

City of Butler

Financial Statements (Modified Cash Basis) and Supplementary Information

Year Ended December 31, 2015 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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CITY OF BUTLER

YEAR ENDED DECEMBER 31, 2015

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements (Modified Cash Basis):

Government-Wide Financial Statements:

Statement of Net Position (Modified Cash Basis)	1
Statement of Activities (Modified Cash Basis)	2

Fund Financial Statements:

Balance Sheet (Modified Cash Basis) - Governmental Funds	3
Statement of Receipts, Disbursements, and Changes in Fund Balance (Modified Cash Basis) - Governmental Funds	4
Budgetary Comparison Statement (Modified Cash Basis) - General Fund	5
Budgetary Comparison Statement (Modified Cash Basis) - Liquid Fuels Fund	6
Statement of Net Position (Modified Cash Basis) - Proprietary Fund	7
Statement of Receipts, Disbursements, and Changes in Net Position (Modified Cash Basis) - Proprietary Fund	8
Statement of Cash Flows (Modified Cash Basis) - Proprietary Fund	9
Statement of Fiduciary Net Position (Modified Cash Basis) - Fiduciary Funds	10
Statement of Changes in Fiduciary Net Position (Modified Cash Basis) - Pension Trust Funds	11
Notes to Financial Statements (Modified Cash Basis)	12

CITY OF BUTLER

YEAR ENDED DECEMBER 31, 2015

TABLE OF CONTENTS

(Continued)

Supplementary Information:

Combining Balance Sheet (Modified Cash Basis) - Other Governmental Funds	34
Combining Statement of Receipts, Disbursements, and Changes in Fund Balance (Modified Cash Basis) - Other Governmental Funds	35
Combining Statement of Plan Net Position (Modified Cash Basis) - Pension Trust Funds	36
Combining Statement of Changes in Plan Net Position (Modified Cash Basis) - Pension Trust Funds	37
Statement of Changes in Assets and Liabilities - Tax Collection Fund - Agency Fund	38
Statement of Changes in Assets and Liabilities - Fire Escrow Fund - Agency Fund	39

Independent Auditor's Report

City Council and Mayor
City of Butler

We have audited the accompanying modified cash basis financial statements (financial statements) of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Butler (City), Pennsylvania, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate

remaining fund information of the City as of December 31, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Liquid Fuels Fund for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and the statements of changes in assets and liabilities 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 the statements of changes in assets and liabilities 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 statements of changes in assets and liabilities are fairly stated in all material respects in relation to the basic financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 17, 2016

CITY OF BUTLER

STATEMENT OF NET POSITION (MODIFIED CASH BASIS)

DECEMBER 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Parking Authority
Assets				
Cash and cash equivalents	\$ 5,276,606	\$ 280,433	\$ 5,557,039	\$ -
Due from general fund	-	1,355	1,355	-
Investments	-	220,316	220,316	-
Total Assets	5,276,606	502,104	5,778,710	-
Liabilities				
Other current liabilities	1,673	-	1,673	-
Due to (from)	1,355	-	1,355	-
Total Liabilities	3,028	-	3,028	-
Net Position				
Restricted for:				
Roads and bridges	11,347	-	11,347	-
Revolving loan program	102,557	-	102,557	-
Capital Projects	4,987,263	-	4,987,263	-
Unrestricted	172,411	502,104	674,515	-
Total Net Position	\$ 5,273,578	\$ 502,104	\$ 5,775,682	\$ -

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Revenues				Net (Disbursement) Receipt and Changes in Net Position			Component Unit Parking Authority of the City of Butler
	Expenses	Charges for Services	Operating Grants	Capital Grants	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 1,466,735	\$ 462,659	\$ 22,497	\$ -	\$ (981,579)	\$ -	\$ (981,579)	\$ -
Public safety	4,928,977	542,388	541,404	-	(3,845,185)	-	(3,845,185)	-
Health and welfare	10,933	82,286	-	-	71,353	-	71,353	-
Public works - highways	1,517,465	-	343,000	136,473	(1,037,992)	-	(1,037,992)	-
Public works - other	593,445	-	-	-	(593,445)	-	(593,445)	-
Culture and recreation	407,553	-	-	-	(407,553)	-	(407,553)	-
Community development	161,386	-	231,343	-	69,957	-	69,957	-
Debt service	1,326,779	-	-	-	(1,326,779)	-	(1,326,779)	-
Total governmental activities	10,413,273	1,087,333	1,138,244	136,473	(8,051,223)	-	(8,051,223)	-
Business-type activities	-	-	-	-	-	-	-	-
Total Primary Government	\$ 10,413,273	\$ 1,087,333	\$ 1,138,244	\$ 136,473				
Component Unit:								
Parking Authority of the City of Butler	\$ 1,637,954	\$ 532,961	\$ -	\$ -				(1,104,993)
General revenues:								
Real estate taxes, including penalty and interest					2,688,882	-	2,688,882	-
Real estate transfer taxes					120,746	-	120,746	-
Earned income taxes, including penalty and interest					966,989	-	966,989	-
Business gross receipts taxes					1,261,165	-	1,261,165	-
Local services tax					288,177	-	288,177	-
All other taxes					67,057	-	67,057	-
Interest and rents					85,574	-	85,574	6,412
Miscellaneous					381,801	-	381,801	16,443
Unrealized gain (loss) on investments					-	-	-	3,332
Transfer of operations from Parking Authority					-	502,104	502,104	-
Net payoff of Authority debt					(1,089,508)	-	(1,089,508)	-
Proceeds from issuance of debt					7,925,000	-	7,925,000	-
Total general revenues					12,695,883	502,104	13,197,987	26,187
Change in Net Position					4,644,660	502,104	5,146,764	(1,078,806)
Net Position - beginning of year					628,918	-	628,918	1,078,806
Net Position - end of year					\$ 5,273,578	\$ 502,104	\$ 5,775,682	\$ -

