

City of Butler

Financial Statements (Modified Cash Basis) and Supplementary Information

**Year Ended December 31, 2022
with Independent Auditor's Report**

CITY OF BUTLER

YEAR ENDED DECEMBER 31, 2022

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CITY OF BUTLER

YEAR ENDED DECEMBER 31, 2022

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Independent Auditor's Report

**City Council and Mayor
City of Butler**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying modified cash basis financial statements (financial statements) of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Butler, Pennsylvania (City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, each major fund, and the aggregate remaining fund information of the City as of December 31, 2022, and the respective changes in modified cash basis financial position and, 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 as described in Note 1 of the financial statements.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary 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 supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 8, 2023

CITY OF BUTLER

STATEMENT OF NET POSITION (MODIFIED CASH BASIS)

DECEMBER 31, 2022

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 1,372,247	\$ 193,719	\$ 1,565,966
Investments	-	24,990	24,990
Total Assets	1,372,247	218,709	1,590,956
Net Position			
Restricted for:			
Roads and bridges	207,073	-	207,073
Revolving loan program	201,905	-	201,905
Police K-9	46,467	-	46,467
Unrestricted	916,802	218,709	1,135,511
Total Net Position	1,372,247	218,709	1,590,956
Total Liabilities and Net Position	\$ 1,372,247	\$ 218,709	\$ 1,590,956

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

CITY OF BUTLER
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED DECEMBER 31, 2022

Functions/Programs	Program Revenues				Net (Disbursement) Receipt and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants	Capital Grants	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,492,617	\$ 258,209	\$ 813,763	\$ -	\$ (420,645)	\$ -	\$ (420,645)
Public safety	5,500,413	180,954	611,162	52,237	(4,656,060)	-	(4,656,060)
Health and welfare	12,905	69,897	-	-	56,992	-	56,992
Public works - highways	962,524	-	398,575	89,650	(474,299)	-	(474,299)
Public works - other	63,892	-	-	-	(63,892)	-	(63,892)
Culture and recreation	441,466	-	-	-	(441,466)	-	(441,466)
Community development	162,963	-	195,311	-	32,348	-	32,348
Debt service	2,203,871	-	-	-	(2,203,871)	-	(2,203,871)
Total governmental activities	10,840,651	509,060	2,018,811	141,887	(8,170,893)	-	(8,170,893)
Business-type activities:							
Parking	117,905	867,547	-	-	-	749,642	749,642
Total business-type activities	117,905	867,547	-	-	-	749,642	749,642
Total Primary Government	\$ 10,958,556	\$ 1,376,607	\$ 2,018,811	\$ 141,887	(8,170,893)	749,642	(7,421,251)
General revenues:							
Real estate taxes, including penalty and interest					2,773,972	-	2,773,972
Real estate transfer taxes					174,916	-	174,916
Earned income taxes, including penalty and interest					1,176,788	-	1,176,788
Business gross receipts taxes					1,448,719	-	1,448,719
Local services tax, including penalty and interest					272,411	-	272,411
All other taxes					55,694	-	55,694
Interest and rents					46,576	2,992	49,568
Miscellaneous					368,718	-	368,718
Unrealized gain (loss) on investments					-	(4,410)	(4,410)
Proceeds from issuance of debt					1,409,600	-	1,409,600
Transfers in (out)					864,776	(864,776)	-
Total general revenues and transfers					8,592,170	(866,194)	7,725,976
Change in Net Position					421,277	(116,552)	304,725
Net Position - beginning of year					950,970	335,261	1,286,231
Net Position - end of year					\$ 1,372,247	\$ 218,709	\$ 1,590,956

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

CITY OF BUTLER

BALANCE SHEET (MODIFIED CASH BASIS) GOVERNMENTAL FUNDS

DECEMBER 31, 2022

	General	Capital Projects Fund	Liquid Fuels Fund	Housing Redevelopment Fund	Other Governmental Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 511,203	\$ 452,066	\$ 207,073	\$ 201,905	\$ -	\$ 1,372,247
Total Assets	<u>\$ 511,203</u>	<u>\$ 452,066</u>	<u>\$ 207,073</u>	<u>\$ 201,905</u>	<u>\$ -</u>	<u>\$ 1,372,247</u>
Fund Balance						
Restricted for:						
Roads and bridges	\$ -	\$ -	\$ 207,073	\$ -	\$ -	\$ 207,073
Revolving loan program	-	-	-	201,905	-	201,905
Police K-9	46,467	-	-	-	-	46,467
Assigned	-	452,066	-	-	-	452,066
Unassigned	464,736	-	-	-	-	464,736
Total Fund Balance	<u>511,203</u>	<u>452,066</u>	<u>207,073</u>	<u>201,905</u>	<u>-</u>	<u>1,372,247</u>
Total Liabilities and Fund Balance	<u>\$ 511,203</u>	<u>\$ 452,066</u>	<u>\$ 207,073</u>	<u>\$ 201,905</u>	<u>\$ -</u>	<u>\$ 1,372,247</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, 2022

