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May 27, 2014

Jeff Naftal
Borough of Dormont
1444 Hillsdale Avenue
Pittsburgh, PA 15216

Dear Jeff:

Enclosed with this letter are copies of the Financial Statements, Management Letter, and Communication to Those Charged with Governance letter.

If you have any questions or concerns, please contact me at (412) 535-5538.

Sincerely,


Janet L. Feick, CPA

enclosures

Communication to Those Charged with Governance

Members of Council
Borough of Dormont

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Dormont (Borough), Pennsylvania, as of and for the year ended December 31, 2013. In addition, we have audited the Balance Sheet, Statement of Revenues and Expenditures, Debt Statement, and Statements of Capital Expenditures and Employee Compensation (Schedules) included in the Annual Audit and Financial Report of the Borough as of and for the year ended December 31, 2013, as described in the instructions provided by the Pennsylvania Department of Community and Economic Development (DCED). Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our conversations with the Council President and Finance Committee Chair about planning matters on January 23, 2014 and January 24, 2014, respectively. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated November 26, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements and Schedules prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and the accounting practices and procedures prescribed or permitted by the DCED, which is a regulatory basis of accounting. Our audit of the financial statements and Schedules does not relieve you or management of your responsibilities.

In addition, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Borough. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Borough are described in Note 2 to the financial statements. The Borough has adopted Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement reclassifies certain items that were reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The primary impact of this statement was to classify unavailable tax revenue as deferred inflows of resources on the fund balance sheet. In addition, the Borough changed their accounting basis from the cash basis to

the full accrual basis. We noted no transactions entered into by the Borough during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no sensitive estimates affecting the financial statements.

Disclosures

Certain disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Management's valuation of investments is based on the investment's fair value. The Borough's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that significant changes in risks in the near-term may materially affect the amounts reported in the financial statements.

The disclosure of a property exchange that occurred within the Borough contained in Note 6 (capital assets) was also deemed to be sensitive.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letters dated March 28, 2014 (for the Schedules) and May 23, 2014 (for the financial statements).

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Borough's financial statements and/or Schedules or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Borough's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Audit Findings or Issues

We have issued a separate management letter concerning internal control related matters dated May 23, 2014.

* * * * *

This information is intended solely for the information and use of the Members of Council and management of the Borough and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maheer Duessel

Pittsburgh, Pennsylvania
May 23, 2014

Members of Council
Borough of Dormont

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Dormont (Borough), Pennsylvania, as of and for the year ended December 31, 2013, in accordance with audit standards generally accepted in the United States of America, we considered the Borough's internal control over financial reporting (internal control) as a basis for designing 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 Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another matter that we consider to be a significant deficiency.

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. We consider the following deficiency in the Borough's internal control to be a material weakness (items denoted with an asterisk "*" are carried forward from the prior year):

Segregation of Duties – Meter Receipts*

Significant amounts of cash are collected from parking meters. In some instances, one employee is responsible for visiting each meter and removing the money. As a result, errors and irregularities with cash receipts, including the loss of cash, could occur and not be detected in a timely fashion. We continue to recommend that the Borough consider rotating employees responsible to collect the meter funds and prepare weekly comparisons of collections to enhance controls over these cash collections.

Management's Response:

We do not have a second employee at this time, though we are training someone for that purpose. However, we will consider in the fiscal year 2015 budget whether to add a part-time person to handle some of these duties.

We consider the following deficiency in the Borough's internal control to be a significant deficiency:

Financial Reporting

As a part of the audit process, the auditors prepared the financial statements from information provided by the Borough. Although the financial statements were subsequently reviewed by management to ensure that the data was accurately presented, management does not currently have a process in place to ensure that it can produce financial statements in full compliance with accounting principles generally accepted in the United States of America (U.S. GAAP) without the assistance of the auditor. As such, there is a risk that financial statements prepared by management would not contain the necessary presentations and disclosures.