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

BALANCE SHEET (MODIFIED CASH BASIS) GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Liquid Fuels Fund</u>	<u>2015 Series Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ -	\$ 175,439	\$ 11,347	\$ 4,987,263	\$ 102,557	\$ 5,276,606
Total Assets	<u>\$ -</u>	<u>\$ 175,439</u>	<u>\$ 11,347</u>	<u>\$ 4,987,263</u>	<u>\$ 102,557</u>	<u>\$ 5,276,606</u>
Liabilities and Fund Balance						
Liabilities:						
Other current liabilities	\$ 1,673	\$ -	\$ -	\$ -	\$ -	\$ 1,673
Due to other funds	1,355	-	-	-	-	1,355
Total Liabilities	<u>3,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,028</u>
Fund Balance:						
Restricted for:						
Roads and bridges	-	-	11,347	-	-	11,347
Revolving loan program	-	-	-	-	102,557	102,557
Capital Projects	-	-	-	4,987,263	-	4,987,263
Assigned	-	175,439	-	-	-	175,439
Unassigned	(3,028)	-	-	-	-	(3,028)
Total Fund Balance	<u>(3,028)</u>	<u>175,439</u>	<u>11,347</u>	<u>4,987,263</u>	<u>102,557</u>	<u>5,273,578</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ 175,439</u>	<u>\$ 11,347</u>	<u>\$ 4,987,263</u>	<u>\$ 102,557</u>	<u>\$ 5,276,606</u>

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (MODIFIED CASH BASIS) GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2015

	General	Capital Projects Fund	Liquid Fuels Fund	2015 Series Bond Fund	Other Governmental Funds	Total Governmental Funds
Receipts:						
Taxes, including penalty and interest	\$ 5,393,016	\$ -	\$ -	\$ -	\$ -	\$ 5,393,016
Licenses and permits	378,637	-	-	-	-	378,637
Fines and forfeits	263,940	-	-	-	-	263,940
Interest and rents	76,738	4	19	1,605	7,208	85,574
Intergovernmental	776,230	136,473	343,000	-	186,434	1,442,137
Charges for services	277,336	-	-	-	-	277,336
Miscellaneous	381,489	312	-	-	-	381,801
Total receipts	<u>7,547,386</u>	<u>136,789</u>	<u>343,019</u>	<u>1,605</u>	<u>193,642</u>	<u>8,222,441</u>
Disbursements:						
Current:						
General government	874,711	35	100	34	-	874,880
Public safety	4,928,977	-	-	-	-	4,928,977
Health and welfare	10,933	-	-	-	-	10,933
Public works - highways	733,233	441,349	342,883	-	-	1,517,465
Public works - others	104,767	-	-	488,678	-	593,445
Culture and recreation	407,553	-	-	-	-	407,553
Community development	2,993	-	-	-	158,393	161,386
Other	355,733	-	-	236,122	-	591,855
Debt service	1,326,779	-	-	-	-	1,326,779
Total disbursements	<u>8,745,679</u>	<u>441,384</u>	<u>342,983</u>	<u>724,834</u>	<u>158,393</u>	<u>10,413,273</u>
Excess (Deficiency) of Receipts over Disbursements	<u>(1,198,293)</u>	<u>(304,595)</u>	<u>36</u>	<u>(723,229)</u>	<u>35,249</u>	<u>(2,190,832)</u>
Other Financing Sources (Uses):						
Net payoff of Parking Authority debt	-	-	-	(1,089,508)	-	(1,089,508)
Proceeds from issuance of debt	7,925,000	-	-	-	-	7,925,000
Transfers in (out)	(7,175,000)	375,000	-	6,800,000	-	-
Total other financing sources (uses)	<u>750,000</u>	<u>375,000</u>	<u>-</u>	<u>5,710,492</u>	<u>-</u>	<u>6,835,492</u>
Net Change in Fund Balance	<u>(448,293)</u>	<u>70,405</u>	<u>36</u>	<u>4,987,263</u>	<u>35,249</u>	<u>4,644,660</u>
Fund Balance:						
Beginning of year	445,265	105,034	11,311	-	67,308	628,918
End of year	<u>\$ (3,028)</u>	<u>\$ 175,439</u>	<u>\$ 11,347</u>	<u>\$ 4,987,263</u>	<u>\$ 102,557</u>	<u>\$ 5,273,578</u>

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

BUDGETARY COMPARISON STATEMENT (MODIFIED CASH BASIS) GENERAL FUND

YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Receipts:				
Taxes, including penalty and interest	\$ 5,629,211	\$ 5,629,211	\$ 5,393,016	\$ (236,195)
Licenses and permits	408,520	408,520	378,637	(29,883)
Fines and forfeits	307,000	307,000	263,940	(43,060)
Interest and rents	5,950	5,950	76,738	70,788
Intergovernmental	663,000	663,000	776,230	113,230
Charges for services	471,174	471,174	277,336	(193,838)
Miscellaneous	147,121	147,121	381,489	234,368
Total receipts	7,631,976	7,631,976	7,547,386	(84,590)
Disbursements:				
Current:				
General government	895,228	895,228	874,711	20,517
Public safety	4,702,223	4,702,223	4,928,977	(226,754)
Health and welfare	10,933	10,933	10,933	-
Public works - highways	562,474	562,474	733,233	(170,759)
Public works - other	103,061	103,061	104,767	(1,706)
Culture and recreation	389,374	389,374	407,553	(18,179)
Community development	-	-	2,993	(2,993)
Other	271,213	271,213	355,733	(84,520)
Debt service	687,468	687,468	1,326,779	(639,311)
Total disbursements	7,621,974	7,621,974	8,745,679	(1,123,705)
Excess (Deficiency) of Receipts over Disbursements	10,002	10,002	(1,198,293)	(1,208,295)
Other Financing Sources (Uses):				
Proceeds from issuance of debt	-	-	7,925,000	7,925,000
Transfers out	-	-	(7,175,000)	(7,175,000)
Total other financing sources (uses)	-	-	750,000	750,000
Net Change in Fund Balance	\$ 10,002	\$ 10,002	\$ (448,293)	\$ (458,295)