	General	Capital Projects Fund	Liquid Fuels Fund	Housing Redevelopment Fund	Other Governmental Fund	Total Governmental Funds
Receipts:						
Taxes, including penalty and interest	\$ 5,902,500	\$ -	\$ -	\$ -	\$ -	\$ 5,902,500
Licenses and permits	332,272	-	-	-	-	332,272
Fines and forfeits	56,046	-	-	-	-	56,046
Interest and rents	30,682	6,269	3,022	6,603	-	46,576
Intergovernmental	1,474,162	89,650	398,575	-	155,234	2,117,621
Community development	-	-	-	40,077	-	40,077
Charges for services	123,742	-	-	-	-	123,742
Miscellaneous	368,718	-	-	-	-	368,718
Total receipts	8,288,122	95,919	401,597	46,680	155,234	8,987,552
Disbursements:						
Current:						
General government	1,157,118	-	-	21	-	1,157,139
Public safety	5,500,413	-	-	-	-	5,500,413
Health and welfare	12,905	-	-	-	-	12,905
Public works - highways	392,338	125,484	444,702	-	-	962,524
Public works - others	63,892	-	-	-	-	63,892
Culture and recreation	441,466	-	-	-	-	441,466
Community development	4,200	-	-	3,529	155,234	162,963
Other	335,478	-	-	-	-	335,478
Debt service	2,203,871	-	-	-	-	2,203,871
Total disbursements	10,111,681	125,484	444,702	3,550	155,234	10,840,651
Excess (Deficiency) of Receipts over Disbursements	(1,823,559)	(29,565)	(43,105)	43,130	-	(1,853,099)
Other Financing Sources (Uses):						
Proceeds from issuance of debt	1,409,600	-	-	-	-	1,409,600
Transfers in (out)	546,176	318,600	-	-	-	864,776
Total other financing sources (uses)	1,955,776	318,600	-	-	-	2,274,376
Net Change in Fund Balance	132,217	289,035	(43,105)	43,130	-	421,277
Fund Balance:						
Beginning of year	378,986	163,031	250,178	158,775	-	950,970
End of year	\$ 511,203	\$ 452,066	\$ 207,073	\$ 201,905	\$ -	\$ 1,372,247

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

CITY OF BUTLER

BUDGETARY COMPARISON STATEMENT (MODIFIED CASH BASIS) GENERAL FUND

YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Receipts:				
Taxes, including penalty and interest	\$ 6,035,520	\$ 6,035,520	\$ 5,902,500	\$ (133,020)
Licenses and permits	356,910	356,910	332,272	(24,638)
Fines and forfeits	107,000	107,000	56,046	(50,954)
Interest and rents	26,050	26,050	30,682	4,632
Intergovernmental	2,374,856	2,374,856	1,474,162	(900,694)
Charges for services	93,586	93,586	123,742	30,156
Miscellaneous	115,541	115,541	368,718	253,177
Total receipts	9,109,463	9,109,463	8,288,122	(821,341)
Disbursements:				
Current:				
General government	963,871	963,871	1,157,118	(193,247)
Public safety	5,241,001	5,241,001	5,500,413	(259,412)
Health and welfare	12,905	12,905	12,905	-
Public works - highways	376,382	376,382	392,338	(15,956)
Public works - other	83,621	83,621	63,892	19,729
Culture and recreation	474,584	474,584	441,466	33,118
Community development	-	-	4,200	(4,200)
Other	836,569	836,569	335,478	501,091
Debt service	2,205,027	2,205,027	2,203,871	1,156
Total disbursements	10,193,960	10,193,960	10,111,681	82,279
Excess (Deficiency) of Receipts over Disbursements	(1,084,497)	(1,084,497)	(1,823,559)	(739,062)
Other Financing Sources (Uses):				
Proceeds from issuance of debt	1,409,600	1,409,600	1,409,600	-
Transfers in (out)	(325,103)	(325,103)	546,176	871,279
Total other financing sources (uses)	1,084,497	1,084,497	1,955,776	871,279
Net Change in Fund Balance	\$ -	\$ -	\$ 132,217	\$ 132,217