We understand that the Borough may determine that it does not have the resources available to fully prepare their own external financial statements in accordance with U.S. GAAP. We recommend that management of the Borough consider whether it wishes to take measures to ensure that it can eliminate the deficiency outlined above.

Management's Response:

The Borough will continue to work with our auditors to develop GAAP financial statements.

* * * * *

During our audit, we noted the following other matters involving internal control that are presented for your consideration (items denoted with an asterisk "*" are carried forward from the prior year):

Bank Reconciliations

Our understanding is that bank reconciliations and cancelled checks are reviewed by someone independent of the reconciliation process; however, this review is not formally documented. We recommend that this review and approval be documented on the bank statements and bank reconciliations.

Management's Response:

Bank reconciliations are currently done by the Bookkeeper and then reviewed by the Borough's appointed Treasurer. That will continue. We will ask the Treasurer to formally document this review and to provide a quarterly report of any discrepancies found.

Disaster Contingency Plan

The Borough formalized a Financial Policies and Procedures manual for 2013 in accordance with a prior year comment. However, there is no Disaster Contingency Plan included in the manual. A Disaster Contingency Plan is a plan devised for an outcome other than the usual plan. It should be stressed that in developing a Disaster Contingency Plan, a large amount of consideration should be given to the Borough's Information Technology infrastructure. We recommend that a Disaster Contingency Plan be created, documented, formalized and enacted.

Management's Response:

Staff will work on this during the remainder of fiscal year 2014.

Pay Rates*

We continue to recommend that procedures be implemented to ensure that salary and pay rate information is maintained on file for each non-union employee. In addition, we recommend that procedures be implemented to document management's approval of salary rates for each non-union employee on a yearly basis.

Management's Response:

The Borough is implementing new financial application software that will include the ability to maintain employee records, including pay rates. That should resolve this issue by the end of 2014.

Designated Millage*

A portion of the Borough's real estate tax millage is designated for the fire department, the library, and for debt service. We continue to recommend that the Borough ensure procedures are in place to track any unspent designated real estate tax.

Management's Response:

The Borough will look to do this during the fiscal year 2015 Budget Process.

Outside Collection Agencies*

We noted that the Borough uses outside agencies for the collection of local service taxes, solid waste fees, and sewer usage fees. The Borough is responsible for monitoring the performance of these outside agencies. We continue to recommend that management evaluate whether the information provided by these agencies is sufficient to allow the Borough to monitor the collections. Collections can be monitored through a regular review of information such as monthly or quarterly statements that may be submitted with the collection data from the outside collection agency.

Management's Response:

The Borough receives regular reports from its collection agencies. These reports are reviewed by either the Bookkeeper or Borough Manager. We will implement a regular review of these records for fiscal year 2015.

Timesheet Approval

During testing of the payroll system, we noted that electronic timesheets for the Police Department are approved verbally each pay. We recommend that approval of timesheets be formally documented either within the Kronos time system, or in writing.

Management's Response:

The Borough will work with the Police Department to formally approve timesheets as recommended.

Real Estate Tax (RET) Collections

During our testing of RET collections, we reviewed the individual payments totaling \$14,583 for deposits made eight to ten days after the end of the face period and noted that, of the twelve individual payments made, two were credited at discount, seven were credited at face, and three were credited at penalty. Upon follow-up with the tax collector, he stated that both discount payments were received from a mortgage services company and, as a result, were not charged a penalty. He also stated that, of the seven payments credited at face, two were installment payments, one was received from a mortgage services company, and the remaining four were most likely mailed to the Borough prior to 7/1.

Management's Response:

The Borough will work with the Tax Collector to standardize his practices utilizing the software provided to him for this purpose.