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

BUDGETARY COMPARISON STATEMENT (MODIFIED CASH BASIS) LIQUID FUELS FUND

YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Receipts:				
Interest and rents	\$ 150	\$ 150	\$ 19	\$ (131)
Intergovernmental	332,068	332,068	343,000	10,932
Miscellaneous	11,894	11,894	-	(11,894)
Total receipts	<u>344,112</u>	<u>344,112</u>	<u>343,019</u>	<u>(1,093)</u>
Disbursements:				
General government	-	-	100	(100)
Public works - highways	344,112	344,112	342,883	1,229
Total disbursements	<u>344,112</u>	<u>344,112</u>	<u>342,983</u>	<u>1,129</u>
Excess (Deficiency) of Receipts over Disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36</u>	<u>\$ 36</u>

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

STATEMENT OF NET POSITION (MODIFIED CASH BASIS)

PROPRIETARY FUND

DECEMBER 31, 2015

	<u>Enterprise Fund</u> <u>Parking</u> <u>Fund</u>
<hr/> Assets <hr/>	
Cash and cash equivalents	\$ 280,433
Due from general fund	1,355
Investments	<hr/> 220,316
Total Assets	<hr/> 502,104 <hr/>
<hr/> Net Position <hr/>	
Unrestricted	<hr/> 502,104
Total Net Position	<hr/> \$ 502,104 <hr/> <hr/>

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN NET POSITION (MODIFIED CASH BASIS)

PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2015

	<u>Enterprise Fund</u> <u>Parking</u> <u>Fund</u>
<u>Operating Receipts</u>	<u>\$ -</u>
<u>Operating Disbursements</u>	<u>-</u>
Operating Income (Loss)	<u>-</u>
<u>Nonoperating Receipts (Disbursements):</u>	
Transfer of operations from Parking Authority	<u>502,104</u>
Net Income (Loss)	<u>502,104</u>
<u>Net Position:</u>	
Beginning of year	<u>-</u>
End of year	<u><u>\$ 502,104</u></u>

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

STATEMENT OF CASH FLOWS (MODIFIED CASH BASIS)

PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2015

	<u>Enterprise Fund</u> <u>Parking</u> <u>Fund</u>
Cash Flows From Operating Activities:	
Payments for operating costs	\$ (1,355)
Cash Flows From Noncapital Financing Activities:	
Cash transfer of operations from Parking Authority	281,788
Increase (Decrease) in Cash and Cash Equivalents	280,433
Cash and Cash Equivalents:	
Beginning of year	-
End of year	\$ 280,433
Non-cash Items:	
Non-cash transfer of operations from Parking Authority	\$ 220,316

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

STATEMENT OF FIDUCIARY NET POSITION (MODIFIED CASH BASIS) FIDUCIARY FUNDS

DECEMBER 31, 2015

Assets	Pension Trust Funds	Tax Collection Fund	Fire Escrow Fund	Total
Cash equivalents	\$ 483,365	\$ 70,252	\$ 100	\$ 553,717
Investments (at fair value):				
U.S. government securities	7,492,440	-	-	7,492,440
Corporate bonds	2,407,508	-	-	2,407,508
Common stock	20,147,462	-	-	20,147,462
Mutual funds	3,703,785	-	-	3,703,785
Accrued interest and dividends	70,849	-	-	70,849
Total Assets	34,305,409	70,252	100	34,375,761
Liabilities				
Due to other governments	-	70,252	-	70,252
Escrow liability	-	-	100	100
Total Liabilities	-	70,252	100	70,352
Plan Net Position Held in Trust for Pension Benefits	\$ 34,305,409	\$ -	\$ -	\$ 34,305,409

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (MODIFIED CASH BASIS) PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2015

Additions:

<hr/>	
Contributions:	
Commonwealth	\$ 399,925
Employer	13,812
Employee	147,382
Other	14,965
	<hr/>
Total contributions	576,084
	<hr/>
Investment income:	
Net accrued income	(7,789)
Net depreciation in fair value of investments	(1,626,945)
Interest and dividends	881,199
	<hr/>
Total investment income (loss)	(753,535)
	<hr/>
Investment expense	191,352
	<hr/>
Net investment income (loss)	(944,887)
	<hr/>
Total additions	(368,803)
	<hr/>
Deductions:	
<hr/>	
Benefits	1,788,582
Administrative expense	24,832
	<hr/>
Total deductions	1,813,414
	<hr/>
Increase (Decrease) in Plan Net Position	(2,182,217)
<hr/>	
Plan Net Position Held in Trust for Pension Benefits:	
Beginning of year	36,487,626
	<hr/>
End of year	\$ 34,305,409
	<hr/> <hr/>

See accompanying notes to financial statements (modified cash basis).

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Butler, Pennsylvania (City) is located in Western Pennsylvania, to the north of the City of Pittsburgh. It was incorporated on January 7, 1918, under the provisions of the Commonwealth of Pennsylvania. The City is a third-class city, operated under a Commission form of government. The City provides the following services which are authorized by its charter: public safety (police and fire), highways and streets, health, culture-recreation, public improvements, planning and zoning, and general administrative services.

Component Unit

A component unit is a legally separate entity that satisfies at least one of the following criteria: 1) elected officials of a primary government are financially accountable for the entity; or 2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. The following is the discretely presented component unit of the City:

Parking Authority of the City of Butler (Parking Authority)

The Parking Authority operates under the laws of the Commonwealth of Pennsylvania with a Board appointed by the City's Council. The Parking Authority was created to acquire, construct, improve, maintain and operate parking facilities, and to either borrow funds or issue bonds to carry out its purpose. A continuing financing relationship exists through guarantees made by the City for two bond issues of the Parking Authority. The Parking Authority's fiscal year is from January 1 through December 31. Separately issued financial statements of the Authority are available through the Parking Authority's Solicitor at 106 South Main Street, Butler, PA 16001.

