

CITY OF WARREN, PENNSYLVANIA

AUDIT REPORT

DECEMBER 31, 2016

CITY OF WARREN, PENNSYLVANIA
Table of Contents
For the Year Ended December 31, 2016

	<u>Page</u>
Independent Auditors' Report	4-6
Management's Discussion and Analysis	7-18
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	19
Statement of Activities	20-21
Fund Financial Statements	
Balance Sheet - Governmental Funds	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	23
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	25
Statement of Net Position - Proprietary Funds	26
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28
Statement of Fiduciary Net Position- Pension Trusts	29
Statement of Changes in Fiduciary Net Position - Pension Trusts	30
Notes to Financial Statements	31-75
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	77
Schedule of Changes in the City's Net Pension Liability and Related Ratios – Municipal Employees Pension Plan	78
Schedule of Changes in the City's Net Pension Liability and Related Ratios – Police Pension Plan	79
Schedule of Changes in the City's Net Pension Liability and Related Ratios – Firefighters Pension Plan	80
Schedule of Contributions – Municipal Employees Pension Plan	81-82
Schedule of Contributions – Police Pension Plan	83-85
Schedule of Contributions – Firefighters Pension Plan	86-87
Schedule of Investment Ratios	88
Pension Trusts – Schedules of Funding Progress	89
Postemployment Benefits Other Than Pension Trusts - Schedule of Funding Progress	90

CITY OF WARREN, PENNSYLVANIA

Table of Contents

For the Year Ended December 31, 2016

(continued)

Page

Other Supplementary Information

Schedule of Revenues, Expenses and Changes in Net

Position – Budget and Actual – Parking Fund 92

Schedule of Revenues, Expenses and Changes in Net

Position – Budget and Actual – Sewer Fund 93

Combining Balance Sheet - Nonmajor Governmental Funds 94

Combining Schedule of Revenues, Expenditures and Changes

in Fund Balance - Nonmajor Governmental Funds 95

Combining Schedule of Fiduciary Net Position – Pension Trusts 96

Combining Schedule of Changes in Fiduciary Net Position – Pension Trusts 97

Single Audit Compliance Schedules

Independent Auditors' Reports 98-102

Schedule of Expenditures of Federal Awards 103

Schedule of Expenditures of Federal Awards Footnotes and Other

Information 104

Schedule of Findings and Questioned Costs 105

Summary Schedule of Prior Audit Findings 106

Corrective Action Plan 107

List of Report Distribution 108



FELIX & GLOEKLER, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

To the City Council
City of Warren, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Warren, Pennsylvania as of and for the year ended December 31, 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Independent Auditors' Report
(Continued)

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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Warren, Pennsylvania as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Independent Auditors' Report
(Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Warren, Pennsylvania's basic financial statements. The other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards 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 other supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2017 on our consideration of the City of Warren, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Warren, Pennsylvania's internal control over financial reporting and compliance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

June 16, 2017
Erie, Pennsylvania

CITY OF WARREN, PENNSYLVANIA
Management's Discussion & Analysis
For the Year Ended December 31, 2016

As management of the City of Warren, we offer readers of the City of Warren's financial statements this narrative overview and analysis of the financial activities of the City of Warren for the fiscal year ended December 31, 2016. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

Government-wide Financial Statements

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$51,623,816 (net position). Of this amount, 7,506,781 (unrestricted) may be used to meet the government's ongoing obligations to citizens and creditors.

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,939,624. Approximately 59% of this total amount, \$2,962,179 is available for spending at the government's discretion (assigned and unassigned fund balances).
- The City's General Fund reported a positive fund balance of \$3,397,014 as of December 31, 2016 compared to a positive fund balance of \$3,520,951 as of December 31, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Warren's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position provides information on all the of the City's assets, liabilities and deferred inflows and outflows of resources with the difference between the four reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City of Warren is improving or deteriorating. Other factors to consider are changes in the City's property tax base, changes in the resident base, and the condition of the City's roads and bridges.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods, such as uncollected taxes, earned but unused vacation leave, accrued payroll, accrued interest on long-term debt, and intergovernmental receivables.

The government-wide financial statements distinguish functions of the City of Warren that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or significant portions of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community development, building code enforcement, and culture and recreation. The business-type activities of the City include the operation of the sewage treatment plant and the operation of the parking lots and garage.

The City's government-wide financial statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the City (including infrastructure), as well as all liabilities (including long-term debt). Additionally, certain eliminations have been made in regard to internal activity, payables and receivables.

In the statement of net position and the statement of activities, we separate the City activities as follows:

Governmental Activities – Most of the City's basic services are reported in this category, including general government, fire, police, public works, building code enforcement, parks, recreation, and community services. Property and earned income taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type Activities – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's sewage treatment and parking activities are reported in this category.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Unlike government-wide financial statements, the focus of fund financial statements is directed toward specific activities of the City. Except for the general fund, specific funds are established to satisfy managerial control over resources or to satisfy finance-related legal requirements. The City's fund financial statements are divided into three categories: 1) governmental funds, 2) proprietary funds, and 3) fiduciary funds.

Governmental Funds

Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The differences of results in the governmental fund financial statements from those in the government-wide financial statements are explained in a reconciliation schedule following each governmental fund financial statement.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds to similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City of Warren adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The City also adopts a budget for the capital improvement program fund, the sewer revenue fund, and the parking revenue fund.

Proprietary Funds

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. For financial reporting purposes, proprietary funds are grouped into enterprise funds and internal service funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City uses enterprise funds to account for its wastewater utility and parking facilities. An internal service fund is used to account for the City's tax collection office.

Fiduciary Funds

Assets held by the City for other parties, either as a trustee or an agent, and that cannot be used to finance the City's own operating programs are reported in the fiduciary funds. The City is the trustee, or fiduciary, for the City's three defined benefit pension plans. Fiduciary fund financial statements consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including a budgetary comparison schedule for the general fund, pension information, and postemployment benefit information. Other supplementary information includes a combining balance sheet and a combining statement of revenues, expenditures, and changes in fund balances for non-major governmental funds, and budgetary schedules for the sewer revenue fund, and the parking revenue fund.

Government – Wide Financial Analysis

The following schedule is a summary of the statements of net position.

City of Warren, Pennsylvania
Net Position at December 31, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 5,677,605	\$ 5,844,129	\$ 5,359,595	\$ 5,499,309	\$ 11,037,200	\$ 11,343,438
Internal balances	422,913	466,996	(422,913)	(466,996)	-	-
Capital assets, net of depreciation	28,480,525	27,269,049	37,093,706	35,517,416	65,574,231	62,786,465
Total Assets	34,581,043	33,580,174	42,030,388	40,549,729	76,611,431	74,129,903
Deferred Outflows of Resources						
Deferred Outflows - pensions	185,925	338,592	-	-	185,925	338,592
Total Deferred Outflows	185,925	338,592	-	-	185,925	338,592
Liabilities						
Current and other liabilities	886,836	987,227	923,332	2,357,970	1,810,168	3,345,197
Long-term portion of liabilities	2,581,637	2,918,228	20,413,680	18,752,829	22,995,317	21,671,057
Total Liabilities	3,468,473	3,905,455	21,337,012	21,110,799	24,805,485	25,016,254
Deferred Inflows of Resources						
Unearned revenues-spec assessments	368,055	417,478	-	-	368,055	417,478
Total Deferred Inflows	368,055	417,478	-	-	368,055	417,478
Net Position						
Investment in capital assets, net of related debt	26,596,156	25,087,262	17,086,544	17,326,420	43,682,700	42,413,682
Restricted	434,335	719,299	-	-	434,335	719,299
Unrestricted	3,899,949	3,789,272	3,606,832	2,112,510	7,506,781	5,901,782
Total Net Position	\$ 30,930,440	\$ 29,595,833	\$ 20,693,376	\$ 19,438,930	\$ 51,623,816	\$ 49,034,763

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Warren, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$51,623,816 at the close of the most recent fiscal year.

A significant portion of the City's net assets (84%) reflects its investment in capital assets (land, buildings, improvements, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should still be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Resources of \$434,335 are subject to external restrictions for highway, street and building renovation projects. The balance of unrestricted net position of \$7,506,781 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current year, the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The City's net position from governmental activities increased \$1,280,489 from \$29,649,951 to \$30,930,440.

The City's net position from business-type activities increased \$1,254,446 from \$19,438,930 to \$20,693,376. Net investment in capital assets decreased \$239,876; unrestricted net position increased \$1,494,322.

The following is a summary of the information presented in the statement of activities:

City of Warren, Pennsylvania
Changes in Net Position for the Years Ended December 31, 2016 and 2015

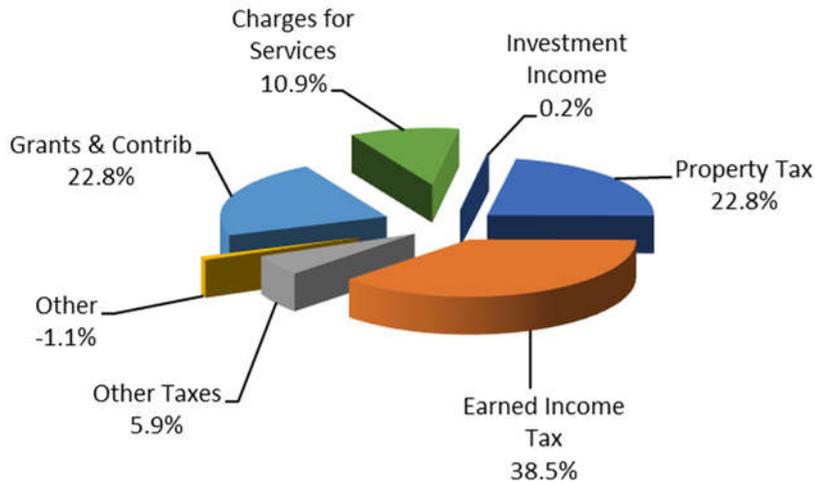
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for services	\$ 1,071,737	\$ 1,280,590	\$ 2,971,400	\$ 2,824,933	\$ 4,043,137	\$ 4,105,523
Operating grants and contrib	753,268	655,010	-	-	753,268	655,010
Capital grants and contrib	1,492,934	2,050,515	494,279	1,038,462	1,987,213	3,088,977
General Revenues:						
Property taxes	2,250,771	2,116,551	-	-	2,250,771	2,116,551
Earned income tax	3,795,753	3,823,779	-	-	3,795,753	3,823,779
Other taxes	582,696	594,039	-	-	582,696	594,039
Investment income	18,585	32,837	6,245	1,003	24,830	33,840
Other	(109,694)	151,640	(530,082)	(101,106)	(639,776)	50,534
Total Revenues	9,856,050	10,704,961	2,941,842	3,763,292	12,797,892	14,468,253
Expenses						
Governmental Activities:						
General government	1,434,325	1,392,961	-	-	1,434,325	1,392,961
Public safety	3,760,486	4,008,588	-	-	3,760,486	4,008,588
Public works, culture/rec	2,298,165	2,558,065	-	-	2,298,165	2,558,065
Community development	681,032	1,614,476	-	-	681,032	1,614,476
Building code enforcement	397,685	292,419	-	-	397,685	292,419
Interest expense	105,073	116,554	-	-	105,073	116,554
Other	-	-	-	-	-	-
Business-type Activities:						
Sewer wastewater	-	-	1,105,754	1,415,915	1,105,754	1,415,915
Parking	-	-	480,437	465,342	480,437	465,342
Total Expenses	8,676,766	9,983,063	1,586,191	1,881,257	10,262,957	11,864,320
Change in Net Position						
before other items	1,179,284	721,898	1,355,651	1,882,035	2,534,935	2,603,933
Transfers	101,205	(790,718)	(101,205)	790,718	-	-
Change in Net Position	1,280,489	(68,820)	1,254,446	2,672,753	2,534,935	2,603,933

The City's governmental activities in 2016 relied heavily upon earned income tax revenue (38.5%), property tax revenue (22.8%), grants and contributions (22.8%), and charges for services (10.9%) to fund operations. The tax rate for both real estate and earned income remained the same for 2016 after an increase in 2013. The real estate rate is 19.8 mills; earned income is 2.2% (2.7% including the school district rate of .5%) for City residents. Although earned income tax revenue was slightly lower than the previous year, overall tax revenue was 1.5% higher in 2016. A 16.3% decrease in charges for services was primarily attributed to a decrease in emergency services revenue received, as well as a decrease in street opening permits, recycling fees and recreational user fees. Interest rates remained stable in 2016 with a decrease in investment income.

The cost of governmental activities totaled \$8,676,766 for the year ended December 31, 2016, a 13.1% decrease from the prior year primarily attributed to a decrease in personnel costs, supplies, contracted services, fuel costs, maintenance & repair of equipment and other operational costs.

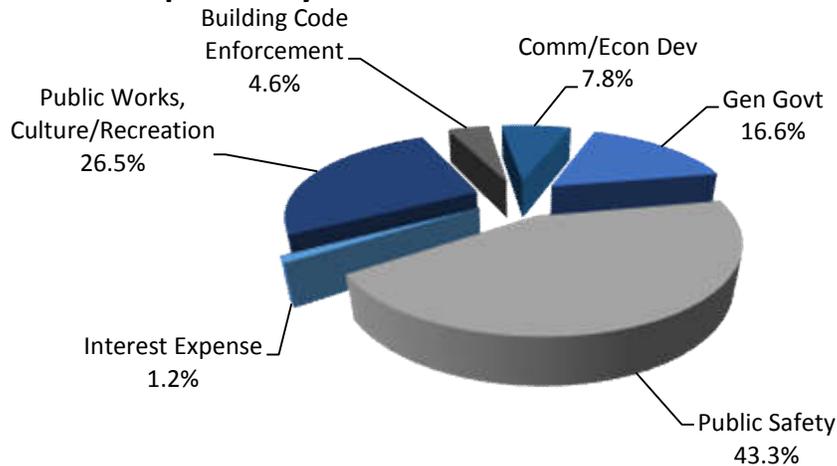
The following graph shows the composition of revenues by source for the City's governmental activities:

Revenues by Source - Governmental Activities



The following graph presents governmental expenses by function:

Expenses by Function - Governmental Activities



Capital Assets

The City's investment in capital assets for governmental and business-type activities as of December 31, 2016, amounts to \$43,682,700 (net of accumulated depreciation). This investment in capital assets includes land and buildings, machinery and equipment, vehicles, the sewer system, infrastructure and construction in progress.