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, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Receipts:				
Interest and rents	\$ 300	\$ 300	\$ 3,022	\$ 2,722
Intergovernmental	399,936	399,936	398,575	(1,361)
Miscellaneous	100,000	100,000	-	(100,000)
Total receipts	500,236	500,236	401,597	(98,639)
Disbursements:				
General government	-	-	-	-
Public works - highways	500,236	500,236	444,702	55,534
Total disbursements	500,236	500,236	444,702	55,534
Excess (Deficiency) of Receipts over Disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (43,105)</u>	<u>\$ (43,105)</u>

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

CITY OF BUTLER

STATEMENT OF NET POSITION (MODIFIED CASH BASIS)

PROPRIETARY FUND

DECEMBER 31, 2022

	<u>Enterprise Fund</u> <u>Parking</u> <u>Fund</u>
Assets	
Cash and cash equivalents	\$ 193,719
Investments	24,990
Total Assets	<u>218,709</u>
Net Position	
Unrestricted	<u>218,709</u>
Total Net Position	<u><u>\$ 218,709</u></u>

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, 2022

	Enterprise Fund
	Parking Fund
Operating Receipts:	
Parking rentals	\$ 848,918
Miscellaneous	18,629
Total operating receipts	867,547
Operating Disbursements:	
Utilities	24,681
Repair and maintenance	31,914
Bank charges	286
Rent	6,000
Meters	34,564
Postage and other office supplies	8,070
Miscellaneous	12,390
Total operating disbursements	117,905
Operating Income (Loss)	749,642
Nonoperating Receipts (Disbursements):	
Interest income	2,992
Unrealized gain (loss) on investments	(4,410)
Total nonoperating receipts (disbursements)	(1,418)
Transfers in (out)	(864,776)
Change in Net Position	(116,552)
Net Position:	
Beginning of year	335,261
End of year	\$ 218,709

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, 2022

	<u>Enterprise Fund</u> <u>Parking</u> <u>Fund</u>
Cash Flows From Operating Activities:	
Receipts from customers	\$ 867,547
Payments for operating costs	<u>(117,905)</u>
Net cash provided by (used in) operating activities	<u>749,642</u>
Cash Flows From Noncapital Financing Activities:	
Net cash transfers with General Fund	<u>(864,776)</u>
Net cash provided by (used in) noncapital financing activities	<u>(864,776)</u>
Cash Flows From Investing Activities:	
Purchase (sale) of investments	212,852
Interest received	<u>2,992</u>
Net cash provided by (used in) investing activities	<u>215,844</u>
Increase (Decrease) in Cash and Cash Equivalents	100,710
Cash and Cash Equivalents:	
Beginning of year	<u>93,009</u>
End of year	<u><u>\$ 193,719</u></u>

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

CITY OF BUTLER

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

DECEMBER 31, 2022

Assets	Pension Trust Funds	Custodial Funds
Cash equivalents	\$ 1,045,320	\$ 54,650
Investments (at fair value):		
Registered investment companies	39,499,577	-
Accrued interest and dividends	22,124	-
Total Assets	40,567,021	54,650
Liabilities		
Escrow liability	-	3,009
Total Liabilities	-	3,009
Net Position		
Restricted for:		
Pension benefits	40,567,021	-
Individuals, organizations, and other	-	51,641
Total Net Position	40,567,021	51,641
Total Liabilities and Net Position	\$ 40,567,021	\$ 54,650

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

CITY OF BUTLER

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

YEAR ENDED DECEMBER 31, 2022

	Pension Trust Funds	Custodial Funds
Additions:		
Contributions:		
Commonwealth	\$ 533,587	\$ -
Employer	31,939	-
Employee	200,208	-
Other	1,484	49,894
Total contributions	767,218	49,894
Investment income:		
Net accrued income (loss)	8,442	-
Net appreciation (depreciation) in fair value of investments	(8,669,790)	-
Interest and dividends	1,126,171	62
Total investment income (loss)	(7,535,177)	62
Investment expense	56,336	-
Net investment income (loss)	(7,591,513)	62
Taxes received	-	174,760
Miscellaneous	-	2,644
Total additions	(6,824,295)	227,360
Deductions:		
Benefits	2,293,026	-
Administrative expense	15,622	-
Taxes paid	-	123,246
Other	-	107,752
Total deductions	2,308,648	230,998
Increase (Decrease) in Net Position	(9,132,943)	(3,638)
Net Position:		
Beginning of year	49,699,964	55,279
End of year	\$ 40,567,021	\$ 51,641

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

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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, parking facilities, and general administrative services.