The Parking Authority maintains an operating agreement with the City. Under the terms of the Parking Authority's operating agreement with the City, the Parking Authority contracts with the City to provide certain services with respect to the operations of the Parking Authority's off-street parking facilities, including maintaining and servicing parking meters and off-street parking facilities, issuing monthly parking permits to the public, collecting and depositing funds on behalf of the Parking Authority, monitoring and enforcing parking meter compliance,

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

providing police supervision and protection for the off-street parking system, maintaining Parking Authority financial records, and providing general liability insurance for the off-street parking system according to amounts established by the Parking Authority. In consideration for the services provided, the Parking Authority pays the City an administrative fee as agreed upon by the City and the Parking Authority.

The Parking Authority is an enterprise fund used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Services from such activities are provided to outside parties.

The Parking Authority was dissolved effective December 31, 2015 and all assets were transferred to the City.

City of Butler Parks Recreation Grounds and Facilities Authority

The City of Butler Parks Recreation Grounds and Facilities Authority should be included as a component unit of the City as the City guarantees their debt; however, the City concluded it was immaterial to their statements and, therefore, is not included as a component unit in this report.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from its legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants that are restricted to meeting the operational or 3) capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to the timing of the recognition of amounts in the financial statements. The City maintains its financial statements on the modified cash basis, including investments, which is a comprehensive basis other than accounting principles generally accepted in the United States of America. Accordingly, amounts are generally recognized when received rather than when earned and when paid rather than when obligations are incurred. Inventories, principally supplies, are accounted for as expenditures when purchased.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the disbursement of monies are recorded in order to reserve that portion of the applicable appropriation, is employed by the City. However, there were no significant outstanding encumbrances at year-end.

The modified cash basis of accounting, including investments, is followed by the Parking Authority, whereby amounts are generally recognized when received rather than when earned and when paid rather than when obligations are incurred.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

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 not accounted for and reported in another fund.

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

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

The *Liquid Fuels Fund* is a Special Revenue Fund. It accounts for the state aid receipts used for building and improving roads and bridges.

The *2015 Series Bond Fund*. It accounts for the bond proceeds and uses related to the 2015 bond issuance.

The government reports the following major proprietary fund:

The *Parking Fund* is used to account for revenues and expenses incurred to maintain certain parking facilities of the City of Butler transferred to them through the dissolution of the Parking Authority as of December 31, 2015.

Additionally, the government reports the following other fund information:

The *Other Governmental Funds* are comprised of three Special Revenue Funds. The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted to expenditures for specified purposes. The City uses the following Special Revenue Funds: Community Development Block Grant Fund, Housing Redevelopment Fund, and Support Our Spray Park Fund.

The *Pension Trust Funds* account for assets held by the City in a trustee capacity for the future payment of retirement benefits to employees. The City has three separate Pension Trust Funds: Police, Firefighter, and General Employees.

The *Tax Collection Fund* is an agency fund used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds.

The *Fire Escrow Fund* is an agency fund used to account for amounts collected and held on behalf of residents whose houses have been damaged by fire.

D. Interfund Activity in the Government-wide Statements

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's governmental activities, business-type activities, fiduciary funds, and component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

E. Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control in the following funds of the City: General Fund, Capital Projects Fund, and Liquid Fuels Fund. The 2015 Series Bond Fund is not legally required to adopt a budget. The budgets are adopted on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Budgetary control for certain special receipt funds are maintained through enforcement of the related grant provisions.

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

- During August and September, the department heads use current financial status reports to develop financial projections for their programs for the ensuing year, which are then reviewed with the budget staff.
- A proposed operating budget for the fiscal year commencing the following January is submitted to the Council in November.
- The budget is legally advertised giving notice the budget is available for inspection.
- The budget is legally enacted through passage of an ordinance no later than the 31st day of December.

The Council may at any time, by resolution, make supplemental appropriations for any lawful purpose from any funds on hand or estimated to be received within the fiscal year and not otherwise appropriated, including proceeds of any borrowing now or hereafter authorized by law. The Council may authorize the transfer of any unencumbered balance of any appropriation item or any portion thereof. The legal level of required Council approval of budget amendments is the fund level.

During the year, there were no significant supplemental appropriations enacted. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

There were instances where total disbursements exceeded the budgeted amounts in the General Fund. These overages were funded by available fund balance.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

F. Cash and Cash Equivalents

The City considers all investments with maturities of three months or less at the time of purchase to be cash equivalents.

G. Investments

Investments, principally common stocks, mutual funds, and money market funds are carried at fair value. Funds are invested in accordance with the City's investment policy guidelines as described in Note 3.

H. Accumulated Unpaid Sick Pay

In accordance with union contracts, employees are allowed to carryover unused sick days and at termination or retirement will be paid up to a maximum amount based upon a flat rate per day for City employees and a percentage for each day for firefighters and policemen. As the City's financial statements are prepared on the modified cash basis of accounting, no liability is recorded.

I. Designated Taxes for Debt Service

The City designated 7.5 mills of the real estate tax levy for payment of debt service. During 2015 and prior, the collection of these taxes have been less than debt service payments in the amount of \$353,373. Therefore, no amount is restricted for future debt service payments on the statement of net position.

J. Net Position

The government-wide financial statements are required to report three components of net position:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount. As the City reports on the modified cash basis, and is not required to record capital assets, this component is not applicable to the City.

- Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets. The City has restricted net position of \$11,347, \$102,557, and \$4,987,263 related to roads and bridges, the revolving loan program, and capital projects, respectively.
- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

K. Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

- Nonspendable – This category represents funds that are not in spendable form.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. This category includes funds that are legally restricted for roads and bridges, the revolving loan program, and capital projects.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by Council. There was no committed fund balance at December 31, 2015.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

- Assigned – This category represents intentions of Council to use the funds for specific purposes. Council has delegated the City to assign amounts to be used for specific purposes to the City Clerk. This category includes amounts set aside for capital improvements.
- Unassigned – This category includes the residual classification for the City’s General Fund and includes all spendable amounts not contained in other classifications.