Major capital asset events during the current fiscal year include the following:

- The Police Department purchased a 2017 Ford Explorer Utility Interceptor vehicle including the installation of video in-car camera systems at a cost of \$39,975.
- The Police Department also purchased 16 communication radios at a cost of \$15,575.
- The Fire Department purchased 7 sets of turnout gear at a cost of \$11,788. This purchase was offset by state grant proceeds.
- The Fire Department also purchased UHF/Low Band radio equipment at a cost of \$6,453 and a thermal imaging camera at a cost of \$4,702.
- The Department of Public Works purchased 3 vacuum leaf collectors and a leaf box at a total cost of \$105,024 offset by DEP recycling grant proceeds.
- Street light poles, a pedestrian crossing signal and traffic signal GPS upgrades were installed at a cost of \$23,148.
- An external security camera was installed at the City's municipal pool at a cost of \$9,667.
- The completion of a multi-year playground upgrade project at Defrees Park at a total cost of \$55,362. Improvements included new fencing and installation of 4 playground structures.
- A renovation project aimed at bringing the City municipal building into ADA compliance was completed in 2016 at a total cost of approximately \$138,337 and included a new handicapped ramp, public restroom and lobby upgrades. A Heat Trak ice melt mat was installed on the ramp at a cost of \$11,788.
- A Liberty Street renovation project partially funded by RACP grant funds was completed in 2016 at a cost of approximately \$682,052. Also included was the installation of 13 historic street light poles at a cost of \$166,037, as well as a pavilion shelter constructed and installed at Art Kelsey Park at a cost of \$16,637.
- A 2016 Chevrolet Colorado Pickup was purchased for use at the sewer treatment plant at a cost of \$29,998, as well as a trailer for the excavator at a cost of \$12,386, and a sweeper kit for the skid steer at \$4,233.
- Also purchased for use at the sewer treatment plant include an electric chain hoist \$18,640, SCADA system radio modems \$8,076, distiller lab equipment \$5,532, and sealed dumpsters at \$9,150.
- The multi-year major upgrade to the sewage treatment plant, pump stations and force mains project beginning in 2014 was completed. The cost of the project capitalized in 2016 included the plant construction upgrade of \$22,994,114, pump stations construction upgrade of \$2,867,058, and below river force main construction of \$1,042,950. The project was partially financed by PENNVEST grant and loan proceeds.
- Also, included in the sewage treatment plant upgrade project was the relocation and construction of the fire training tower at a cost of \$294,047.

- Completion of the Franklin Street reconstruction project funded by CDBG grant funds totaled \$547,403.
- Total City-wide building, equipment and machinery disposed in 2016 totaled \$617,642 (net of accumulated depreciation).

Long Term Liabilities

At the end of the current fiscal year, the City had revenue and general obligation notes that totaled \$22,680,009; compensated absences totaled \$393,233; other postemployment benefits totaled \$179,246; capital leases totaled \$335,093. Included in the revenue and general obligation note balance are two notes obtained in 2007 which were used for revitalization projects in the downtown area and to pay for costs associated with the parking garage. Also included are two notes obtained in 2010 for Streetscape Project funding and for capital equipment purchases. Additionally, funds drawn down from the Pennvest note for the sewer treatment plant upgrade construction project totaled \$20,931,072 at year end. In addition, the City's obligation to repay \$500,000 to the Warren Redevelopment Assistance Loan fund totaled \$429,167 at year end. The City's total long term liabilities increased \$1,324,260.

General Fund Budgetary Highlights

Significant revenue differences between the final budget and actual amounts included a positive variance in taxes, primarily due to the collection of real estate tax, earned income tax, local services tax and real estate transfer tax revenue higher than budgeted. A positive balance is also reflected in license and permit revenue which includes eating and drinking establishments, vendor/event permits, street/curb permits, and building permits/inspections. Charges for Services revenue also reflects a positive variance primarily due to an increase in recycling fees received, increased EMS fees received, and an increase in parks/recreation user fees.

Total general fund operating expenditures for the year were very close (91.7%) to the budgeted figures.

Significant expenditure variances were:

- Wages and benefit costs were 4.0% less than budgeted.
- Supplies were 13.3% less than budgeted and include training, cleaning, and highway supplies.
- Property and liability insurance was 8.2% less than budgeted.
- Utility expense (telephone, electricity, gas, sewer, water and solid waste disposal) was 2.8% over budget. All utilities experienced an increase except for sewer and natural gas expense which was significantly under budget.
- Contracted services which includes sidewalk, curb and ADA ramp upgrades, recycling cost, tree care and maintenance/repair costs was 23.7% over budget.
- Capital equipment purchases were budgeted at \$318,733; however, only \$129,183 was spent as some purchases were reallocated into the next year.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Warren closely parallels the county seasonally adjusted rate of 5.6% at year end – higher than one year ago at 4.4% and higher than the national (4.7%) but the same as the state (5.6%). Warren County's rate is the lowest in the region. Rates for Bradford and Erie were 7.0% and 6.6% respectively. Forest County experienced a rate of 7.7%; 6.0% in Meadville and 7.3% in Oil City.
- Figures from the 2010 census show that the City of Warren has lost 5.4% of its population since the 2000 census from 10,259 to approximately 9,710. 2015 estimates projected that the population fell further to 9,400. This trend is mirrored by other northwestern Pennsylvania municipalities of similar size. The primary reason for the decline has been job loss. The new census data revealed that Warren County has one of the oldest populations in the state (5th out of 67 counties); 18.7% of county residents are over age 65, partly due to the fact that young people do not return to the area after college. Only 19.7% of Warren County's population was under the age of 18 in 2015. Statistics show a total population of 40,396 in 2015 – a 3.4% drop since the last census in 2010 at 41,815. At the current pace of loss, the population of Warren County will drop below 40,000 by 2021. Each census since 1970 has shown a decline in the number of residents for the County.
- Investment rates were up considerably at a .38% yield on the City's liquid investments with Pennsylvania Local Government Trust (PLGIT) at year end compared to .07% at December 2015. Certificate of deposit rates also increased averaging .76% for 90-180-day CD rates compared to .55%; 365-day rates were 1.10% compared to .96% a year ago.

These factors, as well as factors including infrastructure costs, public safety costs, employee-related costs for healthcare, pensions, wages, and cuts in state and federal aid, were considered in preparing the City of Warren's budget for the 2017 fiscal year. The last few years have seen a pattern of appropriating the City's fund balance to balance the operational budget. The City experienced a 3.5% decrease in general fund balance at year end for 2016 following a 19.9% increase in 2015. In contrast to the 2016 budget, the City appropriated \$432,995 fund balance to balance its 2017 operational fiscal budget; fund balance of \$983,900 was appropriated in the 2017 budget to fund scheduled Capital Improvement Projects.

Highlights of the 2017 fiscal budget include:

- Real estate tax revenue is projected to remain stable with only a decrease of \$5,000 budgeted in 2017; however, an increase in earned income tax revenue of \$45,000 is projected, as well as an increase of \$10,000 in real estate transfer tax revenue.
- Continued cost evaluation of non-residential building code services provided to county townships, as well as an increased focus on property nuisance violations and a more aggressive approach in the handling of blighted properties.
- Employee wage and benefit costs are projected to increase 6.8% for 2017 due to contractual wage increases of 2.6% to 2.75%, longevity increases and increased benefit costs, as well as increased training costs to replace anticipated retirements. The margin of health insurance savings is shortening since the City entered into a pooled arrangement

with Mockenhaupt Benefit Services beginning in 2015 with an 11.6% increase even though union contracts negotiated for years 2015 through 2017 resulted in increased cost sharing by employees.

- The Minimum Municipal Obligation (MMO) expense for the City's pension plans contains a 2.8% increase and again reflects a substantial increase over and above the expected pension state aid in 2017.
- Funds in the amount of \$100,000 were allocated so the City can apply to the PA Dept. of Community and Economic Development (DCED) for participation in the Early Intervention Program for staff assistance with financial planning and trending analysis, as well as a view of operations to determine cost saving measures that could be implemented. If awarded, the City would receive a \$50,000 grant to offset the allocation.
- A total of \$280,000 was appropriated for street resurfacing for the 2017 summer season to be funded by state appropriated Liquid Fuels funds. An additional \$100,000 has been appropriated to street resurfacing plus \$80,000 for concrete streets utilizing assigned fund balance. Also, \$120,000 has been allocated from the general fund and \$40,000 from the sewer fund to rebuild the concrete intersection at Lexington Avenue and Parker Street.
- Community Development Block Grant (CDBG) funding of \$335,550 was appropriated for reconstruction of Stone Hill Road.
- The City continues to take an aggressive approach to upgrade its parks and playgrounds in order to bring them into compliance with the Americans with Disabilities Act (ADA). Included in the budget is \$300,000 for Lacy Park playground improvements, an additional \$35,000 for the Betts Park restroom renovation project begun in 2016 and \$30,000 for roof replacement at the city municipal pool. Partial funding includes Pennsylvania Department of Conservation and Natural Resources (DCNR) and Community Economic and Development (DCED) grant funds, as well as local contributions.
- A \$3,500,000 municipal building improvement project which includes Liberty Street streetscape and downtown parking lot renovations begun in 2015 continues to be funded by a \$2,500,000 federal RCAP loan and \$1,000,000 local match. The \$642,000 municipal building improvement portion of the project is scheduled to begin in 2017 which also includes \$80,000 of PHMC funding. The improvements include renovations to the police locker and weight rooms, break rooms and construction of a unisex restroom in the basement, council chamber meeting room renovations that include audio/visual upgrades, as well as painting of hallways, stairwells and the building front foyer. The project also includes new doors and windows in the fire station building.
- \$127,000 has been appropriated for the Pennsylvania Avenue trail and overlook project beginning in 2016. Partial funding includes DCNR and DEP Air Quality grants, as well as local contributions.
- An appropriation of \$125,000 is included for the purchase of a land parcel as the location of a compost site.

- The City has resurrected the sidewalk Pridewalk program for 2017 and included an appropriation of \$50,000 to partially reimburse residents for sidewalk replacement costs.
- Included in the Police Department budget is \$25,000 for the purchase of body cameras, in-car cameras and computers.
- Included in the Fire Department budget is \$146,000 for the purchase of SCBA cylinders utilizing a \$101,000 federal grant award. Also included is \$16,500 for a firehose line, nozzles and portable radios.
- Appropriations to continue the City's contracted services for grass cutting and snow removal for most City properties are included in the 2017 budget.
- Included in the Public Works budget is \$136,500 for the purchase of a pickup truck with plow, wood chipper, vehicle wash station, municipal pool water feature and replacement computers.
- The Codes Department budget includes capital expense of \$32,000 for a new vehicle and replacement computers.
- Contributions of \$33,200 are included to assist various agencies that have submitted funding requests.
- Funds of \$20,000 were budgeted in the Parking Fund for the purchase of additional street meters, as well as parking enforcement equipment.
- After 10 years of sewer user charge increases of 10% per year in order to provide sufficient revenue to facilitate the increase in wastewater treatment system appropriations for residential, commercial and industrial customers; and to increase investments to fund the major upgrade to the sewage treatment plant completed in 2016, there were no user increases included in the 2017 budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Warren's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Warren Finance Office, 318 West Third Avenue, Warren, PA 16365.

CITY OF WARREN, PENNSYLVANIA
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 3,936,765	\$ 3,537,522	\$ 7,474,287
Receivable, net	106,839	550,017	656,856
Taxes receivable, net	479,324	-	479,324
Intergovernmental receivable, net	1,139,728	1,272,056	2,411,784
Prepaid items	14,949	-	14,949
Interfund receivable	422,913	(422,913)	-
Total Current Assets	<u>6,100,518</u>	<u>4,936,682</u>	<u>11,037,200</u>
Non-current Assets			
Capital assets:			
Assets not being depreciated	1,271,322	46,795	1,318,117
Assets being depreciated, net	27,209,203	37,046,911	64,256,114
Total Non-current Assets	<u>28,480,525</u>	<u>37,093,706</u>	<u>65,574,231</u>
Total Assets	<u>34,581,043</u>	<u>42,030,388</u>	<u>76,611,431</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pensions	185,925	-	185,925
Total Assets and Deferred Outflows of Resources	<u>34,766,968</u>	<u>42,030,388</u>	<u>76,797,356</u>
LIABILITIES			
Current Liabilities			
Accounts payable	363,941	177,736	541,677
Accrued liabilities	36,218	-	36,218
Intergovernmental payable	60,994	-	60,994
Interest payable	-	16,575	16,575
Other liabilities	39,366	-	39,366
Compensated absences	144,881	4,548	149,429
Capital leases payable	71,775	70,711	142,486
Notes payable	169,661	642,738	812,399
Total Current Liabilities	<u>886,836</u>	<u>912,308</u>	<u>1,799,144</u>
Non-Current Liabilities			
Compensated absences	236,384	7,420	243,804
Capital leases payable	72,891	119,716	192,607
Notes payable	1,570,042	20,297,568	21,867,610
OPEB obligation	179,246	-	179,246
Net pension liability	523,074	-	523,074
Total Non-Current Liabilities	<u>2,581,637</u>	<u>20,424,704</u>	<u>23,006,341</u>
Total Liabilities	<u>3,468,473</u>	<u>21,337,012</u>	<u>24,805,485</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenues-special assessments	368,055	-	368,055
NET POSITION			
Net investment in capital assets	26,596,156	17,086,544	43,682,700
Restricted for:			
Liquid fuels	14,449	-	14,449
Streetscape project	419,886	-	419,886
Unrestricted	3,899,949	3,606,832	7,506,781
Total Net Position	<u>\$ 30,930,440</u>	<u>\$ 20,693,376</u>	<u>\$ 51,623,816</u>

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA

Statement of Activities

For the Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		Operating Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 1,434,325	\$ 92,304	\$ 104,991	\$ -
Public safety	3,760,486	351,118	293,768	-
Public works	1,556,829	311,819	354,509	625,784
Culture and recreation	741,336	146,738	-	-
Community development	681,032	-	-	867,150
Building code enforcement	397,685	169,758	-	-
Interest expense	105,073	-	-	-
Total Governmental Activities	8,676,766	1,071,737	753,268	1,492,934
<u>Business-Type Activities:</u>				
Sewer	1,105,754	2,546,141	-	494,279
Parking	480,437	425,259	-	-
Total Business-Type Activities	1,586,191	2,971,400	-	494,279
Total	\$ 10,262,957	\$ 4,043,137	\$ 753,268	\$ 1,987,213

The notes to the financial statements are an integral part of these statements.

