revenues	13,116	-	-	-	13,116
Other	19,290	-	15,000	-	34,290
TOTAL REVENUES	32,431	-	15,044	3	47,478
EXPENDITURES					
Current:					
General government	34,447	-	-	25	34,472
Public safety	-	-	51,832	-	51,832
Culture and recreation	2,416	-	-	-	2,416
Debt service:					
Principal	20,016	-	-	68,899	88,915
Interest and other charges	759	-	-	206,101	206,860
TOTAL EXPENDITURES	57,638	-	51,832	275,025	384,495
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(25,207)	-	(36,788)	(275,022)	(337,017)
OTHER FINANCING SOURCES					
Proceeds from sale of assets	3,700	-	-	-	3,700
Transfers in	80,205	43,417	331,031	290,143	744,796
TOTAL OTHER FINANCING SOURCES	83,905	43,417	331,031	290,143	748,496
NET CHANGE IN FUND BALANCES	58,698	43,417	294,243	15,121	411,479
FUND DEFICIT, BEGINNING OF YEAR	(59,938)	(43,417)	(285,998)	(12,842)	(402,195)
FUND BALANCE (DEFICIT), END OF YEAR	$ (1,240)	$ -	$ 8,245	$ 2,279	$ 9,284

CITY OF COATESVILLE
COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2013

	Police Pension Trust Fund	Firefighters' Pension Trust Fund	Non-Uniformed Pension Trust Fund	Total
ASSETS				
Investments, at fair value	$ 12,094,938	$ 724,306	$ 1,825,808	$ 14,645,052
TOTAL ASSETS	$ 12,094,938	$ 724,306	$ 1,825,808	$ 14,645,052
LIABILITIES AND NET POSITION				
LIABILITIES	$ -	$ -	$ -	$ -
NET POSITION				
Held in trust for pension benefits and pool participants	12,094,938	724,306	1,825,808	14,645,052
TOTAL LIABILITIES AND NET POSITION	$ 12,094,938	$ 724,306	$ 1,825,808	$ 14,645,052

CITY OF COATESVILLE
COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Police Pension Trust Fund	Firefighters' Pension Trust Fund	Non-Uniformed Pension Trust Fund	Total
ADDITIONS AND INVESTMENT INCOME				
Contributions:				
State aid	$ 207,494	$ 62,815	$ 75,399	$ 345,708
Employer contributions	26,829	8,136	9,755	44,720
Employee contributions	106,081	12,543	7,417	126,041
Total Contributions	340,404	83,494	92,571	516,469
Investment income:				
Investment earnings	43	1	6	50
Net appreciation in fair value of investments	1,426,638	75,433	194,948	1,697,019
Net Investment Income	1,426,681	75,434	194,954	1,697,069
Transfers in	-	-	108,454	108,454
TOTAL ADDITIONS AND INVESTMENT INCOME	1,767,085	158,928	396,979	2,321,992
DEDUCTIONS				
Pension payments	864,252	-	43,226	907,478
Administrative expenses	15,570	13,758	23,898	53,226
Transfers out	108,454	-	-	108,454
TOTAL DEDUCTIONS	988,276	13,758	67,124	1,069,158
CHANGE IN NET POSITION	778,809	145,170	328,855	1,252,834
NET POSITION, BEGINNING OF YEAR	11,316,129	579,136	1,496,953	13,392,218
NET POSITION, END OF YEAR	$ 12,094,938	$ 724,306	$ 1,825,808	$ 14,645,052

Barbacane, Thornton & Company LLP
700 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8840
F 302.468.4001
www.btcpa.com

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*

July 18, 2014

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, 2013, and the related notes to the financial statements, which collectively comprise City of Coatesville's basic financial statements. In our report dated July 18, 2014, 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.

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.

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 #12-2, #12-3, #12-4, #12-6, #12-7, and #13-2 to be material weaknesses.

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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 #12-1, #12-5, #12-9 and #13-1 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, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Coatesville's Responses to the Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

BARBACANE, THORNTON & COMPANY LLP

SCHEDULE OF

FINDINGS AND RECOMMENDATIONS

CITY OF COATESVILLE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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.

Management's Response

Management concurs that investment policies should be in place for the City and its pension trust funds. Management will seek sample investment policies and compile a working document to be established as an investment policy. A draft investment policy for the pension funds will be reviewed with the respective pension boards, and a final draft will be reviewed with the City Council for approval.

Status

The City does not have an investment policy nor do the pensions. The City is in the process of developing the recommended investment policies. This finding is still applicable for the current year.

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.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Management's Response

Management concurs that an Information Technology ("IT") strategic plan and risk management policies be developed and put into place. The City administration will develop an IT strategic plan and risk management policy which shall include a policy for changing City computer user passwords on at least a semi-annual basis. The strategic management plan will provide an overview for how the City controls and distributes computer resources including hardware, software, files, etc. The risk management policy will address issues such as anti-virus protection, maintenance of a firewall for the City's computer networks, and back-ups of computer files.