Pension Deposit

The 2013 employer pension contribution for the Police Pension plan, which included state aid, was deposited into the Non-Uniformed Employees' Pension plan in error. Pennsylvania law requires municipalities to deposit state aid for pension plans within 30 days of receipt. It also requires each pension plan's chief administrative officer to determine an annual minimum municipal obligation and to pay that amount no later than December 31 of the year in which the obligation is due, in order to avoid an interest penalty. Management detected and corrected the error in February 2014; however, no interest payment was made. We recommend that the Borough calculate and make any required interest payments, and that policies and procedures be developed to ensure compliance with all state pension laws.

Management's Response:

The Bookkeeper and actuary will determine how much interest was lost and deposit that amount into the Police Pension Plan. The Borough Manager currently must sign off on all deposits of this nature which should eliminate any future issues.

Pending Pronouncements

GASB has issued Statement No. 67, "*Financial Reporting for Pension Plans*," effective for financial statements for periods beginning after June 15, 2013, and has also issued Statement No. 68, "*Accounting and Financial Reporting for Pensions*," effective for fiscal years beginning after June 15, 2014. These statements revise existing guidance for the financial reports of most pension plans, and establish new financial reporting requirements for most governments that provide their employees with pension benefits.

GASB has issued Statement No. 69, "*Government Combinations and Disposals of Government Operations*," effective for fiscal years beginning after December 15, 2013 (the Borough's financial statements for the year ending December 31, 2014). GASB Statement No. 69 provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold.

GASB has issued Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*," effective for financial statements for periods beginning after June 15, 2013. This statement addresses an issue regarding GASB Statement No. 68 relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployers contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The effect of implementation of these statements has not yet been determined. We recommend that the Borough begin considering the effect that these new standards will have on the Borough's financial statements and operations.

Management's Response:

The Borough will work with the auditors to ensure we address any effects these new standards might have.

* * * * *

Management's written responses to the significant deficiency, material weakness, and other matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management of the Borough, Members of Council, and others within the Borough, and is not intended to be, and should not be, used by anyone other than these specified parties.

Maher Duessel

Pittsburgh, Pennsylvania
May 23, 2014

Borough of Dormont

Financial Statements and
Required Supplementary Information

Year Ended December 31, 2013 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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BOROUGH OF DORMONT

YEAR ENDED DECEMBER 31, 2013

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BOROUGH OF DORMONT

YEAR ENDED DECEMBER 31, 2013

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Independent Auditor's Report

Members of Council
Borough of Dormont

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Dormont (Borough), Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Borough'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Borough'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 Borough'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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough as of December 31, 2013, and the respective changes in financial position 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, the budgetary comparison schedules, and the pension and other postemployment benefits 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.

Maher Duessel

Pittsburgh, Pennsylvania
May 23, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Borough of Dormont, Pennsylvania (Borough), we offer readers of the Borough's financial statements this narrative overview and analysis of the financial activities of the Borough for the year ended December 31, 2013. Prior to fiscal year 2013, the Borough's financial statements were prepared on the cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Consequently this discussion and analysis provides few comparisons with the previous year. In future years, however, a comparative analysis of the government-wide data will be presented.

FINANCIAL HIGHLIGHTS

- The Borough's total net position decreased \$3,788 in 2013.
- Total unrestricted net position was \$1,884,842 at December 31, 2013.
- The Borough's real property tax rate decreased 5.03 mills, from 14.0 mills to 8.97 mills in 2013.
- At December 31, 2013, the Borough had \$2,806,703 of outstanding net debt, which represents a decrease of \$703,951, or 20% from the previous year.
- The total fund balance of the General Fund at December 31, 2013 was \$1,211,661. The unassigned portion of the fund balance was \$1,095,665, which is approximately 15% of General Fund expenditures for fiscal year 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the Borough's basic financial statements. The Borough's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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 Borough's finances, in a manner similar to private-sector business.

The statement of net position presents information on all of the Borough's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Borough is improving or deteriorating.

The statement of activities presents information showing how the Borough's net position changed during fiscal year 2013. 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 this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements show functions of the Borough that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Borough include general government, public safety, sanitation, public works, parks and

recreation, and conservation and development.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Borough, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Borough can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Borough's near-term financial requirements.