<u>Net (Expense)/Revenue and Changes in Net Position</u>		
<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ (1,237,030)	\$ -	\$ (1,237,030)
(3,115,600)	-	(3,115,600)
(264,717)	-	(264,717)
(594,598)	-	(594,598)
186,118	-	186,118
(227,927)	-	(227,927)
(105,073)	-	(105,073)
<u>(5,358,827)</u>	<u>-</u>	<u>(5,358,827)</u>
-	1,934,666	1,934,666
-	(55,178)	(55,178)
<u>-</u>	<u>1,879,488</u>	<u>1,879,488</u>
<u>(5,358,827)</u>	<u>1,879,488</u>	<u>(3,479,339)</u>

General Revenues:

Taxes			
Property tax	2,250,771	-	2,250,771
Earned income tax	3,795,753	-	3,795,753
Local services tax	324,427	-	324,427
Realty transfer tax	134,933	-	134,933
Franchise tax	115,965	-	115,965
Utility tax	7,371	-	7,371
Investment earnings	18,585	6,245	24,830
Transfers in/(out)	101,205	(101,205)	-
Gain/(Loss) on sale of fixed assets	(240,165)	(530,082)	(770,247)
Miscellaneous revenues	130,471	-	130,471
Total General Revenues	<u>6,639,316</u>	<u>(625,042)</u>	<u>6,014,274</u>
Change in Net Position	1,280,489	1,254,446	2,534,935
Net Position, Beginning of Year, restated	<u>29,649,951</u>	<u>19,438,930</u>	<u>49,088,881</u>
Net Position, End of Year	<u>\$ 30,930,440</u>	<u>\$ 20,693,376</u>	<u>\$ 51,623,816</u>

CITY OF WARREN, PENNSYLVANIA

**Balance Sheet
Governmental Funds
December 31, 2016**

	General Fund	Warren Redevelopment Assistance Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and cash equivalents	\$ 3,221,140	\$ 609,149	\$ 16,468	\$ 3,846,757
Receivable, net	106,839	-	-	106,839
Taxes receivable, net	479,324	-	-	479,324
Intergovernmental receivable, net	11,082	500,000	628,646	1,139,728
Advance from general fund	-	429,167	-	429,167
Prepaid items	14,949	-	-	14,949
Interfund receivable	878,871	-	-	878,871
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 4,712,205</u>	<u>\$ 1,538,316</u>	<u>\$ 645,114</u>	<u>\$ 6,895,635</u>
LIABILITIES				
Accounts payable	\$ 170,346	\$ 12,158	\$ 181,255	\$ 363,759
Accrued liabilities	36,218	-	-	36,218
Advance to Warren Redevelopment Assistance Loan fund	429,167	-	-	429,167
Interfund payable	-	-	427,126	427,126
Other liabilities	19,085	-	20,281	39,366
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>654,816</u>	<u>12,158</u>	<u>628,662</u>	<u>1,295,636</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	292,320	-	-	292,320
Unavailable revenue - special assessments	368,055	-	-	368,055
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>660,375</u>	<u>-</u>	<u>-</u>	<u>660,375</u>
FUND BALANCE				
Nonspendable:				
Prepaid items	14,949	-	-	14,949
Restricted:				
Liquid fuels	-	-	14,449	14,449
Streetscape Project	419,886	-	-	419,886
Committed:				
Economic development funding	-	1,526,158	-	1,526,158
Glade floodway	-	-	2,003	2,003
Assigned:				
Community improvement projects	803,900	-	-	803,900
Paving	180,000	-	-	180,000
Equipment	559,680	-	-	559,680
Operations	432,995	-	-	432,995
Unassigned	985,604	-	-	985,604
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>3,397,014</u>	<u>1,526,158</u>	<u>16,452</u>	<u>4,939,624</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 4,712,205</u>	<u>\$ 1,538,316</u>	<u>\$ 645,114</u>	<u>\$ 6,895,635</u>

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2016

Differences in amounts reported for governmental activities in the Statement of Net Position

Fund balances - governmental funds	\$ 4,939,624
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds	28,480,525
Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds	
Deferred outflows of resources related to pensions	185,925
Certain long-term assets are not available to pay current period expenditures and, therefore, are unearned in the funds-Unavailable revenue-Property taxes	292,320
Other post-employment benefits are reflected on the Statement of Net Position, but are not considered a current expenditure for the fund statements	(179,246)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds	
Notes payable	(1,739,703)
Capital leases payable	(144,666)
Net pension liability	(523,074)
Compensated absences	(381,265)
	(3,038,708)
Net position of governmental activities	\$ 30,930,440

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Warren Redevelopment Assistance Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 6,482,159	\$ -	\$ -	\$ 6,482,159
Intergovernmental	480,277	-	1,777,046	2,257,323
Charges for services	456,179	-	-	456,179
Interest, Rents and royalties	-	18,179	406	18,585
Licenses and permits	575,952	-	-	575,952
Fines and forfeits	72,916	-	-	72,916
Other	66,651	-	97,500	164,151
Total Revenues	<u>8,134,134</u>	<u>18,179</u>	<u>1,874,952</u>	<u>10,027,265</u>
EXPENDITURES				
General government	1,000,834	-	-	1,000,834
Public safety	3,599,887	-	-	3,599,887
Public works	1,576,556	-	-	1,576,556
Culture and recreation	525,837	-	-	525,837
Community development	78,169	34,241	2,742,178	2,854,588
Building code enforcement	380,871	-	-	380,871
Debt service	16,186	-	316,954	333,140
Total Expenditures	<u>7,178,340</u>	<u>34,241</u>	<u>3,059,132</u>	<u>10,271,713</u>
Excess of revenues over expenditures	<u>955,794</u>	<u>(16,062)</u>	<u>(1,184,180)</u>	<u>(244,448)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of fixed assets	12,650	-	-	12,650
Transfers in	378,317	-	1,470,698	1,849,015
Transfers out	(1,470,698)	-	(277,112)	(1,747,810)
Total Other Financing Sources (Uses)	<u>(1,079,731)</u>	<u>-</u>	<u>1,193,586</u>	<u>113,855</u>
Net Change in Fund Balance	(123,937)	(16,062)	9,406	(130,593)
Fund Balances, Beginning of Year	<u>3,520,951</u>	<u>1,542,220</u>	<u>7,046</u>	<u>5,070,217</u>
Fund Balances, End of Year	<u>\$ 3,397,014</u>	<u>\$ 1,526,158</u>	<u>\$ 16,452</u>	<u>\$ 4,939,624</u>

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds	\$	(130,593)
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in the Statement of Net Position		2,319,922
The net effect of various miscellaneous transactions involving capital assets (i.e. disposal of assets) is to decrease net position		(251,315)
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(857,131)
Certain activities reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as revenues in the governmental funds- Unavailable revenue-Property taxes		23,725
Deferred outflows are not reflected in the fund statements as they are related to future pension obligations		(152,667)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current year these amounts are:</p>		
Payments on notes payable	\$	228,067
Payments on capital lease payable		69,351
Change in compensated absences		(25,941)
Change in net pension liability		98,802
Change in other post-employment benefits		(41,731)
		328,548
Change in net position of governmental activities	\$	1,280,489

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA

Statement of Net Position

Proprietary Funds

December 31, 2016

	Business-Type Activities			Governmental
	Sewer Fund	Parking Fund	Total Enterprise Funds	Internal Service Fund
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 3,513,446	\$ 24,076	\$ 3,537,522	90,008
Receivable, net	547,280	2,737	550,017	-
Intergovernmental receivable, net	1,272,056	-	1,272,056	-
Total Current Assets	5,332,782	26,813	5,359,595	90,008
Non-Current Assets				
Capital Assets:				
Land	25,165	21,630	46,795	-
Assets being depreciated, net	28,565,509	8,481,402	37,046,911	-
Total Capital Assets, Net	28,590,674	8,503,032	37,093,706	-
Total Assets	\$ 33,923,456	\$ 8,529,845	\$ 42,453,301	\$ 90,008
LIABILITIES AND NET POSITION				
Liabilities				
Current Liabilities				
Accounts payable	\$ 171,174	\$ 6,562	\$ 177,736	\$ 182
Interest payable	16,575	-	16,575	-
Intergovernmental payable	-	-	-	60,994
Interfund payable	44,078	378,835	422,913	28,832
Compensated absences	4,548	-	4,548	-
Capital lease payable	22,653	48,058	70,711	-
Note payable	633,503	9,235	642,738	-
Total Current Liabilities	892,531	442,690	1,335,221	90,008
Non-Current Liabilities				
Compensated absences	7,420	-	7,420	-
Capital lease payable	23,936	95,780	119,716	-
Note payable	20,297,568	-	20,297,568	-
Total Non-Current Liabilities	20,328,924	95,780	20,424,704	-
Total Liabilities	21,221,455	538,470	21,759,925	90,008
NET POSITION				
Net investment in capital assets	8,736,585	8,349,959	17,086,544	-
Unrestricted	3,965,416	(358,584)	3,606,832	-
Total Net Position	12,702,001	7,991,375	20,693,376	-
Total Liabilities and Net Position	\$ 33,923,456	\$ 8,529,845	\$ 42,453,301	\$ 90,008

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities			Governmental Activities
	Sewer Fund	Parking Fund	Total Enterprise Funds	Internal Service Fund
Operating Revenues				
Charges for services	\$ 2,546,141	\$ 425,259	\$ 2,971,400	\$ 42,226
Intergovernmental revenues	494,279	-	494,279	-
Total Operating Revenues	3,040,420	425,259	3,465,679	42,226
Operating Expenses				
Salaries and wages	290,911	62,942	353,853	27,770
Employee benefits	97,691	36,746	134,437	12,411
Supplies	44,922	7,294	52,216	544
Sludge removal	165,121	-	165,121	-
Utilities	188,915	31,611	220,526	612
Other	-	75,194	75,194	889
Depreciation	120,046	262,258	382,304	-
Total Operating Expenses	907,606	476,045	1,383,651	42,226
Operating Income (Loss)	2,132,814	(50,786)	2,082,028	-
Non-Operating Revenues (Expenses)				
Investment earnings	6,208	37	6,245	-
Interest expense	(198,148)	(4,392)	(202,540)	-
Gain/(Loss) on sale of asset	(530,082)	-	(530,082)	-
Transfers out	(66,410)	(34,795)	(101,205)	-
Total Non-Operating Revenue (Expenses)	(788,432)	(39,150)	(827,582)	-
Change in Net Position	1,344,382	(89,936)	1,254,446	-
Net Position, Beginning of Year	11,357,619	8,081,311	19,438,930	-
Net Position, End of Year	\$ 12,702,001	\$ 7,991,375	\$ 20,693,376	\$ -

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities			Governmental Activities
	Sewer	Parking	Total	Internal Service
	Fund	Fund	Enterprise Funds	Fund
Cash flows from operating activities:				
Cash receipts from customers	\$ 1,963,964	\$ 424,347	\$ 2,388,311	\$ 42,226
Other operating cash receipts	494,279	-	494,279	-
Cash payments to suppliers for goods and services	(1,815,513)	(34,883)	(1,850,396)	(1,902)
Cash payments to employees for services	(432,419)	(105,889)	(538,308)	(107,659)
Cash payments for other operating expenses	-	(75,194)	(75,194)	(889)
Net cash provided by (used by) operating activities	<u>210,311</u>	<u>208,381</u>	<u>418,692</u>	<u>(68,224)</u>
Cash flows from noncapital financing activities:				
Transfers to other funds	(66,410)	(34,795)	(101,205)	-
Net cash used by noncapital and related activities	<u>(66,410)</u>	<u>(34,795)</u>	<u>(101,205)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Lease proceeds	-	-	-	-
Acquisition and construction of capital assets/loss on disposal	(2,488,676)	-	(2,488,676)	-
Loan proceeds	2,356,267	-	2,356,267	-
Principal payments on note/lease	(548,546)	(163,040)	(711,586)	-
Interest paid on debt	(198,148)	(4,392)	(202,540)	-
Net cash used by capital and related financing activities	<u>(879,103)</u>	<u>(167,432)</u>	<u>(1,046,535)</u>	<u>-</u>
Cash flows from investing activities:				
Interest income	6,208	37	6,245	-
Net cash provided by investing activities	<u>6,208</u>	<u>37</u>	<u>6,245</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(728,994)	6,191	(722,803)	(68,224)
Cash and cash equivalents, January 1, 2016	<u>4,242,440</u>	<u>17,885</u>	<u>4,260,325</u>	<u>158,232</u>
Cash and cash equivalents, December 31, 2016	<u>\$ 3,513,446</u>	<u>\$ 24,076</u>	<u>\$ 3,537,522</u>	<u>\$ 90,008</u>
Reconciliation of operating income to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ 2,132,814	\$ (50,786)	\$ 2,082,028	\$ -
Adjustment to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Depreciation	120,046	262,258	382,304	-
Changes in assets, liabilities, and deferred inflows				
(Increase) decrease in receivable	9,812	(912)	8,900	-
(Increase) decrease in intergovernmental receivable	(591,989)	-	(591,989)	-
Increase (decrease) in accounts payable	(349,926)	4,022	(345,904)	143
Increase (decrease) in compensated absences	(7,001)	-	(7,001)	-
Increase (decrease) in intergovernmental payable	-	-	-	(54,839)
Increase (decrease) in interest payable	1,066	-	1,066	-
Increase (decrease) in retainage payable	(1,066,629)	-	(1,066,629)	-
Increase (decrease) in interfund payable	(37,882)	(6,201)	(44,083)	(13,528)
Net cash provided by (used by) operating activities	<u>\$ 210,311</u>	<u>\$ 208,381</u>	<u>\$ 418,692</u>	<u>\$ (68,224)</u>

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Statement of Fiduciary Net Position
Pension Trusts
December 31, 2016

ASSETS

Cash and cash equivalents	\$ 516,399
Investments	15,070,743
Accounts receivable	<u>5,165</u>
Total Assets	<u><u>\$ 15,592,307</u></u>

LIABILITIES

Accounts payable	<u>\$ 5,579</u>
Total Liabilities	<u>5,579</u>

NET POSITION

Net position held in trust for pension benefits	<u>15,586,728</u>
Total Net Position	<u>15,586,728</u>
Total Liabilities and Net Position	<u><u>\$ 15,592,307</u></u>

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Statement of Changes in Fiduciary Net Position
Pension Trusts
For the Year Ended December 31, 2016

Additions:	
Contributions	
Employer	\$ 563,351
Plan members	83,123
	646,474
Total	646,474
Investment income (loss), net	1,103,803
	1,750,277
Total Additions	1,750,277
Deductions:	
Benefits	855,263
Management expense	81,331
	936,594
Total Deductions	936,594
Change in Net Position	813,683
Net Position, Beginning of Year	14,773,045
	14,773,045
Net Position, End of Year	\$ 15,586,728
	15,586,728

The notes to the financial statements are an integral part of these statements.

CITY OF WARREN, PENNSYLVANIA
Notes to Financial Statements
December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Warren, Pennsylvania was incorporated in 1832, operating as a borough under the Borough code until December 31, 1977, when it changed to a Home Rule Municipality under the Home Rule Charter and Optional Plans Law, Pennsylvania Act 62 of 1972. On January 2, 1989, the Borough changed its name to the City of Warren. The City operates under a council-manager form of government and provides the following services as authorized by its charter: Public Safety – Police and Fire, Highways and Streets, Sanitation, Health and Social Services, Culture/Recreation, Public Improvements, Planning and Zoning, Code Enforcement, and General Administrative Services.

The City's financial statements include the accounts of all City operations. The criteria for including organizations within the City's reporting entity primarily include the degree of oversight responsibility maintained by the City Council. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

The City established the Redevelopment Authority of the City of Warren, whose purpose is to acquire and dispose of blighted properties within the City. Financial data for the Redevelopment Authority of the City of Warren is not included as a component unit in these financial statements because inclusion is immaterial to the City's basic financial statements. The Redevelopment Authority of the City of Warren has not issued separate financial statements for 2016.

B. Description of Government-Wide 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 nonfiduciary activities of the City. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The Warren Redevelopment Assistance Loan fund is used to provide funding for start-up businesses and non-profit organizations created to improve the City of Warren.

The Capital Improvement Program fund accounts for governmental fund-type capital projects of the City.

The Community Development Block Grant fund accounts for federally funded programs of the City.

The Highway Aid fund accounts for monies received from the state and used for street and road projects.

The Glade Run Escrow fund accounts for funds held for the maintenance of Glade Run under an agreement with Department of Environmental Protection.

The Debt Service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following proprietary funds:

The Sewer Revenue fund accounts for activities of the City's sewage system. The City operates the sewage treatment plant and sewage pumping stations and collections systems.

The Parking Revenue fund accounts for the activities of the City's parking operations.

Additionally, the City reports the following fund types:

The Internal Service fund accounts for services provided to other departments of the City, or to other governments, on a cost reimbursement basis.

The Fiduciary funds account for the activities of the City's pension funds, which accumulates resources for pension benefit payments to qualified employees.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary and pension trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

The City follows these procedures in establishing the budget:

1. In accordance with the City's Home Rule Charter, on or before 45 days prior to December 31, the City Manager submits a proposed budget and an accompanying message to the City Council for the ensuing year. The message explains the budget both in fiscal terms and in terms of programs, policies, activities, and plans. The budget document provides a financial plan of the general fund, the capital improvement fund, the sewer revenue fund, and the parking revenue fund for the upcoming year and is balanced in that the total of proposed expenditures does not exceed total estimated revenues. The budget is in such form as the City Manager deems desirable.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. A public hearing is conducted to obtain taxpayer comment.
3. Prior to December 31, the budget is legally enacted by resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund, the capital improvement fund, and the enterprise funds.
5. Adoption of the budget constitutes the appropriation of the amounts specified in the general fund as expenditures.
6. Appropriations may be transferred within departments at any time during the year by the City Manager. City Council may, by resolution, transfer appropriations between departments. Appropriations may not be reduced below any amounts required by law or by more than the amount of unappropriated balance remaining.
7. Appropriations lapse at the end of each fiscal year unless encumbered.
8. City Council may authorize supplemental appropriations during the year.