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.

Butler Area Sewer Authority (Sewer Authority)

The Sewer Authority was created under the Municipality Authorities Act of 1945, P.L. 382, as amended and supplemented, having been duly organized by joint action of the City of Butler and the Township. The Sewer Authority provides sanitary sewer collection and treatment for the City of Butler and the Township, Center Township, areas in East Butler Borough, and limited areas of Summit, Connoquenessing, Oakland, and Penn Townships. The Sewer Authority is not a component unit as its Board members cannot be removed at will by the City.

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. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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.

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.

Within the enterprise fund there are operating and nonoperating revenues and expenses. Operating revenues and expenses are income and expense items incurred through the normal course of business. Nonoperating revenues and expenses are related to income and expense items incurred from activities that do not relate to normal business operations.

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 basis of accounting 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 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.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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.

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 *Housing Redevelopment Fund* is a Special Revenue Fund. It accounts for the revolving loan program.

The government reports the following major proprietary fund:

The *Parking Fund* is used to account for parking revenues as well as expenses related to maintenance, utilities, meter collection, and other miscellaneous costs to maintain certain parking facilities of the City of Butler.

Additionally, the government reports the following other fund information:

The *Other Governmental Fund* is comprised of the following:

The *Community Development Block Grant Fund* is a Special Revenue Fund.

The *Fiduciary Funds* are comprised of the following:

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 a custodial 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 a custodial fund used to account for amounts collected and held on behalf of residents whose houses have been damaged by fire.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

The *Father Marinaro Skate Park Fund* is a custodial fund comprised of donations and used for the skate park.

The *Parks and Recreation Fund* is a custodial fund comprised of donations used for park and playground rehabilitation.

The *Shade Tree Commission Fund* is a custodial fund comprised of donations and grants to be used for the Shade Tree Commission.

The *Bicycle Fund* is a custodial fund comprised of donations to be used for the Bicycle Commission.

The *Tax Increment Fund* is a custodial fund comprised of the collection and allocation of funds for specific use.

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, and fiduciary funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 budgets are adopted on a modified cash basis, which is a 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.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

- 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.

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 are carried at fair value. Funds are invested in accordance with the City's investment policy guidelines as described in Note 3.

H. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

I. 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.

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 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 \$207,073, \$201,905, and \$46,467 related to roads and bridges, the revolving loan program, and Police K-9, 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

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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 Police K-9.
- 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, 2022.
- 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.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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. Adopted Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements were adopted for the year ended December 31, 2022: Statement Nos. 87, (Leases), 91 (Conduit Debt Obligations), 92 (Omnibus 2020), 97 (Deferred Compensation Plans), and 99 (Omnibus 2022 – paragraphs 26 through 32). These statements had no significant impact on the City's financial statements for the year ended December 31, 2022.

N. Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), 99 (Omnibus 2022), 100, (Accounting Changes and Error Corrections), and 101 (Compensated Absences). Management has not yet determined the impact of these statements on the financial statements.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

2. Tax Levies

The taxes levied for 2022 were as follows:

Real estate:	
General purposes	30 mills
Debt service	11.40 mills
Recreation	2 mills
Library	.5 mills
Shade tree	.1 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 contracts out for the collection of all 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, 2022

3. Deposits and Investments

The City's investment authority for all funds, except fiduciary funds, is set by Pennsylvania statutes that provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes allow pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental funds and proprietary 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.

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, 2022, \$250,000 of the City's \$1,608,302 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance of \$1,358,302 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$1,565,966 as of December 31, 2022.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

As of December 31, 2022, the City held the following investment balances in its Enterprise Fund:

	Fair Value	Maturity in Years		
		Less than 1 year	1-5 years	More than 5 years
U.S. government obligations	\$ 24,125	\$ -	\$ -	\$ 24,125
Sweep account	865			
Total investments reported on statement of net position (modified cash basis)	<u>\$ 24,990</u>			

U.S. government obligations are valued using quoted market prices (Level 1 inputs).