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 with 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 Borough's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Borough maintains 4 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Sewer Fund, and the Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental fund, the Liquid Fuels Fund, which is considered to be a non-major fund, is also presented.

The Borough adopts an annual budget for the General Fund and Sewer Fund. Budgetary comparison statements for these funds are provided in this report as required supplementary information to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Borough. The Borough is the trustee, or fiduciary, for two single-employer pension plans: non-uniformed employees and police. These plans cover essentially all full-time employees. The Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Borough's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

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. The notes to financial statements can be found on pages 9-32 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Borough's progress in funding its obligation to provide pension and postemployment benefits other than pension benefits (OPEBs) to its employees. Required supplementary information can be found on pages 33-41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of the Borough's financial position. In the case of the Borough, assets exceeded liabilities by \$15,441,970 at the close of fiscal year 2013.

The Borough's net position at December 31, 2013 is presented below:

<u>Borough of Dormont's Net Position</u>	
	<u>Governmental Activities</u>
Current and other assets	\$ 5,556,168
Capital assets	13,340,550
Total assets	<u>\$ 18,896,718</u>
Current and other liabilities	\$ 1,328,519
Non-current liabilities	2,126,229
Total liabilities	<u>\$ 3,454,748</u>
Net position:	
Net investment in capital assets	\$ 10,533,847
Restricted	3,023,281
Unrestricted	1,884,842
Total net position	<u>\$ 15,441,970</u>

Net Position

One portion of the Borough's net position (68.2%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other funding sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Borough's net position (19.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (12.2%, or \$1,884,842) may be used to meet the Borough's ongoing obligations to citizens and creditors.

At the end of 2013, the Borough reported positive balances in all three categories of net position, both for the Borough as a whole, as well as for its separate governmental activities.

The following presents the Borough's change in net position for the fiscal year ended December 31, 2013:

<u>Borough of Dormont's Changes in Net Position</u>	
	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services	\$ 3,173,528
Operating grants and contributions	353,968
Capital grants and contributions	-
General revenues:	
Property taxes	3,572,622
Earned income taxes	1,051,779
Other taxes	574,401
Grants and contributions not restricted to specific programs	
Other	748,300
Total revenues	<u>9,474,598</u>
Expenses:	
Program expenses:	
General government	2,907,850
Public safety	2,346,817
Public works	1,557,825
Sanitation	1,884,577
Parks and recreation	600,643
Interest on long-term debt	180,674
Total expenses	<u>9,478,386</u>
Change in net position	(3,788)
Net position - beginning	<u>15,445,758</u>
Net position - ending	<u>\$ 15,441,970</u>

GOVERNMENTAL ACTIVITIES

Revenue Sources

Total governmental activities revenues of \$9,474,598 were derived primarily from Property Taxes, representing 38% of the total. Charges for Services made up the second largest source of revenue at 33%, followed by Earned Income Taxes at 11%, Other General Revenue at 8%, and Other Taxes at 6%.

GOVERNMENTAL ACTIVITIES

Program Expenses

Total governmental activities expenses for all programs in 2013 were \$9,478,386. The expenses cover a range of services, with the largest being General Government at 31%. The second largest program area was Public Safety at 25%, followed by Sanitation at 20%, Public Works at 16%, and Parks and Recreation at 6%, and all others at 4%.

GOVERNMENTAL ACTIVITIES

Net Program Expenses/Revenues

Net program expenses/revenues indicates the amount of support required from taxes and other general revenues for the year. General government expenses required the most general revenue for support, needing \$2,661,548 in 2013. Public Safety required \$1,750,676 general revenues for support, while Public Works required \$1,409,853, Parks and Recreation required \$414,792, and Interest on long-term debt required \$180,674. Sanitation provided general revenues of \$466,653.

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As noted earlier, the Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Borough's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Borough's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Borough's net resources available for spending at the end of the fiscal year.