Status

The City is still in the process of developing procedures surrounding password changes and is also in the process of developing and implementing an IT strategic plan. This finding is still applicable for the current year.

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.

Management's Response

Management has been in the process of refining its escrow records to accurately track all escrow accounts for not only developer escrow but file escrow accounts as well. The City administration anticipates having schedules detailing the activity and balances in all escrow accounts. The City administration plans on reconciling those balances with the general ledger and with the appropriate bank statement on a monthly basis.

Status

The City is still in the process of reconciling its escrow accounts to obtain accurate balances for each escrow account held. This finding is still applicable for the current year.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

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.

Management's Response

Management acknowledges that an accurate subsidiary ledger for solid waste receivables needs to be prepared and updated. The existing accounts receivable record including all billing and collections information needs to be updated, reconciled, and maintained on an ongoing basis. The City will be updating its billing record with the cooperation of the Code, Finance, and Public Works departments in conjunction with the City's trash hauler, Eagle Disposal. With the distribution of trash carts to customers, the billing list will be updated and refined as the new trash hauler contract will now be based on a per unit cost versus the prior flat rate cost.

Status

The City is still in the process of reconciling the subsidiary ledger of solid waste receivables to determine the actual amount owed by residents for solid waste billings. This finding is still applicable for the current year.

APPROVAL OF CHANGES IN DEPARTMENT HEADS' PAY RATE CHANGES

12-5 Finding

In 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.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Management's Response

Management will provide documentation that all department heads' pay rates are authorized by the City Council. The City has an ordinance adopted at the end of each year to approve pay rates for the following year. Any pay rate changes that may be made for a department head subsequent to the ordinance adoption will be also subject to Council approval and will be evidenced in the minutes of the Council meeting at which said approval is made.

Status

The City is in the process on implementing new procedures surrounding the approval of pay rate changes for department heads. This finding is still applicable for the current year.

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.

Management's Response

Management will assure that no pay rate changes will be made in the payroll system until all approvals are duly noted on the Employee Change of Status Report. That report will also be updated to include the date and signature of the Director of Finance and will continue the requirement for signature approvals by the appropriate department, the Human Resources Manager, and the City Manager, with the addition of dates each signature is made. The City will continue the practice of providing signed copies of each form for: 1) personnel file, 2) employee, and 3) finance department.

Status

The City is in the process of implementing the procedures note above. This finding is still applicable for the current year.

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.

Management's Response

Management will update its capital asset listings including additions, deletions, and recording of depreciation expense. Interdepartmental cooperation and coordination will be necessary to assure that the Finance Department has all information necessary to record and update said capital assets listings. Any asset acquisitions will be reported to the Finance Department to update the asset listings and to the Human Resources Manager to assure that the asset is insured properly and timely. The City Administration will also make sure any assets no longer in service are deleted from the capital assets listing as well as from insurance coverage.

Status

During our current year audit, we noted that the City did not update its capital asset records for current year additions, deletions, and depreciation expense. Also, the City did not review its capital asset records to write off fully depreciated assets which are no longer in service. This finding is still applicable for the current year.

REVIEW OF THE DAILY RECEIPTS

12-8 Finding

During our prior year audit, we noted that the Staff Accountant reviews the daily receipt detailed report prepared by the Cashiers. However, the Staff Accountant does not put his initial and the date as evidence of the review.

Recommendation

We recommended that the Staff Accountant indicate his review of the daily receipt detailed report prepared by the Cashiers by initialing. This procedure will add controls and an appropriate internal audit trail for activity processed through the books and records of the City.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Status

During our current year audit, we noted that the Staff Accountant initials and dates the daily receipt detailed report. This finding is no longer applicable.

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.

Management's Response

Management concurs with the recommendation to specify the useful life for each type of asset based on asset class. In order to assure that depreciation of the City's capital assets is calculated consistently, a useful life schedule will be prepared by asset class and the appropriate number of years will be incorporated into the depreciation schedule.

Status

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

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

COMPENSATED ABSENCES TRACKING

13-1 Finding

During our current 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.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

We recommend 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.

Management's Response

Presently, the Human Resources Manager reviews and signs off on all Leave Request Forms. The form requires the signature of the employee requesting leave, the employee's supervisor, and the Human Resources Manager. Copies of the signed forms are provided to: 1) Human Resources, 2) Employee's supervisor, 3) Employee, and 4) Payroll. The Payroll copy is filed in the Finance Department, and the Finance Assistant records on a subsidiary ledger to record leave time requested and used.

PAYROLL TIMESHEETS

13-2 Finding

During our current 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 recommend 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.

Management's Response

Management concurs that procedures be adopted to have all hourly employees complete a timesheet for payroll approval by their supervisor prior to payroll processing.