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 U.S. government obligations 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, 2022, the City's investments in U.S. government obligations are rated BBB+ by Standard & Poor's.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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, 2022, the City had the following cash and investments in its pension trust funds:

Cash or Investment Type	Fair Value
Mutual funds - money market	\$ 1,045,320
Registered investment companies	39,499,577
Total cash equivalents and investments reported on statement of fiduciary net position (modified cash basis) - pension trust funds	\$ 40,544,897

Mutual funds and registered investment companies are valued using quoted market prices (Level 1 inputs).

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, 2022, the City's investments are not rated 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, 2022, \$1,045,320 (bank

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

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and book balance) of the City's pension cash equivalents 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, 2022 required for disclosure. In addition, the plans did not have any investment transactions with related parties during the year.

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.

Custodial Fund

The City maintains bank accounts for the escrowed funds. As of December 31, 2022, the book balance was \$54,650 and bank balance was \$56,077. Of this bank balance, \$16,359 is insured by the FDIC and \$39,718 is uninsured, 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.

4. Revolving Loans

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, 2022 was \$189,890.

In 2019, the City entered into a business loan agreement with Joseph L. Gray and Jacquelyn P. Gray for the borrowing of \$140,000. The loan bears an interest rate of 4.00%. Monthly payments will be \$1,036 beginning July 2019 and continuing through June 2034. The outstanding balance on the loan at December 31, 2022 was \$116,169.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

The schedule of future payments to be received for the loans are as follows:

	Principal	Interest	Total
2023	\$ 40,309	\$ 7,466	\$ 47,775
2024	41,204	6,571	47,775
2025	42,122	5,653	47,775
2026	103,471	5,313	108,784
2027	9,381	3,045	12,426
2028-2032	52,961	9,173	62,134
2033-2034	16,611	1,914	18,525
	<u>\$ 306,059</u>	<u>\$ 39,135</u>	<u>\$ 345,194</u>

5. Long-Term Debt

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. Total debt issued was \$2,990,000. The direct placement bonds are secured by the full faith, credit, and taxing power of the City. The 2005 General Obligation Bonds bear interest at rates ranging from 4.125%-4.125% and are payable annually through March 1, 2023. The Bonds are secured by the full faith, credit, and taxing power of the City.

General Obligation Bonds 2015 Series

In October 2015, the City issued direct placement bonds totaling \$6,800,000 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 bonds are \$6,235,000 nontaxable and \$565,000 taxable and are secured by the full faith, credit, and taxing power of the City. The 2015 General Obligation Bonds bear interest at rates ranging from 2.0%-4.0% and are payable annually through December 1, 2040. The Bonds are secured by the full faith, credit, and taxing power of the City.

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NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

Butler County Infrastructure Bank

In December 2018, the City obtained a General Obligation Note through the Butler County Infrastructure Bank for \$1,839,215 to be used for qualified municipal infrastructure projects including the Main Street Lighting Project and the Sullivan Run Flood Control Project. In October 2020, the City refunded the Note and issued a General Obligation Note Series 2020 for \$1,885,000. This Note bears interest at a rate of 0.56% with annual principal payments payable through December 2028. The City's interest payments and future interest obligations will be shown net of 1.5% that the Butler County Infrastructure Bank is subsidizing. The Note is secured by the full faith, credit, and taxing power of the City. Upon the occurrence of any event of default, the outstanding principal balance and accrued interest under the Note together with any additional amounts payable shall be immediately due and payable without demand or notice of any kind.

General Obligation Note 2021 Series

In June 2021, the City issued a direct borrowing General Obligation Note for \$1,329,763 to be used for the purchase of a ladder truck. This General Obligation Note bears interest at a rate of 2.85% with annual principal payments payable through June 2032. The Note is secured by the full faith, credit, and taxing power of the City.

General Obligation Note 2022 Series

In May 2022, the City issued a direct borrowing General Obligation Note for \$409,600 to be used for repairs to streets department garage, street paving, a police vehicle, and a parks department truck. This General Obligation Note bears interest at a rate of 3.22% with annual principal payments payable through December 2023. The Note is secured by the full faith, credit, and taxing power of the City.