The City has not established a policy for its use of unrestricted fund balance amounts; therefore, committed amounts should be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Risk

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees; and natural disasters. Except for workmen's compensation (see Note 9), these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

M. Pending Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 72, “*Fair Value Measurement and Application*,” effective for fiscal years beginning after June 15, 2015 (the City’s December 31, 2016 financial statements). This statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 76, “*Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*,” effective for fiscal years beginning after June 15, 2015 (the City’s financial statements for the year ending December 31, 2016). This statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

GASB Statement No. 77, “*Tax Abatement Disclosures*,” effective for fiscal years beginning after December 15, 2015 (the City’s financial statements for the year ending December 31, 2017). This statement requires state and local governments for the first time to disclose information about tax abatement agreements, and is designed to provide financial statement users with essential information about these agreements and the impact that they have on a government’s finances.

GASB Statement No. 79, “*Certain External Investment Pools and Pool Participants*,” effective for fiscal years beginning after June 15, 2015 (the City’s financial statements for the year ending December 31, 2016). This statement addresses accounting and reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

GASB Statement No. 80, “*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*,” effective for fiscal years beginning after June 15, 2016 (the City’s financial statements for the year ending December 31, 2017). The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB Statement No. 81, “*Irrevocable Split-Interest Agreement*,” effective for fiscal years beginning after December 15, 2016 (the City’s financial statements for the year ending December 31, 2017). The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Management has not yet determined the impact of these statements on the City’s financial statements.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

2. TAX LEVIES

The taxes levied for 2015 were as follows:

Real estate:	
General purposes	30 mills
Debt service	7.50 mills
Recreation	2 mills
Library	.5 mills
Per capita tax	\$10
Act 511 residence tax	\$5
Real estate transfer tax	0.5%
Local services tax	\$52
Earned income tax for general purposes	0.5%
Mercantile tax, retail	1.5 mills
Mercantile tax, wholesale	1 mill
Business privilege tax	7 mills

The City collects its own real estate taxes and contracts out for the collection of per capita, mercantile, and business privilege taxes.

The City's property tax calendar is as follows:

March 1	- levy date
March 1 - April 30	- 2% discount period
May 1 - June 30	- face payment period
July 1 - January 1 of following year	- 10% penalty period

Real estate taxes attached as an enforceable lien on property as of January 1 and are levied on March 1. Butler County bills these taxes. Butler County collects delinquent real estate taxes for the City.

The City is permitted by the 3rd Class City Code of Pennsylvania to levy real estate taxes up to 25 mills on every dollar of assessed valuation for general City purposes. In 2010, City real estate taxes were levied for general purposes at 30 mills, with court approval, on 100% of assessed valuation.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

3. DEPOSITS AND INVESTMENTS

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

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of the City adheres to state statutes. Deposits of the governmental and proprietary funds are either maintained in demand deposits or invested in pools of government securities through a local bank's sweep account. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the City.

Primary Government

Deposits

The following is a description of the City's deposit risks:

Custodial Credit Risk - For a deposit, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk.

As of December 31, 2015, \$535,792 of the City's \$5,641,527 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance of \$5,105,735 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$5,557,039 as of December 31, 2015.

As of December 1, 2015, the City held the following investment balances in their Enterprise Fund:

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

	Fair Market Value	Maturity in Years		
		Less than 1 year	1-5 years	More than 5 years
U.S. government obligations	\$ 220,316	\$ -	\$ -	\$ 223,890

The following is a description of the City's investment risks:

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside entity. The City does not have a formal investment policy for custodial credit risk. The City's certificates of deposit and asset-backed securities are all underlying securities held by the investment's counterparty, not in the Enterprise Fund's name. These amounts are not insured by the FDIC, nor are they collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. The fair value of these investments is the same as their carrying amount.

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 formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2015, the City's investments in Raymond James Financial, Inc. are rated BBB by Standard & Poor's.

Pension Trust Funds

The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, Firefighter, and General Employees Pension Plans.

As of December 31, 2015, the City had the following cash and investments in its pension trust funds:

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

Cash or Investment Type	Fair Market Value	Investment Maturities from December 31, 2015			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years
U.S. Government securities	\$ 7,492,440	\$ -	\$ 4,707,830	\$ 667,891	\$ 2,166,719
Total debt securities	7,492,440	\$ -	\$ 4,707,830	\$ 667,891	\$ 2,166,719
Cash equivalents	483,365				
Corporate bonds	2,407,508				
Mutual funds	3,703,785				
Common stock	20,147,462				
Total cash equivalents and other investments	26,742,120				
Total cash equivalents and investments reported on statement of fiduciary net position (cash basis) - pension trust funds	\$ 34,234,560				

The following is a description of the pension trust funds' deposit and investment risks:

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2015, the City's investments are not rated or rated AAA by Standard & Poor's.

Custodial Credit Risk – For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk. The City's investments in mutual funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. As of December 31, 2015, the City's entire pension cash equivalents balance of \$483,365 (bank and book balance) was exposed to custodial credit risk.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in any one issuer. There were no investments in the Police, Firefighter, or General Employees Pension Plans that constituted more than 5% of any of the plan net position available for benefits at December 31, 2015 required for disclosure. In addition, the plans did not have any investment transactions with related parties during the year.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

Interest Rate Risk – The pension trust funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Agency Fund

The City maintains bank accounts for the escrowed funds. As of December 31, 2015, the bank and book balance was \$70,352, which is insured by the FDIC.

4. REVOLVING LOAN

In 2011, the City received a Housing and Redevelopment Assistance Program Grant from the Commonwealth of Pennsylvania Department of Community and Economic Development in the amount of \$466,049. The grant was used to provide a revolving loan to a local small business to pay for the renovation of two buildings in the City. The loan is secured by the properties of the borrower and bears interest at a rate of 1.75%. Interest payments began in June 2011 and were paid monthly to the City through the completion of construction, or June 2013. Monthly payments of \$2,946 began in July 2013 and will continue through the maturity date of June 2026. The outstanding balance on the loan at December 31, 2015 was \$396,603. As the City's financial statements are prepared on the modified cash basis of accounting, a loan receivable is not recorded.