As of the end of 2013, the Borough's governmental funds reported combined ending fund balances of \$4,118,946, a decrease of \$45,078 in comparison with the prior year. Of this combined fund balance total, \$1,095,665 or 27% represents unassigned fund balance, meaning it is available to meet the Borough's current and future needs. There is \$2,907,285 restricted for sewer improvements, \$92,090 restricted for the the Fire Department, and another \$23,906 restricted for debt service.

The General Fund is the chief operating fund of the Borough. At the end of 2013, unassigned fund balance of the General Fund was \$1,095,665, while total fund balance reached \$1,211,661. This represents a decrease of \$47,638 or 4% under the prior fiscal year's total fund balance. This decrease is due to the Borough's increased capital projects for the year including some unanticipated projects.

The Sewer Fund accounts for a customer service charge and water usage charge assessed to properties in the Borough. The Sewer Fund is a Special Revenue Fund that accounts for maintenance of the sewer system within the Borough. Expenses from this fund include those necessary for the operation of the

sanitary sewer treatment plant, all costs associated with the maintenance of the sanitary sewer infrastructure, and the Municipality's payments to the Allegheny County Sanitary Authority (ALCOSAN). At the end of 2013, total fund balance of the Sewer Fund was \$2,907,285, all of which is restricted for sewer improvements. The total fund balance increased by \$213,318, or 8% over the prior fiscal year as a result of a planned effort to save between \$200,000 and \$300,000 each year to build up sufficient reserves to pay for mandated system improvements under the Borough's Consent Order that will start in 2026..

The Capital Reserve Fund accounts for funds provided by the Borough, most frequently from General Fund transfers, for use on capital projects. At the end of 2013, total fund balance of the Capital Reserve Fund was \$0. The total fund balance decreased by \$102,601 or 100% under the prior fiscal year as a result of increased capital projects for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2013, actual expenditures were \$45,515 over budget, resulting in very little budget-to-actual variance overall. General Fund expenditures for General Government, Public Safety, and Highways, Roads and Streets exceeded the departmental budget as a result of unanticipated purchases used to enhance services. The excess appropriations in the General Fund were funded by budget surpluses in other departments and transfers from other funds.

General Fund revenues exceeded budgeted amounts by \$126,422. The major reason for the higher revenues was increased Earned Income Taxes and building permit fees.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Borough's investment in capital assets for its governmental activities as of December 31, 2013 amounts to \$13,340,550 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, and infrastructure.

The following is a summary of the Borough's capital assets at December 31, 2013:

Borough of Dormont's Capital Assets (net of depreciation)	
	Governmental Activities
Land	\$ 1,802,975
Buildings	9,104,169
Machinery and equipment	2,790,146
Infrastructure	15,660,340
Total capital assets	29,357,630
Less accumulated depreciation	(16,017,080)
Net capital assets	<u>\$ 13,340,550</u>

More detailed information about the Borough's capital assets can be found in Note 6 of the notes to financial statements.

Long-term debt. At the end of 2013, the Borough had total outstanding debt of \$2,806,703. This represents a decrease of 20% from the previous year.

The following is a summary of the Borough's outstanding debt at December 31, 2013:

<u>Borough of Dormont's Outstanding Debt</u>	
	<u>Governmental Activities</u>
General obligation bonds	\$ 2,796,709
Other	9,994
Total outstanding debt	<u>\$ 2,806,703</u>

More detailed information about the Borough's outstanding debt can be found in Note 5 of the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The factors below were considered when preparing the budget and setting rates for the 2014 fiscal year:

- The need to diversify the revenue stream.
- Enhanced parking enforcement and use of modern parking systems.
- The upcoming Transit Oriented Development project.
- New providers of various services including solid waste/recycling removal and swimming pool operations.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Borough's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Borough Manager, Borough of Dormont, 1444 Hillsdale Avenue, Pittsburgh, PA 15216.