Tax Anticipation Note

In January 2022, the City obtained a tax anticipation note in the amount of \$1,000,000. Note proceeds were used for general operating expenses in anticipation of current year tax revenues in 2022. The tax anticipation note was paid in full as of December 31, 2022.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

Summary of Changes in Debt

	Balance at January 1, 2022	Additions	Deletions	Balance at December 31, 2022	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds:					
General Obligation Bonds, Series of 2005	\$ 440,000	\$ -	\$ (220,000)	\$ 220,000	\$ 220,000
General Obligation Bonds, Series of 2015	5,755,000	-	(230,000)	5,525,000	235,000
	<u>6,195,000</u>	<u>-</u>	<u>(450,000)</u>	<u>5,745,000</u>	<u>455,000</u>
Direct Borrowings:					
Butler County Infrastructure Bank 2020	1,566,000	-	(219,000)	1,347,000	220,000
General Obligation Note, Series of 2021	1,329,763		(57,771)	1,271,992	118,168
General Obligation Note, Series of 2022	-	409,600	(204,800)	204,800	204,800
Tax Anticipation Note - 2022	-	1,000,000	(1,000,000)	-	-
	<u>2,895,763</u>	<u>1,409,600</u>	<u>(1,481,571)</u>	<u>2,823,792</u>	<u>542,968</u>
Total Long-Term Debt	<u>\$ 9,090,763</u>	<u>\$ 1,409,600</u>	<u>\$ (1,931,571)</u>	<u>\$ 8,568,792</u>	<u>\$ 997,968</u>

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

Year	Governmental Activities				Total
	General Obligation Bonds		Direct Borrowings		
	Principal	Interest	Principal	Interest	
2023	\$ 455,000	\$ 199,875	\$ 542,968	\$ 60,308	\$ 1,258,151
2024	240,000	185,219	343,514	47,441	816,174
2025	245,000	179,519	348,144	40,859	813,522
2026	245,000	173,088	351,786	34,251	804,125
2027	260,000	166,350	357,534	27,537	811,421
2028-2032	1,425,000	706,963	879,846	50,606	3,062,415
2033-2037	1,690,000	437,413	-	-	2,127,413
2038-2040	1,185,000	96,000	-	-	1,281,000
	<u>\$ 5,745,000</u>	<u>\$ 2,144,427</u>	<u>\$ 2,823,792</u>	<u>\$ 261,001</u>	<u>\$ 10,974,220</u>

As of December 31, 2022, the City's S&P Global Ratings bond rating is BB.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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

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NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

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Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO that exceeds the Commonwealth of Pennsylvania allocation must be funded by the City.

In 2022, the Police were required to contribute 5% and the Firefighters were required to contribute 5% of monthly pay (excluding overtime) to the pension plan which is matched dollar for dollar by the City for non-vested firefighters. The contribution rate was 5% of monthly pay for the General Employees Plan. The MMOs for the Police, Firefighter, and General Employees Plans were \$330,367, \$221,174, and \$0, respectively. The Police, Firefighter, and General Employees MMO were fully paid with the Commonwealth of Pennsylvania allocation as well as a distribution from the General Fund.

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, 2021, is as follows:

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a % of Covered Payroll
Police:	\$ 14,482,669	\$ 15,073,657	\$ (590,988)	96.08%	\$ 1,603,286	-36.86%
Firefighter:	20,843,373	20,103,646	739,727	103.68%	1,429,593	51.74%
General Employees:	7,167,978	5,974,292	1,193,686	119.98%	1,070,043	111.55%

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Actuarial assumptions - The actuarially accrued liability for the three Plans was determined by an actuarial valuation performed on January 1, 2021 using the following actuarial assumptions, applied to all periods in the measurement:

	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	7.00%	7.00%	7.00%
Projected salary increases	4.50%	4.50%	4.25%
Underlying inflation rate	2.50%	2.50%	2.50%
Cost-of-living adjustment	3.50%	n/a	n/a
Mortality	2010 Public Retirement Plan - Public Safety mortality tables (PubS-2010)	2010 Public Retirement Plan - Public Safety mortality tables (PubS-2010)	2010 Public Retirement Plan - General Employees mortality tables (PubG-2010)

Actuarial assumptions based on actuarial experience study for the period January 1, 2019 to December 31, 2020.