The schedule of future payments to be received for the loan is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 28,595	\$ 6,754	\$ 35,349
2017	29,098	6,251	35,349
2018	29,611	5,738	35,349
2019	30,133	5,216	35,349
2020	30,663	4,686	35,349
Thereafter	248,503	15,854	264,357
	<u>\$ 396,603</u>	<u>\$ 44,499</u>	<u>\$ 441,102</u>

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

5. LONG-TERM DEBT

Primary Government

General Obligation Bonds 2005 Series

In December 2005, the City advance refunded the 1996 Series which were issued to refund the Series of 1993 General Obligation Bonds and to provide funds for capital projects. The 2005 General Obligation Bonds bear interest at rates ranging from 3.5%-4.125% and are payable annually through March 1, 2023.

General Obligation Note 2010 Series

In April 2010, the City issued a General Obligation Note for \$400,000 to purchase a pumper truck for the fire department. This General Obligation Note bears interest at a rate of 3.73%, with an annual principal and interest payment of \$47,984 payable through December 2019. During 2011, the City made an additional principal payment of \$77,016. As a result of the reduction, the General Obligation Note is now payable through December 2016. The Redevelopment Authority of the City of Butler has pledged they will make the annual debt service payment.

General Obligation Note 2014 Series

In May 2014, the City issued a General Obligation Note for \$205,000 to be used for street paving purposes. This General Obligation Note bears interest at a rate of 2.39%, with an annual principal payment of \$102,500. This note was paid in full in 2015.

General Obligation Bond 2015 Series

In October 2015, the City issued bonds to be used to provide the City with the funds required for various capital projects of the City, to refund the Parking Authority of the City of Butler Guaranteed Parking System Revenue Bonds, Series of 2003 and Series of 2005, and to pay all costs and expenses incurred by the City in connection with the issuance and sale of the Bonds. The 2015 General Obligation Bonds bear interest at rates ranging from 1.55%-4.0% and are payable annually through December 1, 2040.

General Obligation Note 2015 Series

In June 2015, the City issued a General Obligation Note for \$375,000 to be used for street paving purposes. This General Obligation Note bears interest at a rate of

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

1.45%, with an annual principal payment of \$187,500 payable through December 2016.

Tax Anticipation Note

In January 2015, the City obtained a tax anticipation note in the amount of \$750,000. Note proceeds were used for general operating expenses in anticipation of current year tax revenues in 2015. The tax anticipation note was paid in full as of December 31, 2015.

Summary of Changes in Debt

	Balance at January 1, 2015	Additions	Deletions	Balance at December 31, 2015
General Obligation Bonds, Series of 2005	\$ 1,740,000	\$ -	\$ (165,000)	\$ 1,575,000
General Obligation Bonds, Series of 2015	-	6,800,000	-	6,800,000
General Obligation Note, Series of 2010	108,274	-	(40,144)	68,130
General Obligation Note, Series of 2014	102,500	-	(102,500)	-
General Obligation Note, Series of 2015	-	375,000	(187,500)	187,500
Tax Anticipation Note - 2015	-	750,000	(750,000)	-
	\$ 1,950,774	\$ 7,925,000	\$ (1,245,144)	\$ 8,630,630

Annual debt service requirements to maturity, including interest, are as follows:

Year	Principal Amount	Interest	Total
2016	\$ 425,630	\$ 306,447	\$ 732,077
2017	365,000	271,228	636,228
2018	385,000	262,688	647,688
2019	405,000	251,288	656,288
2020	420,000	238,588	658,588
2021-2025	1,825,000	1,005,451	2,830,451
2026-2030	1,330,000	790,906	2,120,906
2031-2035	1,575,000	554,906	2,129,906
2036-2040	1,900,000	234,000	2,134,000
	\$ 8,630,630	\$ 3,915,502	\$ 12,546,132

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

6. PENSION PLANS

Plan Descriptions

The City's Police, Firefighter, and General Employees Retirement Systems (Plans) are single employer defined benefit pension plans governed by the Municipal Pension Plan Funding Standard Recovery Act (Act 205 of 1984) enacted by the General Assembly of the Commonwealth of Pennsylvania. The Plans are governed by the City's Council which has delegated the authority to manage certain Plan assets to the City Mayor. Plan provisions and contribution requirements are established and may be amended by the City. The Plans are reported as the Pension Trust Funds in the accompanying financial statements. The Plans do not issue separate reports.

All City employees become plan participants immediately upon becoming an employee.

All firefighters who retire on or after January 1, 2000, and who receive a pension benefit shall receive an annual cost of living adjustment of four percent payable upon the anniversary of their retirement, provided that the adjustment does not result in their pension benefit exceeding 50% of the base wage paid to the highest ranking firefighter within the firefighter's collective bargaining unit.

Summary of Significant Accounting Policies

Financial information of the City's Plans is presented on the modified cash basis of accounting, including investments. Employer contributions to each plan are recognized when paid. Benefits and refunds are recognized when paid in accordance with the terms of the individual plan.

Investments of the Plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

Contributions and Funding Policy

The Plans are funded by the city on an annual basis pursuant to the provisions of Act 205 of 1984. Act 205 of 1984 requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under Act 205 of 1984; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

Any financial requirement established by the MMO that exceeds the Commonwealth of Pennsylvania allocation must be funded by the City.

In 2015, the Police were required to contribute 5% and the Firefighters were required to contribute 3% of monthly pay (excluding overtime) to the pension plan. The contribution rate was 5% of monthly pay for the General Employees' plan. The MMOs for the Police, Firefighter, and General Employee plans were \$222,266, \$168,064, and \$22,728, respectively. The Police and Firefighter MMOs were fully paid with the Commonwealth of Pennsylvania allocation. The Commonwealth of Pennsylvania allocation covered \$9,595 of the General Employee MMO. The City contributed \$13,133 to the General Employee plan to meet their MMOs. In addition to the state aid, the City contributed \$14,315 to the Firefighter plan as of December 31, 2015.