The City does not provide a budget for its major special revenue fund, the Warren Redevelopment Assistance Loan fund, as the fund's revenues and expenditures relate only to the fund's loan activity.

Excess of expenditures over appropriations

The budget for the parking revenue fund disclosed an excess of expenditures over appropriations of \$35,880 mainly due to depreciation expense not being budgeted for by the City. The amounts over expended were funded by prior year's accumulated fund balances.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents and investments

The government's cash and cash equivalents as used in the statement of cash flows are considered to be cash on hand, demand deposits, pooled for investment purposes in the Pennsylvania Local Government Investment Trust (PLGIT), and short-term investments with original maturities of three months or less from the date of acquisition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes. Fiduciary Fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practices.

The deposit and investment policy of the City adheres to state statutes and prudent business practice. The investments of the Fiduciary Funds are administered by trustees and are held separately from those of other City funds.

2. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. For infrastructure assets the same estimated minimum useful life is used (in excess of one year), but only those infrastructure projects that cost more than \$10,000 are reported as capital assets.

Capital assets in governmental activities acquired prior to December 31, 2002 are valued at acquisition costs provided by an industrial appraiser. Governmental capital assets purchased after December 31, 2002 are valued at cost. Governmental infrastructure assets acquired after December 31, 2003 are reported at cost. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets life are not capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Computers and software	5
Machinery and equipment	8-15
Vehicles	8
Improvements	15-20
Buildings	20-40
Infrastructure	50

4. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has only one item that qualifies for reporting in this category. It is related to actuarially determined changes in the net pension liability recognized over future periods (see note 8 for further information).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of this item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental funds balance sheet and statement of net position. The governmental funds report unavailable revenues from two sources: property taxes which is currently shown in the fund statements and special assessments which is shown in both the fund statements and government-wide statements. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

5. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the director of finance to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

The property tax is levied each June on the assessed valuation of property located in the City as of the preceding June. Assessed values are established annually by Warren County and are equalized by the State at an estimated 50% of current market value. Assessed valuation of taxable real estate amounted to \$114,324,072 at a tax rate of 19.8 mills. Taxes are paid at discount to September 30th and at par to November 30th. Taxes paid after November 30th are assessed a 10% penalty.

Unpaid property taxes are returned to the County Treasurer by the City on the last Monday in April. The property is levied at that time. Delinquent notices are sent in July. Taxpayers have until the following June to pay the balance. If unpaid by July 1, property is advertised for sale. The property is then posted in August and sold on the second Monday of September.

3. Compensated absences and accumulated unpaid employee benefits

Unionized and nonunionized City employees generally earn sick leave at rates set forth in the respective union contracts. Sick leave accumulates on a monthly basis and is fully vested when earned. Accumulation policies vary depending on the contract.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts.

5. Credit risk

During the course of operations, the City grants credit to its customers, substantially all of whom are located in the City's area.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Proprietary funds operating and nonoperating revenues and expenses.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund, parking fund, and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

I. Pronouncement Implemented

The City has adopted GASB 72, *Fair Value Measurement and Application*. The objective is to provide guidance on determining fair value measurements for financial reporting purposes.

J. Future Pronouncement

The City will adopt GASB 75, *Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions* for the year ended December 31, 2018. The objective of this statement is to improve accounting and financial reporting for Postemployment Benefits Other Than Pensions. (OPEB)

NOTE 2 – CASH DEPOSITS AND INVESTMENTS – PRIMARY GOVERNMENT

Deposits and custodial risk

The deposit and investing policy of the City is in accordance with investment policies complying with state statutes. City funds may be invested in: (1) direct obligations of the United States government pledged by its full faith and credit; (2) certificates of deposit at savings and loan associations and federally insured banks, when fully insured; (3) saving accounts at savings and loan associations and banks to the extent fully insured; and (4) any bond, note, or other indebtedness issued by agencies, authorities, or public entities issued by any public trust of which the City is sole beneficiary.

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Deposits in excess of amounts covered by the Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of 1971 of the Commonwealth of Pennsylvania, which is legislation that requires financial institutions to pool collateral for all governments and have the collateral held by an approved custodian in the institution's name. As of December 31, 2016, \$3,785,326 of the City's bank balance of \$4,289,988 was exposed to custodial credit risk. The investments noted below are invested in full faith and credit obligations of the Commonwealth of Pennsylvania that may or may not be backed by the United States Government. None of the City's investments were exposed to custodial credit risk at December 31, 2016.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS – PRIMARY GOVERNMENT
(CONTINUED)

Uninsured and collateral held by the pledging Banks' trust department but not in the City's name	<u>\$ 3,785,326</u>
---	---------------------

Reconciliation to Financial Statements

Insured amount	\$ 504,662
Uninsured amount	3,785,326
Add: deposit in transit	5,435
Less: outstanding checks	<u>(161,535)</u>
Carrying amount of bank balances	4,133,888
Plus: petty cash	300
pooled cash equivalents	<u>3,340,099</u>
Total cash and cash equivalents per financial statement	<u>\$ 7,474,287</u>

Investments

As of December 31, 2016, the City had the following investments:

PA Local Government Investment Trust	<u>\$ 3,340,099</u>
--------------------------------------	---------------------

Interest Rate Risk

The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City uses the Third-Class City Code as a guide for its investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2016, the City's investment was rated:

PA Local Government Investment Trust	AAAm
--------------------------------------	------

Concentration of Risk

The City places no limit on the amount the City may invest in any one issuer. All of the City's investments are in PA Local Government Investment Trust.

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 security that are in the possession of an outside party. The City has no investment subject to custodial credit risk.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS – PRIMARY GOVERNMENT
(CONTINUED)

Reconciliation to Financial Statements

Total investments above	\$ 3,340,099
Less: deposits in investment pool considered cash equivalents	<u>(3,340,099)</u>
	<u>\$ -</u>

NOTE 3 – RECEIVABLES

Receivables as of December 31, 2016 for the government's individual major funds and nonmajor funds in the aggregate are as follows:

	General Fund	Sewer Fund	Parking Fund	Warren Redevelopment Assistance Loan Fund	CDBG Fund	Capital Improvement Program	Total
Taxes	\$ 479,324	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 479,324
Intergovernmental	11,082	1,272,056	-	500,000	904	627,742	2,411,784
Other	<u>143,863</u>	<u>711,013</u>	<u>2,737</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>857,613</u>
Gross Receivables	634,269	1,983,069	2,737	500,000	904	627,742	3,748,721
Less: Allowance for Uncollectable	<u>(37,024)</u>	<u>(163,733)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,757)</u>
Net Receivables	<u>\$ 597,245</u>	<u>\$ 1,819,336</u>	<u>\$ 2,737</u>	<u>\$ 500,000</u>	<u>\$ 904</u>	<u>\$ 627,742</u>	<u>\$ 3,547,964</u>

Reconciliation to Government-wide Statement of Net Position

Intergovernmental receivable	\$ 2,411,784	Receivable	\$ 857,613
Allowance for uncollectible accounts	<u>-</u>	Allowance for uncollectible accounts	<u>(200,757)</u>
Intergovernmental receivable, net	<u>\$ 2,411,784</u>	Receivable, net	<u>\$ 656,856</u>

The receivable in the Warren Redevelopment Assistance Loan Fund is related to West of Liberty Apartments and is not expected to be received within a one year period.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance January 1, 2016	Additions/ Adjustments	Deletions/ Adjustments	Balance December 31, 2016
Governmental Activities				
Capital Assets not Depreciated:				
Land	\$ 534,637	\$ -	\$ -	\$ 534,637
Construction in progress	21,796	326,394	(21,796)	326,394
Redevelopment properties	410,291	-	-	410,291
Total Capital Assets not Depreciated	<u>\$ 966,724</u>	<u>\$ 326,394</u>	<u>\$ (21,796)</u>	<u>\$ 1,271,322</u>
Capital Assets Depreciated:				
Infrastructure	\$ 24,468,287	\$ 1,229,455	\$ -	\$ 25,697,742
Buildings	4,311,532	159,665	(36,619)	4,434,578
Improvements other than buildings	2,766,659	241,506	(91,341)	2,916,824
Machinery and equipment, computers and software	2,017,857	239,733	(137,299)	2,120,291
Vehicles	2,345,865	143,233	(364,329)	2,124,769
Furnitures and fixtures	122,536	1,732	-	124,268
Total Assets Depreciated	<u>36,032,736</u>	<u>2,015,324</u>	<u>(629,588)</u>	<u>37,418,472</u>
Less Accumulated Depreciation:				
Infrastructure	(2,960,127)	(93,378)	20,465	(3,033,040)
Buildings	(2,741,073)	(91,466)	50,015	(2,782,524)
Improvements other than buildings	(1,344,810)	(143,944)	86,119	(1,402,635)
Machinery and equipment, computers and software	(1,178,004)	(145,636)	221,674	(1,101,966)
Vehicles	(1,404,188)	(2,012)	-	(1,406,200)
Furnitures and fixtures	(102,209)	(380,695)	-	(482,904)
Total Accumulated Depreciation	<u>(9,730,411)</u>	<u>(857,131)</u>	<u>378,273</u>	<u>(10,209,269)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 26,302,325</u>	<u>\$ 1,158,193</u>	<u>\$ (251,315)</u>	<u>\$ 27,209,203</u>

NOTE 4 – CAPITAL ASSETS (CONTINUED)

	Balance January 1, 2016	Additions/ Adjustments	Deletions/ Adjustments	Balance December 31, 2016
Business-Type Activities				
Capital Assets not Depreciated:				
Land	\$ 46,795	\$ -	\$ -	\$ 46,795
Construction in progress	24,820,427	-	(24,820,427)	-
Total Capital Assets not Depreciated	<u>\$ 24,867,222</u>	<u>\$ -</u>	<u>\$ (24,820,427)</u>	<u>\$ 46,795</u>
Capital Assets Depreciated:				
Buildings and improvements	\$ 72,356	\$ 5,770	\$ (72,356)	\$ 5,770
Sewer treatment plant	2,337,637	26,155,219	(2,337,637)	26,155,219
Sewer machinery and equipment	1,827,850	73,429	(1,453,072)	448,207
Sewer collection system	3,115,756	1,044,687	(1,318,358)	2,842,085
Vehicles	459,149	29,998	-	489,147
Furniture and fixtures	4,501	-	(4,159)	342
Parking garage	9,570,275	-	-	9,570,275
Parking lots and parking equipment	1,131,244	-	-	1,131,244
Total Assets Depreciated	<u>18,518,768</u>	<u>27,309,103</u>	<u>(5,185,582)</u>	<u>40,642,289</u>
Less Accumulated Depreciation:				
Buildings and improvements	(65,946)	(342)	66,219	(69)
Sewer treatment plant	(2,264,863)	(6,772)	2,271,635	-
Sewer machinery and equipment	(1,397,220)	(36,691)	1,241,511	(192,400)
Sewer collection system	(1,922,316)	(38,507)	1,072,684	(888,139)
Vehicles	(256,770)	(37,648)	-	(294,418)
Furniture and fixtures	(3,601)	(86)	3,451	(236)
Parking garage	(1,925,192)	(192,565)	-	(2,117,757)
Parking lots and parking equipment	(32,666)	(69,693)	-	(102,359)
Total Accumulated Depreciation	<u>(7,868,574)</u>	<u>(382,304)</u>	<u>4,655,500</u>	<u>(3,595,378)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 10,650,194</u>	<u>\$ 26,926,799</u>	<u>\$ (530,082)</u>	<u>\$ 37,046,911</u>

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation and amortization expense was charged to functions/programs of the primary government as follows:

Governmental Activities:		
General government		\$ 437,137
Public safety		197,140
Public works		145,712
Culture and recreation		68,570
Community development		4,286
Building code enforcement		<u>4,286</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 857,131</u>
Business-Type Activities:		
Depreciation		
Sewer fund		\$ 120,046
Parking fund		<u>262,258</u>
Total Depreciation Expense - Business-Type Activities		<u>\$ 382,304</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General	Sewer	\$ 44,078
General	Parking	378,835
General	Tax Agency	28,832
General	Capital Improvement Program	<u>427,126</u>
		<u>\$ 878,871</u>

Reconciliation of interfund balances between governmental activities and business-type activities were as follows:

Total interfund balances above	\$ 878,871
Less: interfund balances between governmental funds	<u>(455,958)</u>
Total interfund balances between governmental activities and business-type activities	<u>\$ 422,913</u>

Interfund balances represent amounts owed to general fund for short-term payments made out of the general fund for operating expenses.

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Transfers for the year ended December 31, 2016 were as follows:

Transfer From	Transfer To	Amount
General Fund	Glade Run Escrow Fund	\$ 2,000
General Fund	Capital Improvement Program Fund	929,132
General Fund	Debt Service Fund	262,454
Parking Fund	General Fund	34,795
Sewer Fund	General Fund	66,410
Liquid Fuels	Capital Improvement Program Fund	277,112
		<u>\$ 1,571,903</u>

Reconciliation of transfers between governmental activities and business-type activities were as follows:

Governmental activities	\$ 1,470,698
Business-Type activities	<u>101,205</u>
Total	<u>\$ 1,571,903</u>

Transfers are made to account for capital items purchased through the capital improvement fund and to fund operating expenses out of the general fund.

NOTE 6 – LONG-TERM LIABILITIES

The City’s long-term debt consists of the following:

General Obligation Debt

Downtown Revitalization Project – The City obtained a note in the amount of \$600,000 for revitalization projects in the downtown area. The note is payable to a bank in monthly installments of \$6,135, including interest at 4.15%. The note matures January 2017. The note is secured by the full faith, credit, and taxing power of the City.

Streetscape Project – A note in the amount of \$1,500,000 was obtained to provide financing for the City’s streetscape project and associated costs. The note is payable to a bank in quarterly installments of \$35,097, including interest at 4.75%. The note matures July 2025. The note is secured by the full faith, credit, and taxing power of the City.

Parking Garage – The City obtained a note in the amount of \$1,100,000 for repair work on the Clark Street parking garage and other capital projects. The note is payable to a bank in quarterly installments of \$25,738, including interest at 4.75%. The note matures July 2025. The note is secured by the full faith, credit, and taxing power of the City.

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Parking Revenue Fund Note – A note in the amount of \$900,000 was obtained to pay for costs of the parking garage. The note is payable to a bank in monthly installments of \$10,053, including interest at 6.05%, maturing January 2017. The note is secured by full faith, credit, and taxing power of the City.

Sewer Treatment Plant Upgrade – A note in the amount of \$21,457,623 was obtained to pay for costs of the sewer treatment plant upgrade. The note is payable to Pennvest in monthly installments of \$69,126, including interest at 1%, maturing in 2044. The note is secured by full faith, credit, and taxing power of the City. Payments begin at the earlier of three months after the estimated date of completion, the first day of the calendar month following completion of the project, or three years from the date of settlement. Interest expense for the year was \$195,920. The outstanding amount of the note as of December 31, 2016 is \$20,931,072.