Changes in Actuarial Assumptions – The following actuarial assumptions were changed since the January 1, 2019 actuarial valuation. The Consumer Price Index/inflation assumption was lowered from 2.75% to 2.50% per year for all Plans. The assumed interest rate was lowered from 7.25% to 7.00% per year for all Plans. For the General Employees Plan, the salary increase assumption was reduced from 4.50% to 4.25% per year. The mortality assumption was updated from the RP-2014 Mortality Table with 50% Blue-Collar adjustment to the 2010 Public Retirement Plans – General Employees mortality tables (PubG-2010) and Public Safety employees mortality tables (PubS-2010) for the General Employees Plan and the Police and Firefighter Plans, respectively. In addition, the mortality improvement assumption was updated from being based on the 2015 Social Security Administration's Trustee Report assumptions to the 2020 Social Security Administration's Trustees Report assumptions using a mortality projection with a base year of 2020 instead of 2010 for all plans. For the Police and Firefighter Plans, the disability assumption has been updated to projections based on the ultimate rates of disability incidence in the Social Security Administration's 2020 Trustees Report. Lastly, for the Firefighter Plan, the retirement assumption was updated based on a review of retirements from the plan over the last 20 years.

Changes in Benefits – For the General Employees and Police Plans, there were no benefit changes reported since the January 1, 2019 actuarial valuation. For the Firefighter Plan, the

CITY OF BUTLER

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normal retirement eligibility for participants hired after January 1, 2020 was changed from completion of 20 years of service (with no age requirement) to age 50 with 25 years of service. Additionally, the service increment for participants hired after January 1, 2020 is calculated based on the number of completed years of service in excess of 25 years (instead of 20).

Investment Policy – The Plans’ policies in regard to the allocation of invested assets are 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, 2022:

Asset Class	Target Allocation		
	Firefighter Plan	Police Plan	General Employees Plan
Large Cap Core	10-20%	10-20%	10-20%
Large Cap Value	0-10%	0-10%	0-10%
Large Cap Growth	0-10%	0-10%	0-10%
Mid Cap Core	5-15%	5-15%	5-15%
Small Cap Core	0-10%	0-10%	0-10%
International Developed Markets	5-15%	5-15%	5-15%
International Emerging Markets	0-10%	0-10%	0-10%
Core Fixed Income	15-25%	15-25%	15-25%
Short-Term Fixed Income	0-5%	0-5%	0-5%
Intermediate Treasury Inflation Protected Securities	0-5%	0-5%	0-5%
High Yield	5-15%	5-15%	5-15%
Non-US Fixed Income	0-10%	0-10%	0-10%
Real Estate	0-10%	0-10%	0-10%
Cash	0-5%	0-5%	0-5%

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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, 2022, no retirees were enrolled in the City's group health insurance plan and 19 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.

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

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

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 312 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 2022 were \$75,891. 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 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. Starting in 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.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

10. Tax Increment Financing

Pursuant to the Pennsylvania Tax Increment Financing Act, as amended (TIF Act), The Redevelopment Authority of the City of Butler (Authority) has created a tax increment district denominated the Butler City "Centre City" Tax Increment Financing (TIF) District (TIF District). As required by the TIF Act, the Authority prepared a tax increment financing plan (TIF Plan) for the design, construction, relocation, and widening/repaving of streets and alleyways, design and rebuilding of curbs, walls, and sidewalks, relocation and installation of public utilities, installation of new street lighting, and design and installation of new signage, creation and installation of new landscape areas, and installation of seating areas and walking/biking accommodations within the proposed TIF District. The Authority has entered into an intergovernmental cooperation agreement for the 20-year period of the TIF District with the City, Butler County, and the Butler Area School District for the purpose of financing the public improvements and other costs associated with the Centre City Project. Beginning in 2017, the City serves solely as a pass-through entity for the increment funds collected related to the TIF District, and, as such, the activity is reported as a custodial fund in the accompanying financial statements.

Pursuant to the TIF Act, the Authority has created a tax increment district denominated the West End Revitalization Project (West End TIF). As required by the TIF Act, the Authority prepared a TIF Plan for the financing and construction of (a) construction/restoration of Pullman Park, (b) costs of creation of additional parking in the TIF District, (c) funds for City of Butler flood control, (d) costs associated with improvements to the infrastructure, acquisition, clearance, and environmental remediation of the area. The Authority has entered into an intergovernmental cooperation agreement for the 20-year period of the TIF District with the City, Butler County, and the Butler Area School District for the purpose of financing the public improvements and other costs associated with the West End TIF Project. The City serves solely as a pass-through entity for the increment funds collected related to the TIF District, and, as such, the activity is reported as a custodial fund in the accompanying financial statements.