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

The City's funded status and related information for each Plan as of the latest actuarial valuation date, January 1, 2015, is as follows:

Actuarial Valuation	Actuarial Value of Assets	Accrued Liability (AAL) Entry Age	Assets Over (Under) AAL	Funded Ratio	Covered Payroll	(Deficiency) as a % of Covered Payroll
Police:	\$ 12,360,496	\$ 12,029,625	\$ 330,871	102.75%	\$ 1,519,709	21.77%
Firefighter:	17,047,190	15,592,913	1,454,277	109.33%	1,368,167	106.29%
General Employees:	5,986,038	5,222,389	763,649	114.62%	921,980	82.83%

Actuarial assumptions - The actuarially accrued liability for both Plans was determined by an actuarial valuation performed on January 1, 2015 using the following actuarial assumptions, applied to all periods in the measurement:

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

	Firefighter Plan	Police Plan	General Employees Plan
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial assumptions:			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	4.50%	4.50%	4.50%
Underlying inflation rate	3.00%	3.00%	3.00%
Cost-of-living adjustment	4.00%	n/a	n/a

Actuarial assumptions based on actuarial experience study for the period January 1, 2014 to December 31, 2014.

Both plans: RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward 7 years for disabled members.

Changes in Actuarial Assumptions – There were no changes in actuarial assumptions from the previous report dated January 1, 2013.

Investment Policy – The Plan’s policies in regard to the allocation of invested assets is established and may be amended by City Council. It is the policy of City Council to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

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

The following was the asset allocation policy for each major asset class included in the Plans’ target asset allocation as of December 31, 2015:

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

Asset Class	Target Allocation		
	Firefighter Plan	Police Plan	General Employees Plan
Equities	50-70%	50-70%	50-70%
Fixed income	30-45%	30-45%	30-45%
Cash and cash equivalents	0-15%	0-15%	0-15%

Concentrations – At December 31, 2015, there were no individual investments that constituted more than 5% of any of the plan net position available for benefits. In addition, the Plans did not have any investment transactions with related parties during the year.

7. POST-EMPLOYMENT HEALTH CARE AND LIFE BENEFITS

In addition to the pension benefits described above, the City permits all retirees to enroll in a post-retirement group life insurance plan, provided that such retirees pay the conversion rate to maintain life insurance coverage. Additionally, retiring police officers and firefighters are permitted to remain in the City's group health insurance plan, provided they pay 100 percent of their premium. In the event that the City's insurance carrier determines that such enrollment is no longer permitted, the City would be required to establish a separate group health plan for any affected police officer. If the premium for the police retiree plan is greater than that of the active duty plan, the City must pay, for a period of twelve months, an amount equal to and not to exceed 50 percent of the difference in the premium for the active duty plan and the police retiree group plan. This provision applies only to retired police officers as memorialized in a collective bargaining agreement, and no retiree is permitted to remain in the City's active duty health plan upon reaching age 65. As of December 31, 2015, no retirees were enrolled in the City's group health insurance plan and 33 retirees were enrolled in the City's group life insurance plan.

8. COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City is potentially liable for any disbursements that may be disallowed; pursuant to the terms of these grant programs.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

Litigation

In the normal course of operations, the City is involved in various civil and legal disputes. Management of the City believes that any outcome resulting from these actions would not have a material effect on the City's financial position.

9. RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

For its workers' compensation insurance coverage, the City participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of 216 cities, municipalities, boroughs, townships, and municipal authorities. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals of the Pennsylvania Department of Labor and Industry as mandated by Act 44 of 1993 (Act 44). All Trust participants may be subject to a supplemental assessment/dividend based on the overall experience of the participants, pursuant to Act 44. Dividends received in 2015 were \$73,870. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers' Compensation Act and Occupational Disease Act of each and every participant of the Trust. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years the Trust purchased excess insurance coverage with statutory limits. The retention for this excess coverage is \$750,000 per occurrence. There were no significant reductions in insurance coverage from coverage in the prior year. Political subdivisions joining the Trust must remain members for a minimum of four years; a member may withdraw from the Trust after that time by giving ninety days' notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments but has no claim on any assets of the Trust. Estimates of any additional assessments are unknown.

The City participates as a member in Municipal Employers Insurance Trust (d/b/a Municipal Benefit Services (MBS)), a public entity risk pool. MBS provides certain

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

benefits including but not limited to, the following coverages: health benefits, short-term accident and sickness disability benefits, long-term accident and sickness disability benefits, dental benefits, vision care, prescription drugs, and life insurance for those eligible employers. All participants of MBS may be subject to supplemental premiums based on the overall experience of the participating members. Reserves generated by MBS for self-insured health premiums paid by members exceeding claims and expenses are held by MBS for the benefit of all participating members. During 2015, a portion of the excess reserves were deposited in eligible clients' Rate Mitigation Accounts (RMA) as determined by the MBS's actuary. RMA funds are held by MBS and are available to the City to reduce future costs associate with participating coverage. RMA funds are forfeited if the member terminates participation in the MBS medical insurance program.

10. SUBSEQUENT EVENTS

In December 2015, the City authorized the issuance of Tax Revenue Anticipation Note Series 2016 with a local bank in the amount of \$750,000 with an interest rate of 1.09%.

For the year ended December 31, 2015, the City had an outstanding contract related to the parking garage construction that was material to the City's financial statements. The total on the outstanding contract is \$3,495,706. As of December 31, 2015, \$243,373 was owed on the contract.

In February 2016, the City authorized a General Obligation Note of \$69,888, with an interest rate of 1.76%, to be used to purchase two police vehicles.

In February 2016, the City authorized a General Obligation Note of \$72,745, with an interest rate of 2.31%, to be used to purchase a truck for the streets department.

In April 2016, the City authorized a General Obligation Note of \$210,000, with an interest rate of 1.62%, to be used for street paving and storm sewer projects.