Debt Service Requirements

Year Ending	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 169,661	\$ 79,492	\$ 642,738	\$ 196,060	\$ 812,399	\$ 275,552
2018	171,794	71,545	639,868	189,642	811,662	261,187
2019	180,101	63,244	646,296	183,214	826,397	246,458
2020	188,809	54,531	652,789	176,721	841,598	231,252
2021	197,938	45,401	659,347	170,164	857,285	215,565
2022-2026	831,400	81,155	3,397,432	750,120	4,228,832	831,275
2027-2031	-	-	3,571,548	576,005	3,571,548	576,005
2032-2036	-	-	3,754,587	392,966	3,754,587	392,966
2037-2041	-	-	3,900,058	247,494	3,900,058	247,494
2042-2045	-	-	3,075,643	25,053	3,075,643	25,053
	<u>\$1,739,703</u>	<u>\$ 395,368</u>	<u>\$ 20,940,306</u>	<u>\$2,907,439</u>	<u>\$22,680,009</u>	<u>\$3,302,807</u>

On December 23, 2013, the City of Warren entered into an agreement with Erie Bank to obtain a revolving line of credit not to exceed \$2.5 million dollars in order to assist with the short-term financing for the construction of a new waste water treatment plant. The line of credit matures on December 22, 2018 and has a fixed interest rate of 2.79%. The outstanding balance at December 31, 2016 is \$0.

Capital Leases

The City entered into lease agreements to finance the acquisition of police cars, a tractor, office equipment and parking project. The leases are recorded at the present value of the future minimum lease payments as of the date of their purchase. The assets acquired under capital leases are recorded at \$438,908, accumulated depreciation of \$111,314, and are included with capital assets in the statement of net position.

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Following is a schedule of the future minimum lease payments required under these capital leases, and the present value of the net minimum lease payments at December 31, 2016. Capital lease amortization is included in depreciation expense.

<u>Asset Class</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery and equipment	\$ 21,365	\$ -
Vehicles	333,320	84,223
Less accumulated depreciation	<u>(90,571)</u>	<u>(20,743)</u>
Total	<u>\$ 264,114</u>	<u>\$ 63,480</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2016 are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2017	\$ 76,055	\$ 75,226
2018	39,508	63,823
2019	<u>36,020</u>	<u>59,324</u>
Total minimum lease payments	151,583	198,373
Less amount representing interest	<u>(6,917)</u>	<u>(7,946)</u>
Present value of minimum lease payments	<u>\$ 144,666</u>	<u>\$ 190,427</u>

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the year ended December 31, 2016 was as follows:

	January 1, 2016	Additions	Reductions	December 31, 2016	Due Within One Year
Governmental Activities:					
Notes payable	\$ 1,967,770	\$ -	\$ (228,067)	\$ 1,739,703	\$ 169,661
Capital leases	214,017	-	(69,351)	144,666	71,775
Compensated absences	355,324	494,464	(468,523)	381,265	144,881
Other postemployment benefits	137,515	51,617	(9,886)	179,246	-
	<u>\$ 2,674,626</u>	<u>\$ 546,081</u>	<u>\$ (775,827)</u>	<u>\$ 2,444,880</u>	<u>\$ 386,317</u>
Business-Type activities:					
Parking fund general obligation note	\$ 125,485	\$ -	\$ (116,250)	\$ 9,235	\$ 9,235
Sewer fund upgrade note	19,101,356	2,356,267	(526,551)	20,931,072	633,503
Capital leases	259,212	-	(68,785)	190,427	70,711
Compensated absences	18,969	19,551	(26,552)	11,968	4,548
	<u>\$ 19,505,022</u>	<u>\$ 2,375,818</u>	<u>\$ (738,138)</u>	<u>\$ 21,142,702</u>	<u>\$ 717,997</u>

The liability for compensated absences is normally liquidated by the general, sewer or parking funds.

NOTE 7 – WARREN REDEVELOPMENT ASSISTANCE LOAN FUND PAYABLE

Under the terms of a settlement agreement with the Pennsylvania Department of Community and Economic Development (DCED), the City of Warren is obligated to repay \$500,000 to the Warren Redevelopment Assistance Loan fund for grant payments disallowed by the DCED. The agreement calls for monthly payments of \$3,030, including interest at 4%, maturing December 2032. The obligation is secured by all funds contained in the Warren Redevelopment Assistance Loan Fund.

Annual debt service requirements to maturity for general fund long-term debt obligation at December 31, 2016 are as follows:

Year Ending	Principal	Interest	Totals
2017	\$ 19,548	\$ 16,811	\$ 36,359
2018	20,344	16,015	36,359
2019	21,173	15,186	36,359
2020	22,036	14,323	36,359
2021	22,934	13,425	36,359
2022-2026	129,468	52,327	181,795
2027-2031	158,081	23,714	181,795
2032-2033	35,583	776	36,359
	<u>\$ 429,167</u>	<u>\$ 152,577</u>	<u>\$ 581,744</u>

NOTE 8 – RETIREMENT PLANS

The City administers three single-employer defined benefit pension Plans: Municipal employees, Police and Firefighters. The Plans were established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Pennsylvania legislature. A separate report is not issued for each Plan. Each Plan is accounted for as separate pension trust fund on the accrual basis and is governed by City Council. Assets are held separately and may be used only for the payment of benefits to members of the respective Plans.

Municipal Employees

The City of Warren Municipal Employee Pension Plan is a single-employer defined benefit pension Plan. The Plan was established by Ordinance No. 845, effective August 15, 1966. The Plan was amended and restated by Ordinance No. 1880, effective October 17, 2016. The Plan is governed by the City Council of the City of Warren which may amend Plan provisions, and which is responsible for the management of Plan assets. The City Council has delegated the authority to manage certain Plan assets to Northwest Savings Bank. The Plan is required to file Form PC-203C biennially with the Pennsylvania Department of the Auditor General’s Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2015.

Benefit Provisions

Eligibility Requirements

Normal Retirement:	Age 62 and 10 years of service.
Early Retirement:	Age 57 and 12 years of service.
Vesting:	50% after 5 years of service, increasing by 10% for each additional year, up to a maximum of 100% after the completion of 10 years of service.

Retirement Benefit

A monthly benefit equal to 1.2% of Final Average Monthly Salary (Base pay average over the final 60 months of employment), plus 1.0% of Final Average Monthly Salary in excess of \$550 multiplied by years of service.

Death Benefit

Before 10 Years of service:	Refund of contributions if any, plus interest.
After 10 Years of service but before retirement:	The participant’s spouse will receive 50% of the participant’s Accrued Benefit, payable for life or until remarriage.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

After Retirement: The Normal Form of Benefit is a life annuity. At retirement, the participant may select an optional form of benefit payment that is an actuarial equivalent of the Normal Form.

Disability Benefit

Service Related: In the event of total and permanent disablement, the accrued benefit at date of disablement is payable 5 months after disablement and continuing for duration of Disability prior to Normal Retirement date and life thereafter.

Non-Service Related: Same.

DROP Benefit

None.

Vesting Benefit

If eligible, the Accrued Benefit at date of termination, multiplied by the vested percentage is payable at Normal Retirement.

Late Retirement

The Benefit is the greater of the Normal Retirement Benefit actuarially increased to Late Retirement date, or the accrued benefit at actual Late Retirement date.

Early Retirement

Amount of Benefit: Normal Retirement Benefit based on Years of Continuous Service at date of actual retirement payable at Normal Retirement.

Reduction for Early Commencement: Benefit may be elected immediately, but will be reduced by 6.7% for each year by which commencement of benefits precedes Normal Retirement Date.

Deposits

At December 31, 2016, the Plan held no deposits. The Plan does hold monies in money market funds, but are considered cash and cash equivalents for financial statement purposes.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Investments

The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Plan’s target asset allocation is as follows:

<u>Asset Class</u>	<u>Target Percentage</u>
Equities	55-65%
Fixed Income	32.5-42.5%
Cash Equivalents	0-5.0%

Credit Risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan has no investment policy for credit risk. The credit ratings of the Plan’s investments (excluding obligations explicitly guaranteed by the U.S. government) are indicated on the table below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Money Market Funds	\$ 240,310	AAA
Fixed Income Mutual Funds	<u>1,497,274</u>	Not Rated
Total	<u>\$1,737,584</u>	

The above investments are categorized in the fair value hierarchy in the following manner:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Money Market Funds	\$ 240,310	\$ -	\$ -
Balanced Mutual Funds	170,172	-	-
Equity Mutual Funds	2,482,134	-	-
Exchange Traded Equity Funds	928,185	-	-
Fixed Income Mutual Funds	-	<u>1,497,274</u>	-
	<u>\$3,820,801</u>	<u>\$ 1,497,274</u>	<u>\$ -</u>

The valuation technique used in determining the above fair value are recently executed transactions, market price quotations and pricing models that factor in where applicable interest rates, bond, or CD spread volatility. No significant changes in the valuation technique were used as of December 31, 2016.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Plan places no limit on the amount that may be invested in any one issuer. At December 31, 2016, the Plan had no investments (other than U.S. Government and U. S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Interest Rate Risk for investments is the risk that a change in interest rates will adversely affect the fair value of an investment. The Plan has no investment policy for interest rate risk other than the 50 percent limit on fixed income securities. The maturities of the Plan’s debt investments are listed on the table below.

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>N/A</u>	<u>1-5.99</u>	<u>6 - 10</u>	<u>More than 10</u>
Debt Securities-Fixed Income Funds	\$1,497,274	\$ -	\$248,610	\$ 521,082	\$ 727,582	\$ -
Balanced Mutual Funds	170,172					
Equity Mutual Funds	2,482,134					
Exchange Traded Equity Funds	928,185					
Total	\$5,077,765					

Contributions

The employer follows the funding policy prescribed by Act 205 of 1984 (as amended), which requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the Plan’s most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state and member contributions must be funded by the employer.

Employers are required to contribute 2.0 percent of covered payroll to the Plan. This contribution is governed by the Plan’s governing ordinances and collective bargaining.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or Plan earnings.

Net Pension Liability

The components of the net pension liability at December 31, 2016 are as follows:

Total pension liability*	\$ 5,416,298
Plan fiduciary net position	<u>(5,320,229)</u>
Net pension liability	<u>\$ 96,069</u>

Plan fiduciary net position as a percentage of the total pension liability: 98.2%

*The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions

Inflation:	3%
Salary increases:	5% including inflation
Mortality:	RP-2000 Combined Healthy Mortality Table with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.
Expected Long-Term Rate of Return:	7.5 % applied to all periods

The long-term expected rate of return on pension Plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the MMO) 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. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real ROR</u>
Equities	6.3 %
Fixed Income	2.0 %
Cash and Equivalents	0.0 %

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the Plan will continue to be funded based on the Minimum Municipal Obligation as determined in accordance with Act 205. Based on that assumption, the pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate

The following shows the effect of a 1% change in the discount rate on the net pension liability:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 666,069	\$ 96,069	\$ (391,587)

Payable to the Pension Plan

At December 31, 2016, the City did not owe anything to the Plan. Amounts noted as receivable in the financial statements consist of accrued income.

Plan Membership

The Plan provides pensions for full-time municipal employees of the City. As of December 31, 2016, pension Plan membership consists of:

Active employees	25
Retirees and beneficiaries currently receiving benefits	26
Terminated employees entitled to benefits but not yet receiving them	<u>6</u>
Total	<u><u>57</u></u>

Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at 12/31/15	\$ 5,210,339	\$ 5,139,874	\$ 70,465
Changes for the Year:			
Service cost	137,298	-	137,298
Interest	389,267	-	389,267
Differences between expected and actual experience	-	-	-
Contributions - employer	-	136,779	(136,779)
Contributions - employee	-	22,187	(22,187)
Net investment income	-	369,746	(369,746)
Benefit payments and refunds of employee contributions	(320,606)	(320,606)	-
Administrative expense	-	(27,751)	27,751
Net changes	<u>205,959</u>	<u>180,355</u>	<u>25,604</u>
Balances at 12/31/2016	<u><u>\$ 5,416,298</u></u>	<u><u>\$ 5,320,229</u></u>	<u><u>\$ 96,069</u></u>

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Police Pension

The City of Warren Police Pension Plan is a single-employer defined benefit pension Plan. The Plan was established by Ordinance No. 376, effective May 7, 1945. The Plan was amended and restated by Ordinance No. 1669, effective January 1, 2002. The Plan is governed by the City Council of the City of Warren which may amend Plan provisions, and which is responsible for the management of Plan assets. The City Council has delegated the authority to manage certain Plan assets to Northwest Savings Bank. The Plan is required to file Form PC-201C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2015.

Benefit Provisions

Eligibility Requirements

Normal Retirement: Completion of 20 years of service.

Vesting: 100% after 12 years of service.

Retirement Benefit

A monthly benefit equal to 50% of Final Average Monthly Compensation (compensation averaged over the final 36 months of employment), plus Extra Service benefit of 1/40 of the Normal Retirement Benefit for each completed Year of Service in excess of 20 years, up to a maximum increase of \$500. Service completed after age 65 is not counted.

Death Benefit

Before Retirement Eligibility: Refund of contributions plus interest.

After Retirement Eligibility: The surviving spouse will receive 100% of the amount the participant was receiving or entitled to receive payable for life or until remarriage. In the event of the spouse's death or remarriage, the participant's children under age 18 will share the benefit, or until age 21 if a full-time student.

Disability Benefit

Service Related: For total and permanent disablement, a monthly benefit equal to 50% of compensation averaged over the final 36 months prior to disablement will be payable commencing the first day of the month following disablement and continuing for duration of Disability prior to Normal Retirement date and life thereafter.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Non-Service Related: None.

DROP Benefit None.

Cost-of Living Adjustment Normal retirees will receive a 2.0% per year increase in their benefit. Total increases may not exceed 70% of the contractual pay rate of a fourth-year officer/First Class Patrolman at the time of retirement. Disabled retirees will receive annual increases based on the Consumer Price Index up to a maximum of 30% of the original benefit.

Vesting Benefit: A benefit at Normal Retirement date equal to 50% of Final Average Monthly Compensation in the 36 months preceding termination multiplied by the ratio of actual service to 20 years. Benefit is paid in lieu of the return of member contributions.

Deposits

At December 31, 2016, the Plan held no deposits. The Plan does hold monies in money market funds that are considered cash and cash equivalents for financial statements purposes.

Investments

The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Plan’s target asset allocation is as follows:

<u>Asset Class</u>	<u>Target Percentage</u>
Equities	55-65%
Fixed Income	32.5-42.5%
Cash Equivalents	0-5.0%

Credit Risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan has no investment policy for credit risk. The credit ratings of the Plan’s investments (excluding obligations explicitly guaranteed by the U.S. government) are indicated on the table below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Money Market Funds	\$ 276,089	AAA
Fixed Income Mutual Funds	<u>2,126,774</u>	Not Rated
Total	<u>\$2,402,863</u>	

NOTE 8 – RETIREMENT PLANS (CONTINUED)

The above investments are categorized in the fair value hierarchy in the following manner:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Money Market Funds	\$ 276,089	\$ -	\$ -
Fixed Income Mutual Funds	-	2,126,774	-
Balanced Mutual Funds	238,241	-	-
Equity Mutual Funds	3,659,586	-	-
Exchange Traded Equity Funds	<u>1,325,967</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,499,883</u>	<u>\$ 2,126,774</u>	<u>\$ -</u>

The valuation technique used in determining the above fair value are recently executed transactions, market price quotations and pricing models that factor in where applicable interest rates, bond, or CD spread volatility. No significant changes in the valuation technique were used as of December 31, 2016.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Plan places no limit on the amount that may be invested in any one issuer. At December 31, 2016, the Plan had no investments (other than U.S. Government and U. S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

Interest Rate Risk for investments is the risk that a change in interest rates will adversely affect the fair value of an investment. The Plan has no investment policy for interest rate risk other than the 42.5 percent limit on fixed income securities. The maturities of the Plan's debt investments are listed on the table below.