11. Subsequent Events

Tax Anticipation Note

In December 2022, the City authorized the issuance of Tax Revenue Anticipation Note Series 2023 with a local bank in the amount of \$1,500,000, with an interest rate of 5.81%.

CITY OF BUTLER

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2022

Butler Area Sewer Authority (Sewer Authority)

On September 13, 2022, the Sewer Authority Board announced that Pennsylvania American Water Company (PAWC) formally presented the Sewer Authority with an offer to acquire the wastewater system for \$231.5 million. At the Sewer Authority's October 11, 2022 meeting, the Board voted unanimously to approve and execute the Asset Purchase Agreement with PAWC. Currently, PAWC is seeking regulatory approval for the merger. The Sewer Authority is jointly governed by Butler City and Butler Township and the distribution of the final sales proceeds has yet to be determined.

SUPPLEMENTARY INFORMATION

CITY OF BUTLER

COMBINING BALANCE SHEET (MODIFIED CASH BASIS) OTHER GOVERNMENTAL FUND

DECEMBER 31, 2022

	<u>Special Revenue Fund</u>
	Community
	Development
	<u>Block Grant</u>
<u>Assets</u>	
Cash and cash equivalents	\$ -
<u>Fund Balance</u>	
Fund Balance:	
Unassigned	\$ -
Total Fund Balance	<u>\$ -</u>

CITY OF BUTLER

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

YEAR ENDED DECEMBER 31, 2022

	<u>Special Revenue Fund</u>
	<u>Community Development Block Grant</u>
Receipts:	
<u>Intergovernmental</u>	<u>\$ 155,234</u>
Total receipts	<u>155,234</u>
Disbursements:	
<u>General government</u>	<u>-</u>
Community development	155,234
Other	<u>-</u>
Total disbursements	<u>155,234</u>
Excess (Deficiency) of Receipts over Disbursements	-
Net Change in Fund Balance	-
Fund Balance:	
<u>Beginning of year</u>	<u>-</u>
End of year	<u><u>\$ -</u></u>

CITY OF BUTLER

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

DECEMBER 31, 2022

	Police	Firefighter	General Employees	Total
Assets				
Cash equivalents	\$ 356,617	\$ 408,584	\$ 280,119	\$ 1,045,320
Investments (at fair value):				
Registered investment companies	13,423,758	19,516,625	6,559,194	39,499,577
Accrued interest and dividends	7,436	10,770	3,918	22,124
Total Assets	13,787,811	19,935,979	6,843,231	40,567,021
Liabilities	-	-	-	-
Plan Net Position Restricted for Pension Benefits	\$ 13,787,811	\$ 19,935,979	\$ 6,843,231	\$ 40,567,021

CITY OF BUTLER

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

YEAR ENDED DECEMBER 31, 2022

	Police	Firefighter	General Employees	Total
Additions:				
Contributions:				
Commonwealth	\$ 332,739	\$ 199,662	\$ 1,186	\$ 533,587
Employer	-	31,939	-	31,939
Employee	79,994	62,478	57,736	200,208
Other	501	741	242	1,484
Total contributions	413,234	294,820	59,164	767,218
Investment income:				
Net accrued income (loss)	2,730	4,048	1,664	8,442
Net appreciation (depreciation) in fair value of investments	(2,957,518)	(4,262,540)	(1,449,732)	(8,669,790)
Interest and dividends	382,456	556,233	187,482	1,126,171
Total investment income (loss)	(2,572,332)	(3,702,259)	(1,260,586)	(7,535,177)
Investment expense	24,803	22,690	8,843	56,336
Net investment income (loss)	(2,597,135)	(3,724,949)	(1,269,429)	(7,591,513)
Total additions	(2,183,901)	(3,430,129)	(1,210,265)	(6,824,295)
Deductions:				
Benefits	904,280	1,031,774	356,972	2,293,026
Administrative expense	-	10,921	4,701	15,622
Total deductions	904,280	1,042,695	361,673	2,308,648
Increase (Decrease) in Plan Net Position	(3,088,181)	(4,472,824)	(1,571,938)	(9,132,943)
Plan Net Position Restricted for Pension Benefits:				
Beginning of year	16,875,992	24,408,803	8,415,169	49,699,964
End of year	\$ 13,787,811	\$ 19,935,979	\$ 6,843,231	\$ 40,567,021