BOROUGH OF DORMONT

STATEMENT OF NET POSITION

DECEMBER 31, 2013

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 4,295,513
Accounts receivable:	
Taxes	649,840
Sewer charges	314,945
Solid waste charges	75,867
Other	74,549
Net pension asset	145,454
Capital assets not being depreciated:	
Land	1,802,975
Capital assets net of accumulated depreciation:	
Buildings	5,264,111
Furniture, machinery, and equipment	919,803
Infrastructure	5,353,661
Total Assets	18,896,718
<u>Liabilities</u>	
Accounts payable	472,612
Salaries payable	31,977
Bonds payable, current portion	823,930
Compensated absences	100,640
Net other post-employment benefits obligation	42,816
Bonds payable, long-term portion, net of unamortized discount	1,982,773
Total Liabilities	3,454,748
<u>Net Position</u>	
Net investment in capital assets	10,533,847
Restricted for:	
Fire department	92,090
Debt service	23,906
Sewer improvements	2,907,285
Unrestricted	1,884,842
Total Net Position	\$ 15,441,970

See accompanying notes to financial statements.

BOROUGH OF DORMONT

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Program Revenues			Capital Grants and Contributions	Total	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions			
Governmental activities:						
General government - other	\$ 2,553,740	\$ 40,306	\$ 205,996	\$ -	\$ (2,307,438)	
General government - building	354,110	-	-	-	(354,110)	
Public safety	2,346,817	596,141	-	-	(1,750,676)	
Highways, roads, and streets	1,462,402	-	147,972	-	(1,314,430)	
Sanitation	1,884,577	2,351,230	-	-	466,653	
Public works - other	95,423	-	-	-	(95,423)	
Parks and recreation	600,643	185,851	-	-	(414,792)	
Interest	180,674	-	-	-	(180,674)	
Total primary government	\$ 9,478,386	\$ 3,173,528	\$ 353,968	\$ -	\$ (5,950,890)	

General revenues:

Taxes:

Real estate	3,572,622
Earned income	1,051,779
Regional asset district sales tax	423,870
Real estate transfer taxes	89,088
Local services tax	61,443
Licenses and permits	201,750
Fine and related costs	110,115
Interest, rents and royalties	326,735
Miscellaneous	40,545
Refunds of prior year expenditures	69,155
Total general revenues	5,947,102

Change in Net Position

Net position - beginning of year

Net position - end of year

See accompanying notes to financial statements.

BOROUGH OF DORMONT

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2013

Assets	Major Funds			Other Fund	Total
	General Fund	Sewer Fund	Capital Projects Fund	Liquid Fuels Fund	Governmental Funds
Cash and cash equivalents	\$ 1,238,562	\$ 3,025,756	\$ 7,027	\$ 24,168	\$ 4,295,513
Accounts receivable:					
Taxes	649,840	-	-	-	649,840
Sewer charges	-	314,945	-	-	314,945
Solid waste charges	75,867	-	-	-	75,867
Other	74,549	-	-	-	74,549
Due from other funds	-	-	357,635	5,157	362,792
Total Assets	\$ 2,038,818	\$ 3,340,701	\$ 364,662	\$ 29,325	\$ 5,773,506
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities:					
Accounts payable	\$ 67,657	\$ 10,968	\$ 364,662	\$ 29,325	\$ 472,612
Accrued payroll and related benefits	31,977	-	-	-	31,977
Due to other funds	130,108	232,684	-	-	362,792
Total Liabilities	229,742	243,652	364,662	29,325	867,381
Deferred Inflows of Resources:					
Unavailable revenue - sewer charges	-	189,764	-	-	189,764
Unavailable revenue - real estate taxes	308,688	-	-	-	308,688
Unavailable revenue - earned income taxes	288,727	-	-	-	288,727
Total Deferred Inflows of Resources	597,415	189,764	-	-	787,179
Fund Balance:					
Restricted for:					
Fire department	92,090	-	-	-	92,090
Debt service	23,906	-	-	-	23,906
Sewer improvements	-	2,907,285	-	-	2,907,285
Unassigned	1,095,665	-	-	-	1,095,665
Total Fund Balance	1,211,661	2,907,285	-	-	4,118,946
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,038,818	\$ 3,340,701	\$ 364,662	\$ 29,325	\$ 5,773,506

See accompanying notes to financial statements.