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5.99</u>	<u>6 - 10</u>	<u>More than 10</u>	<u>N/A</u>
Debt Securities-Fixed Income Funds	\$2,126,774	<u>\$ -</u>	<u>\$ 184,183</u>	<u>\$1,595,584</u>	<u>\$ -</u>	<u>\$ 347,007</u>
Balanced Mututal Funds	238,241					
Equity Mutual Funds	3,659,586					
Exchange Traded Equity Funds	<u>1,325,967</u>					
Total	<u>\$7,350,568</u>					

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Contributions

The employer follows the funding policy prescribed by Act 205 of 1984 (as amended), which requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the Plan's most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state and member contributions must be funded by the employer.

Employees are required to contribute 5.0% of covered payroll to the Plan. This contribution is governed by the Plan's governing ordinances and collective bargaining. Contributions are currently reduced to 2.0% of covered payroll.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or Plan earnings.

Net Pension Liability

The components of the net pension liability (asset) at December 31, 2016 are as follows:

Total pension liability*	\$ 7,269,402
Plan fiduciary net position	<u>(7,611,053)</u>
Net pension liability (asset)	<u>\$ (341,651)</u>

Plan fiduciary net position as a percentage of the total pension liability: 104.7%

*The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Actuarial Assumptions:

Inflation: 3%

Salary increases: 5% including inflation

Mortality: RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Expected Long-Term

Rate of Return:

7.5 % applied to all periods

The long-term expected rate of return on pension Plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the MMO) 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. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real ROR</u>
Equities	6.3%
Fixed Income	2.0%
Cash and Equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the Plan will continue to be funded based on the Minimum Municipal Obligation as determined in accordance with Act 205. Based on that assumption, the pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate

The following shows the effect of a 1% change in the discount rate on the net pension liability(asset):

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 443,790	\$ (341,651)	\$ (1,004,525)

Payable to the Pension Plan

At December 31, 2016, the City did not owe anything to the Plan. Amounts noted as receivable in the financial statements consist of accrued income.

Plan Membership

The Plan provides pensions for full-time policemen of the City. As of December 31, 2016, pension Plan membership consists of:

Active employees	12
Retirees and beneficiaries currently receiving benefits	24
Terminated employees entitled to benefits but not yet receiving them	-
Total	<u>36</u>

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/15	\$ 7,113,618	\$ 7,478,342	\$ (364,724)
Changes for the Year:			
Service cost	159,679	-	159,679
Interest	525,986	-	525,986
Contributions - employer	-	133,197	(133,197)
Contributions - employee	-	18,538	(18,538)
Net investment income	-	544,151	(544,151)
Benefit payments and refunds of employee contributions	(529,881)	(529,881)	-
Administrative expense	-	(33,294)	33,294
Net changes	<u>155,784</u>	<u>132,711</u>	<u>23,073</u>
Balances at 12/31/2016	<u>\$ 7,269,402</u>	<u>\$ 7,611,053</u>	<u>\$ (341,651)</u>

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Firefighter Pension

The City of Warren Firefighters Pension Plan is a single-employer defined benefit pension Plan. The Plan was established September 1, 1974 (adopted pursuant to Act 600 of 1956). The Plan was amended and restated by Ordinance No. 1668, effective January 1, 2010. The Plan is governed by the City Council of the City of Warren which may amend Plan provisions, and which is responsible for the management of Plan assets. The City Council has delegated the authority to manage certain Plan assets to MetLife Insurance Company and Vanguard. The Plan is required to file Form PC-202C Pennsylvania Department of the Auditor General’s Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2015.

Benefit Provisions

Pension Plan benefit provisions are as follows:

Eligibility Requirements

Normal Retirement: Age 55 and 20 years of service.

Early Retirement: None.

Vesting: 100% after 12 years of service.

Retirement Benefit

A monthly benefit equal to 50% of Final Average Monthly Compensation, base pay plus longevity averaged over the highest 5 years or the final monthly rate of pay, whichever is higher, plus a service increment of 1/40 of the Normal Retirement Benefit for each completed Year of Service in excess of 20 years, up to a maximum of \$250. Service completed after age 65 is not counted.

Death Benefit

Before Retirement Eligibility: A monthly benefit equal to 50% of Vested Accrued Benefit at date of death is payable to the participant’s spouse immediately until death.

After Retirement Eligibility: A monthly benefit equal to 100% of the benefit the in-service death participant was receiving or was entitled to receive payable to the survivor for life. For those participants who die while in active service, the benefit is deferred until the participant’s normal retirement date.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Disability Benefit

Service Related: Upon total and permanent disablement as determined by a qualified physician, participant will receive a monthly benefit equal to 50% of compensation averaged over the final 60 months prior to disablement. Benefit commences the first day of the month following disablement and continuing for duration of Disability prior to Normal Retirement date and life thereafter.

Non-Service Related: Hired on or after 1/1/2010, there is a 10-year service requirement. Monthly benefit is 30%.

DROP Benefit None.

Other Benefits

Vesting Benefit Prospective Normal Retirement Benefit is multiplied by the ratio of service to date divided by projected service to Normal Retirement payable at Normal Retirement Date.

Member Contributions

Amount or Rate: 5.0% of wages + \$2.50 per month for service increment.

Interest Rate Credited to Member Contributions: 0.0%

Deposits

At December 31, 2016, the Plan held no deposits.

Investments

The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Plan's target asset allocation is as follows:

<u>Asset Class</u>	<u>Target Percentage</u>
Equities	55-65%
Fixed Income	32.5-42.5%
Cash Equivalents	0-5.0%

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Credit Risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan has no investment policy for credit risk. At December 31, 2016, the credit ratings of the Plan’s investments (excluding obligations explicitly guaranteed by the U.S. government) are indicated on the table below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Annuity Contract	<u>\$524,575</u>	Not Rated

The above investments are categorized in the fair value hierarchy in the following manner:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Money Market Funds	\$ 1,636,991	\$ -	\$ -
Fixed Income Mutual Funds	-	480,844	-
Annuity Contract	-	-	524,575
	<u>\$ 1,636,991</u>	<u>\$ 480,844</u>	<u>\$ 524,575</u>

The valuation technique used in determining the above fair value are recently executed transactions, market price quotations and pricing models that factor in where applicable interest rates, bond, or CD spread volatility. No significant changes in the valuation technique were used as of December 31, 2016.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Plan places no limit on the amount that may be invested in any one issuer. At December 31, 2016, all Plan assets were held by MetLife Insurance Company or Vanguard.

Interest Rate Risk for investments is the risk that a change in interest rates will adversely affect the fair value of an investment. The maturities of the Plan’s debt investments are listed on the table below.

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5.99</u>	<u>6 - 10</u>	<u>More than 10</u>
Mutual Funds	\$ 480,844	\$ -	\$ -	\$480,844	\$ -
Insurance Contracts	524,575				
Equity Mutual Funds	1,636,991				
	<u>\$2,642,410</u>				

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Contributions

The employer follows the funding policy prescribed by Act 205 of 1984 (as amended), which requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the Plan’s most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state and member contributions must be funded by the employer.

Employees are required to contribute 5.0% of covered payroll + \$2.50 per month for service increment to the Plan. This contribution is governed by the Plan’s governing ordinances and collective bargaining.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or Plan earnings.

The components of the net pension liability at December 31, 2016 are as follows:

Total pension liability*	\$ 3,411,066
Plan fiduciary net position	<u>2,642,410</u>
Net pension liability	<u>\$ 768,656</u>

Plan fiduciary net position as a percentage of the total pension liability: 77.5%

*The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Actuarial Assumptions

Inflation:	3%
Salary increases:	4.5% including inflation
Mortality:	RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Expected Long-Term
Rate of Return:

6.5 % applied to all periods

The long-term expected rate of return on pension Plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the MMO) 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. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real ROR</u>
Equities	6.3%
Fixed Income	2.0%
Cash and Equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that the Plan will continue to be funded based on the Minimum Municipal Obligation as determined in accordance with Act 205. Based on that assumption, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following shows the effect of a 1% change in the discount rate on the net pension liability:

	<u>1% Decrease 5.50%</u>	<u>Current Discount Rate 6.50%</u>	<u>Increase 7.50%</u>
Net Pension Liability	<u>\$ 1,294,417</u>	<u>\$ 768,656</u>	<u>\$ 337,269</u>

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Payable to the Pension Plan

At December 31, 2016, the City did not owe anything to the Plan.

Plan Membership

The Plan provides pensions for full-time firefighters of the City. As of December 31, 2016, pension Plan membership consists of:

Active employees	17
Retirees and beneficiaries currently receiving benefits	-
Terminated employees entitled to benefits but not yet receiving them	-
Total	<u>17</u>

Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at 12/31/15	<u>\$ 3,069,427</u>	<u>\$ 2,153,292</u>	<u>\$ 916,135</u>
Changes for the Year:			
Service cost	154,629	-	154,629
Interest	208,864	-	208,864
Contributions - employer	-	293,375	(293,375)
Contributions - employee	-	42,398	(42,398)
Net investment income	-	189,906	(189,906)
Benefit payments and refunds of employee contributions	(21,854)	(21,854)	-
Administrative expense	-	(14,707)	14,707
Net changes	<u>341,639</u>	<u>489,118</u>	<u>(147,479)</u>
Balances at 12/31/2016	<u>\$ 3,411,066</u>	<u>\$ 2,642,410</u>	<u>\$ 768,656</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the City recognized pension expense of \$617,217. At December 31, 2016, the Plan reported deferred outflows of resources and deferred inflows of resources related to the municipal employee's, firefighter's and police officer's pension from the following sources:

NOTE 8 – RETIREMENT PLANS (CONTINUED)

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ (486,352)
Net difference between projected and actual earnings on pension plan investments	<u>672,277</u>
Total	<u><u>\$ 185,925</u></u>

Amounts reported as deferred outflows of resources (+) and deferred inflows (-) of resources related to pension will be recognized in pension expense as follows:

Year ended December 31:

2017	\$ 113,000
2018	113,000
2019	179,925
2020	(54,742)
2021	(30,038)
Thereafter	<u>(135,220)</u>
Total	<u><u>\$ 185,925</u></u>

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Plan Provisions

The City offers a single-employer Plan that provides health care, disability, and life insurance benefits to eligible retired City employees and their spouses. These benefits were established under collective bargaining agreements or by resolution of Council. The Plan does not issue a stand-alone financial report.

Firefighters

Normal Retirement Eligibility: Age 55 with 20 years of service.

Disability Retirement Eligibility: Total and permanent disablement as determined by a qualified physician.

Persons Covered: Eligible retiree and spouse.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

Benefits Provided: If the eligible normal retiree was hired on or before January 1, 1996, and retired before January 1, 2003, the City will provide the Blue Cross/Blue Shield Major Medical Insurance Program in effect on December 31, 2002, (hospitalization only) until the retiree reaches age 65.

If the eligible normal retiree was hired on or before January 1, 1996, and retired after January 1, 2003, the City will provide the Direct Blue health insurance plan until the retiree reaches age 65.

All other participants retiring after January 1, 2000, or those participants retiring under the disability retirement provisions are eligible to continue on the Group Health insurance until the retiree reaches age 65; however, the retiree is required to pay the charged premium.

Retiree Contributions: Retirees will pay all increases in the charged premium after the year of retirement.

Police officers

Normal Retirement Eligibility: 20 years of service.

Persons Covered: Eligible retiree, spouse, or other dependents.

Benefits Provided: If the eligible retiree was hired on or before January 1, 1993, and retired after January 1, 1997, but before January 1, 2003, the City will provide the Blue Cross/Blue Shield and Major Medical Insurance Program in effect on December 1, 2002, (hospitalization only) until the retiree reaches age 65.

If the eligible retiree was hired on or before January 1, 1993, and retired after January 1, 2003, the City will provide the Direct Blue health insurance plan until the retiree reaches age 65.

All other participants retiring after December 31, 1995 are eligible to continue on the Group Health insurance until the retiree reaches age 65; however, the retiree is required to pay the charged premium.

Retiree Contributions: Retiree will pay all increases in the charged premium after the year of retirement.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

Municipal Employees

Normal Retirement Eligibility:	Age 62 with 10 years of service.
Disability Retirement Eligibility:	Total and permanent disablement as determined by a qualified physician.
Persons Covered:	Eligible retiree, spouse, or other dependents.
Benefits Covered:	Eligible retirees may continue on the Group Health insurance until the retiree reaches age 65.
Retiree Contributions:	Retiree pays premium charged.

Department of Public Works Union (IBEW)

Normal Retirement Eligibility	Age 62 with 10 years of service.
Disability Retirement Eligibility	Total and permanent disablement as determined by a qualified physician.
Persons Covered:	Eligible retiree.
Benefits Covered:	Eligible retirees hired before January 1, 1993 may continue on the Group Health insurance until the retiree reaches age 65.
Retiree Contributions:	Retirees pay premium charged.

Former City Manager

Eligibility:	Based on terms of employment agreement adopted before retirement.
Benefits Covered:	The City pays \$200,000 of life insurance coverage through the City’s selected carrier for his remaining lifetime.

Funding Policy

The City finances postemployment benefits other than pension benefits as claims are made.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The City’s annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period of 15 years. The following table shows the components of the City’s annual OPEB cost for the year ended December 31, 2016, the amount actually contributed to the Plan, and changes in the City’s net OPEB obligation:

<u>Year Ended</u>	<u>Annual OPEB cost</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 53,481	\$ 36,838	68.90%	\$ 217,930
2012	50,752	37,344	73.60%	231,338
2013	57,934	48,426	83.60%	240,846
2014	49,780	24,201	48.60%	154,843
2015	50,784	13,994	27.60%	137,515
2016	51,617	9,886	19.15%	179,246

The following tables shows the component of the City’s annual OPEB cost for the year, the amount actually contributed, and changes in the City’s net OPEB obligation/(asset):

Annual required contribution	\$ 58,234
Interest on net OPEB obligation	6,188
Adjustment to net OPEB obligation	(12,805)
Annual OPEB cost	<u>51,617</u>
Contribution made	<u>(9,886)</u>
Increase in net OPEB obligation/(asset)	41,731
Net OPEB obligation/(asset) - beginning of year, restated	<u>137,515</u>
Net OPEB obligation/(asset) - end of year	<u><u>\$ 179,246</u></u>

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

Restatement of OPEB Obligation

The balance of the OPEB obligation was restated to reflect the actuarial accrued liability at January 1, 2016 as noted below:

Net Obligation at 12/31/2015	\$ 191,633
Restatement of OPEB obligation to adjust to the actuarial accrued liability at 1/1/16	<u>(54,118)</u>
Net OPEB Obligation at 12/31/15, restated	<u>\$ 137,515</u>

Funded Status and Funding Progress

As of January 1, 2016, the actuarial accrued liability for benefits was \$179,246, all of which was unfunded.