11. LIQUIDITY

The City had a decrease in fund balance of the General Fund of \$448,293 at December 31, 2015, resulting in ending fund balance of \$(3,028). Management is aware of the current financial condition of the City and will continue to closely monitor cash flow and look for ways to decrease operating costs and increase revenue.

Supplementary Information

CITY OF BUTLER

COMBINING BALANCE SHEET (MODIFIED CASH BASIS) OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	Special Revenue Funds			
	Community Development Block Grant	Housing Redevelopment	Support Our Spray Park	Total Other Governmental Funds
Assets				
Cash and cash equivalents	\$ -	\$ 102,557	\$ -	\$ 102,557
Fund Balance				
Fund Balance:				
Restricted for:				
Revolving loan program	\$ -	\$ 102,557	\$ -	\$ 102,557
Total Fund Balance	\$ -	\$ 102,557	\$ -	\$ 102,557

CITY OF BUTLER

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (MODIFIED CASH BASIS) OTHER GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2015

	Special Revenue Funds			Total Other Governmental Funds
	Community Development Block Grant	Housing Redevelopment	Support Our Spray Park	
Receipts:				
Interest and rents	\$ -	\$ 7,208	\$ -	\$ 7,208
Intergovernmental	158,293	28,141	-	186,434
Total receipts	158,293	35,349	-	193,642
Disbursements:				
Community development	158,293	-	100	158,393
Total disbursements	158,293	-	100	158,393
Net Change in Fund Balance	-	35,349	(100)	35,249
Fund Balance:				
Beginning of year	-	67,208	100	67,308
End of year	\$ -	\$ 102,557	\$ -	\$ 102,557

CITY OF BUTLER

COMBINING STATEMENT OF PLAN NET POSITION (MODIFIED CASH BASIS) PENSION TRUST FUNDS

DECEMBER 31, 2015

	Police	Firefighter	General Employees	Total
Assets				
Cash equivalents	\$ 181,575	\$ 227,624	\$ 74,166	\$ 483,365
Investments (at fair value):				
U.S. government securities	2,537,215	3,570,981	1,384,244	7,492,440
Corporate bonds	884,979	1,170,965	351,564	2,407,508
Common stock	7,050,362	9,766,137	3,330,963	20,147,462
Mutual funds	1,292,833	1,777,133	633,819	3,703,785
Accrued interest and dividends	25,070	35,407	10,372	70,849
Total Assets	11,972,034	16,548,247	5,785,128	34,305,409
Liabilities				
	-	-	-	-
Plan Net Position Held in Trust for Pension Benefits	\$ 11,972,034	\$ 16,548,247	\$ 5,785,128	\$ 34,305,409

CITY OF BUTLER

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION (MODIFIED CASH BASIS) PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2015

	Police	Firefighter	General Employees	Total
Additions:				
<u>Contributions:</u>				
Commonwealth	\$ 222,266	\$ 168,064	\$ 9,595	\$ 399,925
Employer	-	13,812	-	13,812
Employee	64,670	35,127	47,585	147,382
Other	1,726	1,516	11,723	14,965
Total contributions	<u>288,662</u>	<u>218,519</u>	<u>68,903</u>	<u>576,084</u>
<u>Investment income:</u>				
Net accrued income	2,296	(7,273)	(2,812)	(7,789)
Net appreciation (depreciation) in fair value of investments	(581,812)	(763,127)	(282,006)	(1,626,945)
Interest and dividends	294,341	430,944	155,914	881,199
Total investment income (loss)	<u>(285,175)</u>	<u>(339,456)</u>	<u>(128,904)</u>	<u>(753,535)</u>
Investment expense	65,311	89,667	36,374	191,352
Net investment income (loss)	<u>(350,486)</u>	<u>(429,123)</u>	<u>(165,278)</u>	<u>(944,887)</u>
Total additions	<u>(61,824)</u>	<u>(210,604)</u>	<u>(96,375)</u>	<u>(368,803)</u>
Deductions:				
<u>Benefits</u>				
Benefits	724,094	773,574	290,914	1,788,582
Administrative expense	6,658	12,330	5,844	24,832
Total deductions	<u>730,752</u>	<u>785,904</u>	<u>296,758</u>	<u>1,813,414</u>
Increase (Decrease) in Plan Net Position	<u>(792,576)</u>	<u>(996,508)</u>	<u>(393,133)</u>	<u>(2,182,217)</u>
Plan Net Position Held in Trust for Pension Benefits:				
<u>Beginning of year</u>	<u>12,764,610</u>	<u>17,544,755</u>	<u>6,178,261</u>	<u>36,487,626</u>
<u>End of year</u>	<u>\$ 11,972,034</u>	<u>\$ 16,548,247</u>	<u>\$ 5,785,128</u>	<u>\$ 34,305,409</u>

CITY OF BUTLER

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES TAX COLLECTION FUND - AGENCY FUND

DECEMBER 31, 2015

	Balance at January 1, 2015	Additions	Deductions	Balance at December 31, 2015
<hr/> Assets <hr/>				
Cash equivalents	<u>\$ 131,375</u>	<u>\$ 5,780,205</u>	<u>\$ 5,841,328</u>	<u>\$ 70,252</u>
<hr/> Liabilities <hr/>				
Due to other governmental units	<u>\$ 131,375</u>	<u>\$ 5,780,205</u>	<u>\$ 5,841,328</u>	<u>\$ 70,252</u>

CITY OF BUTLER

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FIRE ESCROW FUND - AGENCY FUND

DECEMBER 31, 2015

	<u>Balance at January 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at December 31, 2015</u>
<hr/> Assets <hr/>				
Cash equivalents	<u>\$ 29,876</u>	<u>\$ 31,366</u>	<u>\$ 61,142</u>	<u>\$ 100</u>
<hr/> Liabilities <hr/>				
Escrow liability	<u>\$ 29,876</u>	<u>\$ 31,366</u>	<u>\$ 61,142</u>	<u>\$ 100</u>