BOROUGH OF DORMONT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2013

Total Fund Balance - Governmental Funds	\$ 4,118,946
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,340,550
Certain taxes and sewer charges are not available to pay for current-period expenditures and, therefore, are unavailable, in the funds.	787,179
Amounts contributed in excess of the annual pension costs are not current financial resources and, therefore, not reported in the funds.	145,454
Long-term liabilities, including compensated absences, other post-employment benefits, and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,950,159)</u>
Net Position - Governmental Activities	<u><u>\$ 15,441,970</u></u>

See accompanying notes to financial statements.

BOROUGH OF DORMONT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2013

	Major Funds			Other Fund	Total Governmental Funds
	General Fund	Sewer Fund	Capital Projects Fund	Liquid Fuels Fund	
Revenues:					
Taxes	\$ 5,244,628	\$ -	\$ -	\$ -	\$ 5,244,628
Licenses and permits	201,750	-	-	-	201,750
Fines and forfeits	110,115	-	-	-	110,115
Interest, rent, and royalties	324,941	1,694	48	52	326,735
Intergovernmental	205,996	-	-	147,972	353,968
Charges for services	1,382,883	1,690,248	-	-	3,073,131
Miscellaneous	40,545	-	-	-	40,545
Total revenues	7,510,858	1,691,942	48	148,024	9,350,872
Expenditures:					
Current:					
General government	894,003	-	19,001	-	913,004
Public safety	2,233,260	-	-	-	2,233,260
Highways, roads, and streets	613,069	-	572,632	261,338	1,447,039
Sanitation	638,637	1,245,940	-	-	1,884,577
Public works - other	95,423	-	-	-	95,423
Parks and recreation	564,374	-	-	-	564,374
Miscellaneous	1,430,310	-	-	-	1,430,310
Debt service	897,118	-	-	-	897,118
Total expenditures	7,366,194	1,245,940	591,633	261,338	9,465,105
Excess (Deficiency) of Revenues over Expenditures	144,664	446,002	(591,585)	(113,314)	(114,233)
Other Financing Sources (Uses):					
Refunds of prior year expenditures	69,155	-	-	-	69,155
Operating transfers in	-	-	488,984	5,157	494,141
Operating transfers out	(261,457)	(232,684)	-	-	(494,141)
Total other financing sources (uses)	(192,302)	(232,684)	488,984	5,157	69,155
Net Change in Fund Balance	(47,638)	213,318	(102,601)	(108,157)	(45,078)
Fund Balance:					
Beginning of year	1,259,299	2,693,967	102,601	108,157	4,164,024
End of year	\$ 1,211,661	\$ 2,907,285	\$ -	\$ -	\$ 4,118,946

See accompanying notes to financial statements.

BOROUGH OF DORMONT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

Net Change in Fund Balance - Governmental Funds **\$ (45,078)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$801,034) exceeded capital outlays (\$85,737) in the current period. (715,297)

The repayment of the principal of long-term debt and compensated absences consumes the current financial resources of governmental funds. This amount is the difference in the treatment of long-term debt and compensated absences between the two statements. 716,444

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 54,571

Amounts contributed in excess of the annual pension cost are not current financial resources and, therefore, not reported in the funds. (8,867)

Amounts to fund other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds. (5,561)

Change in Net Position of Governmental Activities **\$ (3,788)**

See accompanying notes to financial statements.