The projection of future benefit payments for an ongoing Plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Projections include assumptions about future employment, mortality, and healthcare cost trend. Amounts determining the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the actuary, employer, and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

Actuarial Cost Method	Entry Age Normal Actuarial Cost Method								
Actuarial Present Value of Projected Benefits	Level dollar								
Interest Rate	4.5% per year								
Mortality	RP-2000 Combined Mortality Table with Blue Collar Adjustment with rates set forward 5 years for disabled lives								
Disablement	60% of the rates of disablement from <i>Advanced Pension Tables</i>								
Turnover (Withdrawal)	Table T-1, <i>Actuary's Pension Handbook</i>								
Retirement	For non-police: Normal Retirement Age, or attained age if currently eligible to retire For police: Later of age 50 or 20 years of service								
Rates of Participation for Future Retirees	25%								
Individual or Husband/Wife Coverage	50% Individual / 50% Husband/Wife								
Spouse Age for Future Retirees	Male spouses assumed to be 3 years older than female spouses								
Initial Annual Cost	As of the valuation date, the cost for medical (including prescription drug), coverage was developed starting with the applicable actual premium schedules in effect								
Premium Schedules	<table border="0"> <tr> <td>Single</td> <td>\$ 6,982</td> </tr> <tr> <td>Two people</td> <td>18,810</td> </tr> <tr> <td>Family</td> <td>21,603</td> </tr> <tr> <td>Parent/Children</td> <td>16,799</td> </tr> </table>	Single	\$ 6,982	Two people	18,810	Family	21,603	Parent/Children	16,799
Single	\$ 6,982								
Two people	18,810								
Family	21,603								
Parent/Children	16,799								
Age Adjustments	Costs are projected with suitable age-adjusted ratios derived from the 2015 premium schedule. Since premiums do not reflect a retiree-only group and tend to increase significantly by age, the Governmental Accounting Standards Board requires an age adjustment. The following amounts represent the cost of PPO medical coverage:								

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

<u>Age Group</u>	<u>Age Adjusted Annual Cost</u>
Child	\$ 3,701
45	7,242
50	8,518
55	10,019
60	11,957
64	13,458

Annual trend rates for medical and prescription
Costs:

2016	8.50%
2017	7.75%
2018	7.25%
2019	6.5%
2020	6.0%
2021	5.5%
2022 and later	5.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits are based upon the types of benefits provided under the substantive Plan at the time of each valuation and on the pattern of sharing the benefit costs between the employer and Plan members to that point.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Grant Programs

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

The City may be subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation, if any, will not have a material adverse effect on the City's financial position.

NOTE 11 – SELF INSURANCE – HEALTH INSURANCE

The City entered into an agreement with Municipal Benefit Services (Funded by the Municipal Employees Insurance Trust) to provide health and welfare benefits to the City's employees and retirees.

The City's self-insurance program pays health and dental insurance coverage for City employees. Retired employees are also covered by the program provided they pay a monthly premium to the City. Under the Trust Agreement, the City is obligated to make employer contributions as determined by the Trust or on a monthly basis.

At December 31, 2016, there is no material liability of unpaid claims to be reported by the City.

NOTE 12 – RESTATEMENT OF FUND BALANCE/NET POSITION

Beginning net position was restated to reflect the following:

Restatement of the Net OPEB Obligation to reflect the actuarial accrued liability at January 1, 2016.

	Governmental Activities Net Position
Beginning Balance	\$ 29,595,833
Restatement: Net OPEB Obligation	54,118
Beginning Balance, Restated	<u>\$ 29,649,951</u>

**Required Supplementary
Information**

CITY OF WARREN, PENNSYLVANIA
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 6,305,000	\$ 6,305,000	\$ 6,482,159	\$ 177,159
Intergovernmental	413,533	413,533	480,277	66,744
Charges for services	439,000	439,000	456,179	17,179
Licenses and permits	362,500	362,500	575,952	213,452
Fines and forfeits	61,500	61,500	72,916	11,416
Other	35,800	35,800	69,650	33,850
Total Revenues	<u>7,617,333</u>	<u>7,617,333</u>	<u>8,137,133</u>	<u>519,800</u>
EXPENDITURES				
Current:				
General government	1,018,131	1,018,131	1,003,257	14,874
Public safety	3,799,348	3,799,348	3,598,963	200,385
Public works	1,473,264	1,473,264	1,429,627	43,637
Culture and recreation	693,301	693,301	672,766	20,535
Community development	113,243	113,243	78,169	35,074
Building code enforcement	376,569	376,569	380,871	(4,302)
Debt service	353,313	353,313	16,186	337,127
Total Expenditures	<u>7,827,169</u>	<u>7,827,169</u>	<u>7,179,839</u>	<u>647,330</u>
Excess of revenues over expenditures	<u>(209,836)</u>	<u>(209,836)</u>	<u>957,294</u>	<u>1,167,130</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of fixed assets	-	-	11,150	11,150
Lease proceeds	149,660	149,660	-	(149,660)
Transfers in	202,696	202,696	378,317	175,621
Transfers out	(754,650)	(754,650)	(1,470,698)	(716,048)
Total Other Financing Sources (Uses)	<u>(402,294)</u>	<u>(402,294)</u>	<u>(1,081,231)</u>	<u>(678,937)</u>
Net Change in Fund Balance	(612,130)	(612,130)	(123,937)	488,193
Fund Balances, Beginning of Year	<u>3,520,951</u>	<u>3,520,951</u>	<u>3,520,951</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 2,908,821</u>	<u>\$ 2,908,821</u>	<u>\$ 3,397,014</u>	<u>\$ 488,193</u>

CITY OF WARREN, PENNSYLVANIA
Schedule of Changes in the City's Net Pension Liability and Related Ratios
December 31, 2016

Municipal Employees Pension Plan

Total Pension Liability at Plan Year End

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial Accrued Liability at January 1	\$ 5,210,339	\$ 5,091,945	\$ 4,849,243
Service Cost	137,298	135,432	140,145
Differences between expected and actual experience	-	(113,700)	-
Benefit Payments	(320,606)	(276,676)	(262,000)
Interest	389,267	373,338	364,557
Total Pension Liability (TPL)	<u>\$ 5,416,298</u>	<u>\$ 5,210,339</u>	<u>\$ 5,091,945</u>

Plan Fiduciary Net Position

Balance at January 1	\$ 5,139,874	\$ 5,280,405	\$ 4,997,925
Benefit Payments	(320,606)	(276,676)	(262,000)
Contributions - employer	136,779	193,634	198,243
Contributions - member	22,187	21,480	21,042
Net Investment Income	369,746	(48,092)	356,595
Administrative Expenses	(27,751)	(30,877)	(31,400)

Total Plan Fiduciary Net Position	<u>\$ 5,320,229</u>	<u>\$ 5,139,874</u>	<u>\$ 5,280,405</u>
-----------------------------------	---------------------	---------------------	---------------------

City Net Pension Liability (Asset)	<u>\$ 96,069</u>	<u>\$ 70,465</u>	<u>\$ (188,460)</u>
------------------------------------	------------------	------------------	---------------------

Plan fiduciary net position as a percentage of the total pension liability	98.2%	98.6%	103.7%
--	-------	-------	--------

Covered-employee payroll	\$ 1,264,036	\$ 1,114,818	\$ 1,160,268
--------------------------	--------------	--------------	--------------

City's Net Pension Liability/(Asset) as a percentage of covered-employee payroll	7.6%	6.3%	-16.2%
--	------	------	--------

CITY OF WARREN, PENNSYLVANIA
Schedule of Changes in the City's Net Pension Liability and Related Ratios
December 31, 2016

Police Pension Plan

Total Pension Liability at Plan Year End

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial Acrued Liability at January 1	\$ 7,113,618	\$ 7,193,968	\$ 6,973,104
Service Cost	159,679	152,075	181,479
Changes of benefit terms	-	(18,267)	-
Differences between expected and actual experience	-	(267,700)	-
Benefit Payments	(529,881)	(459,060)	(479,565)
Interest	525,986	512,602	518,950
Total Pension Liability (TPL)	<u>\$ 7,269,402</u>	<u>\$ 7,113,618</u>	<u>\$ 7,193,968</u>

Plan Fiduciary Net Position

Balance at January 1	\$ 7,478,342	\$ 7,835,276	\$ 7,556,913
Benefit Payments	(529,881)	(459,060)	(479,565)
Contributions - employer	133,197	188,168	221,701
Contributions - member	18,538	17,049	16,650
Net Investment Income	544,151	(66,660)	556,253
Administrative Expenses	(33,294)	(36,431)	(36,676)
Total Plan Fiduciary Net Position	<u>\$ 7,611,053</u>	<u>\$ 7,478,342</u>	<u>\$ 7,835,276</u>
City Net Pension Liability (Asset)	<u>\$ (341,651)</u>	<u>\$ (364,724)</u>	<u>\$ (641,308)</u>
Plan fiduciary net position as a percentage of the total pension liability	104.7%	105.1%	108.9%
Covered-employee payroll	\$ 784,113	\$ 937,229	\$ 782,344
City's Net Pension Liability/(Asset) as a percentage of covered-employee payroll	-43.6%	-38.9%	-82.0%

CITY OF WARREN, PENNSYLVANIA
Schedule of Changes in the City's Net Pension Liability and Related Ratios
December 31, 2016

Firefighters Pension Plan

Total Pension Liability at Plan Year End

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial Accrued Liability at January 1	\$ 3,069,427	\$ 2,678,393	\$ 2,386,991
Service Cost	154,629	147,970	139,989
Benefit Payments	(21,854)	-	(12,443)
Change of benefit terms	-	388,152	-
Differences between expected and actual experience	-	(332,424)	-
Interest	208,864	187,336	163,856
Total Pension Liability (TPL)	<u>\$ 3,411,066</u>	<u>\$ 3,069,427</u>	<u>\$ 2,678,393</u>

Plan Fiduciary Net Position

Balance at January 1	\$ 2,153,292	\$ 1,848,930	\$ 1,472,478
Benefit Payments	(21,854)	-	(12,443)
Contributions - employer	293,375	255,310	255,007
Contributions - member	42,398	40,464	38,551
Net Investment Income	189,906	25,278	116,202
Administrative Expenses	(14,707)	(16,690)	(20,865)

Total Plan Fiduciary Net Position	<u>\$ 2,642,410</u>	<u>\$ 2,153,292</u>	<u>\$ 1,848,930</u>
-----------------------------------	---------------------	---------------------	---------------------

City Net Pension Liability (NPL)	<u>\$ 768,656</u>	<u>\$ 916,135</u>	<u>\$ 829,463</u>
----------------------------------	-------------------	-------------------	-------------------

Plan fiduciary net position as a percentage of the total pension liability	77.5%	70.2%	69.0%
--	-------	-------	-------

Covered-employee payroll	\$ 940,445	\$ 873,664	\$ 807,829
--------------------------	------------	------------	------------

City's Net Pension Liability as a percentage of covered-employee payroll	81.7%	104.9%	102.7%
--	-------	--------	--------

CITY OF WARREN, PENNSYLVANIA
Schedule of Contributions
Municipal Employees Pension Plan

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- employee Payroll	Contributions As a Percentage of Covered- employee Payroll
2007	\$ 131,499	\$ 133,838	\$ (2,339)		
2008	137,975	139,031	(1,056)	\$ 1,136,096	12.2%
2009	149,285	155,078	(5,793)		
2010	156,819	208,971	(52,152)	1,239,358	16.9%
2011	227,145	242,259	(15,114)		
2012	238,199	238,199	-	1,120,583	21.3%
2013	211,217	211,217	-		
2014	198,243	198,243	-	1,160,268	17.1%
2015	193,634	193,634	-	1,114,818	17.4%
2016	136,779	136,779	-	1,264,036	10.8%

See Notes to the Supplementary Schedules for an explanation of changes to benefits and actuarial assumptions.

CITY OF WARREN, PENNSYLVANIA
Schedule of Contributions
Municipal Employees Pension Plan

Notes to the Supplementary Schedules

The following actuarial methods and assumptions were used in the calculation of actuarially determined contribution rates reported in the supplementary schedules:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	17 years
Asset valuation method	4-year smoothing
Inflation	3.0%
Salary increase	5.0% including inflation
Investment rate of return	7.5% net of investment expenses not funded through the MMO, and including inflation
Mortality	RP-2000 Combined Healthy Mortality Table with rates set forward 5 years for disabled lives. Rates projected to improve with 75% of scale AA.
Retirement age	Later of Normal Retirement age or attained age if currently eligible to retire.

Changes to Benefits: None.

Changes to Assumptions:

Effective 1-1-2009, AVA smoothing (4-year) and RP-2000 Combined Healthy Mortality Table

Effective 1-1-2011, pre-retirement death benefits are valued directly

Effective 1-1-2013, Mortality assumption updated to recognize mortality improvements are expected to continue to occur

CITY OF WARREN, PENNSYLVANIA
Schedule of Contributions
Police Pension Plan

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- employee Payroll	Contributions As a Percentage of Covered- employee Payroll
2007	\$ -	\$ -	\$ -		N/A
2008	-	-	-	\$ 697,393	N/A
2009	-	-	-		N/A
2010	-	-	-	813,673	N/A
2011	174,963	188,423	(13,460)		
2012	174,099	174,099	-	864,627	20.1%
2013	181,370	181,370	-		
2014	221,701	221,701	-	782,344	28.3%
2015	188,168	188,168	-	937,229	20.1%
2016	133,197	133,197	-	784,113	17.0%

See Notes to the Supplementary Schedules for an explanation of changes to benefits and actuarial assumptions.

CITY OF WARREN, PENNSYLVANIA
Schedule of Contributions
Police Pension Plan

Notes to the Supplementary Schedules

The following actuarial methods and assumptions were used in the calculation of actuarially determined contribution rates reported in the supplementary schedules:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	17 years
Asset valuation method	4-year smoothing
Inflation	3.0%
Salary increase	5.0% plus an additional 2.667% in the year preceding retirement to reflect the inclusion of pay for unused sick days in the calculation of Final Average Monthly Compensation including inflation
Investment rate of return	7.5% net of investment expenses not funded through the MMO, and including inflation
Mortality	RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and rates projected to improve with 75% of scale AA.
Retirement age	Participants who will be over age 55 at 20 years of service as assumed to retire. For all others 20% are assumed to retire after reaching 20 years of service with 100% assumed at age 55.

Changes to Benefits:

Effective 1-1-2007, the extra service benefit was changed to 1/40 of normal retirement benefit for each year completed over 20 up to a maximum monthly benefit of \$500. Also, the percentage of accumulated sick days used in the calculation of final average monthly compensation increased to 40%.

Effective 1-1-2009, normal retirement eligibility was changed to 20 years of service with no age requirement.

Effective 1-1-2015, Plan amended to eliminate killed-in-service benefit.

Changes to Assumptions:

Effective 1-1-2009, asset smoothing (4-year), pre-retirement death benefits now directly valued, mortality table changed to RP-2000 Combined Healthy Mortality Table projected forward to 2005 with scale AA, and retirement assumption of 20% once 20 years of service with 100% assumed to age 55.

Effective 1-1-2013, mortality improvement and blue-collar adjustment now included.

CITY OF WARREN, PENNSYLVANIA
Schedule of Contributions
Firefighters Pension Plan

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- employee Payroll	Contributions As a Percentage of Covered- employee Payroll
2007	\$ 74,909	\$ 75,284	\$ (375)		
2008	79,850	81,653	(1,803)	\$ 702,840	11.6%
2009	75,251	79,889	(4,638)		
2010	73,598	98,339	(24,741)	741,390	13.3%
2011	99,007	107,671	(8,664)		
2012	101,786	101,786	-	805,823	12.6%
2013	300,800	300,800	-		
2014	255,007	255,007	-	807,829	31.6%
2015	255,310	255,310	-	873,664	29.2%
2016	293,375	293,375	-	940,445	31.2%

See Notes to the Supplementary Schedules for an explanation of changes to benefits and actuarial assumptions.

CITY OF WARREN, PENNSYLVANIA
Schedule of Contributions
Firefighters Pension Plan

Notes to the Supplementary Schedules

The following actuarial methods and assumptions were used in the calculation of actuarially determined contribution rates reported in the supplementary schedules:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	7 years aggregate
Asset valuation method	Market Value
Inflation	3.0%
Salary increase	4.5% including inflation
Investment rate of return	6.5% net of investment expenses not funded through the MMO, and including inflation
Mortality	RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and rates set forward 5 years for disabled lives and rates projected with 75% of scale AA.
Retirement Age:	Normal retirement age, or attained age, if currently eligible to retire

Changes to Benefits:

Effective in 2010, compensation base for benefits was changed to the greater of monthly rate of pay at retirement, normal retirement benefit is 50% of final average salary, employee contributions increased to 5.0% and a differentiation was made between service and non-service related disabilities.

Effective 1-1-2015, a 100% survivor benefit was added, a pre-retirement death benefit was added with 50% of the vested accrued payable immediately or 100% of the accrued payable at normal retirement, a service increment equal to 1/40 of benefit for service over 20 years up to a maximum of \$4,250 a month and employee contributions increased \$2.50 per month per employee.

Changes to Assumptions:

Effective 1-1-2007, interest rate lowered to 5.5%.

Effective 1-1-2009, mortality table updated to RP-2000 Combined Healthy Mortality.

Effective 1-1-2011, interest rate lowered to 5.25% and direct value of the pre-retirement death benefits.

Effective 1-1-2013, interest rate increased to 6.50%, no turnover assumed and a mortality projection and blue-collar adjustment were included.

CITY OF WARREN, PENNSYLVANIA
Schedule of Investment Ratios

Annual money weighted return, net of investment expense not funded through MMO.

Municipal Employees

2014	7.29%
2015	(0.93)%
2016	7.36%

Police

2014	7.57%
2015	(0.87)%
2016	7.46%

Firefighters

2014	7.73%
2015	1.34%
2016	8.67%

CITY OF WARREN, PENNSYLVANIA
Pension Trusts
Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Excess as a % of Covered Payroll ((b-a)/c)
Employee Pension Fund						
1/1/2015	\$ 4,989,306	\$ 4,978,245	\$ (11,061)	100.2%	\$ 1,160,268	NA
1/1/2013	4,148,734	4,607,336	458,602	90.0%	1,120,583	40.9%
1/1/2011	3,510,531	4,151,305	640,774	84.6%	1,239,358	51.7%
1/1/2009	2,997,482	3,618,059	620,577	82.8%	1,136,096	54.6%
1/1/2007	3,217,048	3,190,995	(26,053)	100.8%	973,143	NA
Police Pension Fund						
1/1/2015	\$ 7,358,838	\$ 6,908,001	\$ (450,837)	106.5%	\$ 782,344	NA
1/1/2013	6,494,538	6,772,003	277,465	95.9%	864,627	32.1%
1/1/2011	6,152,280	6,346,882	194,602	96.9%	813,673	23.9%
1/1/2009	6,031,216	6,062,150	30,934	99.5%	697,393	4.4%
1/1/2007	7,297,265	5,749,836	(1,547,429)	126.9%	491,614	NA
Firefighters Pension Fund						
1/1/2015	\$ 1,848,930	\$ 2,734,121	\$ 885,191	67.6%	\$ 807,829	109.6%
1/1/2013	1,062,663	2,115,985	1,053,322	50.2%	805,823	130.7%
1/1/2011	729,441	2,027,225	1,297,784	36.0%	741,390	175.0%
1/1/2009	812,665	1,200,322	387,657	67.7%	702,840	55.2%
1/1/2007	1,000,463	1,261,852	261,389	79.3%	682,214	38.3%

**CITY OF WARREN, PENNSYLVANIA
 POSTEMPLOYMENT BENEFITS
 OTHER THAN PENSION TRUSTS
 Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/2014	\$ -	\$ 439,604	\$ 439,604	0%	\$2,391,807	19.0%
01/01/2011	-	531,979	531,979	0%	2,311,759	23.0%
01/01/2008	-	632,781	632,781	0%	2,901,059	21.8%
01/01/2005	-	912,431	912,431	0%	2,024,333	45.1%

Other Supplementary Information

CITY OF WARREN, PENNSYLVANIA
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual
Parking Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Operating Revenues				
Charges for service	\$ 349,840	\$ 349,840	\$ 425,259	\$ 75,419
Total Operating Revenues	<u>349,840</u>	<u>349,840</u>	<u>425,259</u>	<u>75,419</u>
Operating Expenses				
Salaries and wages	76,149	76,149	62,942	13,207
Employee benefits	29,798	29,798	36,746	(6,948)
Supplies	31,850	31,850	7,294	24,556
Utilities	24,850	24,850	31,611	(6,761)
Other	277,518	277,518	75,194	202,324
Depreciation	-	-	262,258	(262,258)
Total Operating Expenses	<u>440,165</u>	<u>440,165</u>	<u>476,045</u>	<u>(35,880)</u>
Operating Income (Loss)	<u>(90,325)</u>	<u>(90,325)</u>	<u>(50,786)</u>	<u>39,539</u>
Non-Operating Revenue (Expense)				
Investment earnings	-	-	37	37
Interest expense	(4,522)	(4,522)	(4,392)	130
Transfers in	-	-	-	-
Transfers out	(34,796)	(34,796)	(34,795)	1
Total Non-Operating Revenue (Expense)	<u>(39,318)</u>	<u>(39,318)</u>	<u>(39,150)</u>	<u>168</u>
Change in Net Position	(129,643)	(129,643)	(89,936)	39,707
Net Position, Beginning of Year	<u>8,081,311</u>	<u>8,081,311</u>	<u>8,081,311</u>	<u>-</u>
Net Position, End of Year	<u><u>\$ 7,951,668</u></u>	<u><u>\$ 7,951,668</u></u>	<u><u>\$ 7,991,375</u></u>	<u><u>\$ 39,707</u></u>

CITY OF WARREN, PENNSYLVANIA
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual
Sewer Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Operating Revenues				
Charges for service	\$ 2,059,000	\$ 2,059,000	\$ 2,546,141	\$ 487,141
Intergovernmental revenues	4,046,403	4,046,403	494,279	(3,552,124)
Total Operating Revenues	6,105,403	6,105,403	3,040,420	(3,064,983)
Operating Expenses				
Salaries and wages	292,617	292,617	290,911	1,706
Employee benefits	88,875	88,875	97,691	(8,816)
Supplies	92,110	92,110	44,922	47,188
Sludge removal	177,000	177,000	165,121	11,879
Utilities	317,950	317,950	188,915	129,035
Other	4,823,693	4,823,693	-	4,823,693
Depreciation / amortization	-	-	120,046	(120,046)
Total Operating Expenses	5,792,245	5,792,245	907,606	4,884,639
Operating Income (Loss)	313,158	313,158	2,132,814	1,819,656
Non-Operating Revenue (Expense)				
Investment earnings	1,000	1,000	6,208	5,208
Interest expense	-	-	(198,148)	(198,148)
Transfers out	(66,409)	(66,409)	(66,410)	(1)
Gain (loss) on sale of asset	-	-	(530,082)	(530,082)
Total Non-Operating Revenue (Expense)	(65,409)	(65,409)	(788,432)	(723,023)
Change in Net Position	247,749	247,749	1,344,382	1,096,633
Net Position, Beginning of Year	11,357,619	11,357,619	11,357,619	-
Net Position, End of Year	\$ 11,605,368	\$ 11,605,368	\$ 12,702,001	\$ 1,096,633

CITY OF WARREN, PENNSYLVANIA

Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2016

	Capital Improvement Program Fund	Highway Aid	Glade Run Escrow	Community Development Block Grant	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 11	\$ 14,449	\$ 2,003	\$ 5	\$ -	\$ 16,468
Intergovernmental receivable, net	627,742	-	-	904	-	628,646
Total Assets	\$ 627,753	\$ 14,449	\$ 2,003	\$ 909	\$ -	\$ 645,114
LIABILITIES						
Accounts payable	\$ 180,351	\$ -	\$ -	\$ 904	\$ -	\$ 181,255
Interfund payable	427,126	-	-	-	-	427,126
Deferred revenue	20,276	-	-	5	-	20,281
Total Liabilities	627,753	-	-	909	-	628,662
FUND BALANCE						
Restricted:						
Liquid fuels	-	14,449	-	-	-	14,449
Committed						
Glade floodway	-	-	2,003	-	-	2,003
Total Fund Balance	-	14,449	2,003	-	-	16,452
Total Liabilities and Fund Balance	\$ 627,753	\$ 14,449	\$ 2,003	\$ 909	\$ -	\$ 645,114

CITY OF WARREN, PENNSYLVANIA
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2016

	Capital Improvement Program Fund	Highway Aid	Glade Run Escrow	Community Development Block Grant	Debt Service	Total Nonmajor Governmental Funds
REVENUES						
Intergovernmental	\$ 867,150	\$ 284,112	\$ -	\$ 625,784	\$ -	\$ 1,777,046
Interest, rents and royalties	-	406	-	-	-	406
Other	97,500	-	-	-	-	97,500
Total Revenues	964,650	284,518	-	625,784	-	1,874,952
EXPENDITURES						
Community development	2,170,894	-	-	571,284	-	2,742,178
Debt service	-	-	-	54,500	262,454	316,954
Total Expenditures	2,170,894	-	-	625,784	262,454	3,059,132
Excess of revenues over expenditures	(1,206,244)	284,518	-	-	(262,454)	(1,184,180)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,206,244	-	2,000	-	262,454	1,470,698
Transfers out	-	(277,112)	-	-	-	(277,112)
Total Other Financing Sources (Uses)	1,206,244	(277,112)	2,000	-	262,454	1,193,586
Net Change in Fund Balance	-	7,406	2,000	-	-	9,406
Fund Balance, Beginning of Year	-	7,043	3	-	-	7,046
Fund Balance, End of Year	\$ -	\$ 14,449	\$ 2,003	\$ -	\$ -	\$ 16,452

CITY OF WARREN, PENNSYLVANIA
Combining Schedule of Fiduciary Net Position
Pension Trusts
December 31, 2016

	Firefighter Pension	Police Pension	Non-Uniform Employee Pension	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ 276,089	\$ 240,310	\$ 516,399
Investments	2,642,410	7,350,568	5,077,765	15,070,743
Accounts receivable	-	3,011	2,154	5,165
Total Assets	\$ 2,642,410	\$ 7,629,668	\$ 5,320,229	\$ 15,592,307
LIABILITIES				
Accounts payable	\$ 2,812	\$ 1,471	\$ 1,296	\$ 5,579
Total Liabilities	2,812	1,471	1,296	5,579
NET POSITION				
Net position held in trust for pension	2,639,598	7,628,197	5,318,933	15,586,728
Total Net Position	2,639,598	7,628,197	5,318,933	15,586,728
Total Liabilities and Net Position	\$ 2,642,410	\$ 7,629,668	\$ 5,320,229	\$ 15,592,307

CITY OF WARREN, PENNSYLVANIA
Combining Schedule of Changes in Fiduciary Net Position
Pension Trusts
For the Year Ended December 31, 2016

	<u>Firefighter Pension</u>	<u>Police Pension</u>	<u>Non-Uniform Employee Pension</u>	<u>Total</u>
Additions:				
Contributions				
Employer	\$ 293,375	\$ 133,197	\$ 136,779	\$ 563,351
Plan members	42,398	18,538	22,187	83,123
Total	335,773	151,735	158,966	646,474
Investment income (loss), net	189,907	544,150	369,746	1,103,803
Total Additions	525,680	695,885	528,712	1,750,277
Deductions:				
Benefits	21,854	511,266	322,143	855,263
Management expense	17,520	34,764	29,047	81,331
Total Deductions	39,374	546,030	351,190	936,594
Change in Net Position	486,306	149,855	177,522	813,683
Net Position, Beginning of Year	2,153,292	7,478,342	5,141,411	14,773,045
Net Position, End of Year	<u>\$ 2,639,598</u>	<u>\$ 7,628,197</u>	<u>\$ 5,318,933</u>	<u>\$ 15,586,728</u>



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the City Council
City of Warren, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Warren, Pennsylvania as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Warren, Pennsylvania's basic financial statements, and have issued our report thereon dated June 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Warren, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Warren, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Warren, Pennsylvania's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
(Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Warren, Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

June 16, 2017
Erie, Pennsylvania



FELIX & GLOEKLER, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of
Federal Awards Required by The Uniform Guidance**

To the City Council
City of Warren, Pennsylvania

Report on Compliance for each Major Federal Program

We have audited the City of Warren's compliance with the types of compliance requirements described in the OMB *Compliance Supplement*, that could have a direct and material effect on each of City of Warren's major federal programs for the year ended December 31, 2016. The City of Warren's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Warren's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Warren's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of
Federal Awards Required by The Uniform Guidance
(Continued)**

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Warren’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Warren complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the City of Warren is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Warren’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Warren's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of
Federal Awards Required by The Uniform Guidance
(Continued)**

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the City of Warren as of and for the year ended December 31, 2016, and have issued our report thereon dated June 16, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

June 16, 2017
Erie, Pennsylvania

CITY OF WARREN, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Description of Grantor Agency/Program Title	CFDA No.	Passed Through to Subrecipients	Federal Expenditures
<u>U.S. Department of Housing/Urban Development</u>			
PA Department of Housing/Urban Development - Community Development Block Grant	14.228	\$ -	\$ 625,784
<u>Environmental Protection Agency</u>			
Capitalization Grants for Clear Water State Revolving Funds	66.458	-	2,850,545
Total Expenditures of Federal Awards		<u>\$ -</u>	<u>\$ 3,476,329</u>

CITY OF WARREN, PENNSYLVANIA
Schedule of Expenditures of Federal Awards
Footnotes and Other Information
For the Year Ended December 31, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the City of Warren, Pennsylvania under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Warren, Pennsylvania it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Warren, Pennsylvania.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein contained types of expenditures are not allowable or are limited as to reimbursement. The City did not use the de Minimis cost rate of 10 percent as provided by the federal government in accordance with the Uniform Guidance.

CITY OF WARREN, PENNSYLVANIA
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016

1. Summary of auditors' results

- (i) Type of report issued on the financial statements: Unmodified opinion.
- (ii) Internal control over financial reporting:
 - Material weakness(es) identified – None
 - Significant deficiency(ies) identified – None reported
- (iii) The audit disclosed no noncompliance which is material to the financial statements.
- (iv) Internal control over major federal program:
 - Material weakness(es) identified – None
 - Significant deficiency(ies) identified – None reported
- (v) Type of report issued on compliance for major programs: Unmodified opinion.
- (vi) The audit disclosed no audit findings which are required to be reported.
- (vii) Major programs:
 - Capitalization Grants for Clean Water State Revolving Funds 66.458
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
- (ix) City of Warren, Pennsylvania did qualify as a low-risk auditee.

2. Findings required to be reported in accordance with generally accepted government auditing standards

None.

3. Findings and questioned costs for Federal awards

None.

CITY OF WARREN, PENNSYLVANIA
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2016

1. Prior significant deficiencies: None.
2. Prior material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program: None.
3. Known questioned costs greater than \$25,000: None.
4. There were no findings in the prior year.

CITY OF WARREN, PENNSYLVANIA
Corrective Action Plan
For the Year Ended December 31, 2016

Not applicable. There were no current year findings required to be reported.

CITY OF WARREN, PENNSLVANIA
List of Report Distribution
December 31, 2016

The following is a listing of all agencies that the audit reports are distributed to:

1. United States Bureau of the Census