BOROUGH OF DORMONT

STATEMENT OF FIDUCIARY NET POSITION PENSION TRUST FUNDS

DECEMBER 31, 2013

Assets	Non-Uniformed Employees	Police	Total
Investments (at fair value):			
Cash and cash equivalents	\$ 120,175	\$ 371,504	\$ 491,679
U.S. government securities	258,308	739,439	997,747
Corporate bonds	223,940	632,369	856,309
Common stock	1,376,101	3,942,336	5,318,437
Fixed mutual funds	655,220	1,725,971	2,381,191
Equity mutual funds	482,096	1,467,546	1,949,642
Other funds	71,470	213,071	284,541
Due from non-uniformed employees fund	-	269,858	269,858
Total Assets	3,187,310	9,362,094	12,549,404
Liabilities			
Due to police fund	269,858	-	269,858
Net Position			
Net position held in trust for pension benefits	\$ 2,917,452	\$ 9,362,094	\$ 12,279,546

See accompanying notes to financial statements.

BOROUGH OF DORMONT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PENSION TRUST FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2013

	Non-Uniformed Employees	Police	Total
Additions:			
<hr/>			
Contributions:			
Commonwealth	\$ 10,134	\$ 145,240	\$ 155,374
Borough	-	124,618	124,618
Employee	42,765	93,714	136,479
Total contributions	52,899	363,572	416,471
Investment income:			
Net appreciation in fair value of investments	299,979	944,433	1,244,412
Interest and dividends	94,765	313,741	408,506
Total investment income	394,744	1,258,174	1,652,918
Total additions	447,643	1,621,746	2,069,389
Deductions:			
<hr/>			
Benefits	65,063	569,348	634,411
Administrative expense	24,713	59,608	84,321
Total deductions	89,776	628,956	718,732
Increase (Decrease) in Plan Net Position	357,867	992,790	1,350,657
Net Position			
<hr/>			
Beginning of year	2,559,585	8,369,304	10,928,889
End of year	\$ 2,917,452	\$ 9,362,094	\$ 12,279,546

See accompanying notes to financial statements.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

1. REPORTING ENTITY

The Borough of Dormont (Borough) operates under Pennsylvania law with an elected Mayor and seven elected Council members. The Borough embraces 3/4 of a square mile approximately four miles outside the City of Pittsburgh and has a population of approximately 9,300. The Borough provides services in many areas to its residents, including various general government services, public safety, highway maintenance, and health and welfare services.

Component units are to be included within the financial reporting entity of the Borough based upon the significance of their operation or financial relationships with the Borough. There are no organizations that meet the criteria for inclusion in the Borough's reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a particular function or segment. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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.

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 a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally 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.

Deferred inflows of resources reported on the governmental funds balance sheet arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when resources are received by the Borough before it has legal claim to them, as when intergovernmental funds are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Borough has a legal claim to the resources, the unavailable revenue is removed as a deferred inflow of resources or the unearned revenue is removed as a liability and the revenue is recognized.

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

The Borough maintains the following governmental fund types:

General Fund

The General Fund is the principal operating fund of the Borough, which is used to account for all financial transactions except those accounted for in other funds.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Borough uses the following Special Revenue Funds:

- The Liquid Fuels Fund accounts for state aid revenues (liquid fuels tax) used for building and improving roads and bridges.
- The Sewer Fund accounts for sewage user fees and capital expenditures for maintenance of the sewer system within the Borough.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital projects.

The Borough maintains the following fiduciary funds:

Pension Trust Funds

The Pension Trust Funds are used to account for assets held by the Borough in a trustee capacity for employee retirement. The Borough maintains two pension plans; the Non-Uniformed Employees Plan and the Police Plan.

Budgets and Budgetary Accounting

An operating budget was adopted for 2013 for the General Fund and Special Revenue Funds (Liquid Fuels Fund and Sewer Fund) on the cash basis, which differs from accounting principles generally accepted in the United States of America.

Within the various funds, the secretary/manager is authorized to transfer budgeted amounts between departments and/or accounts, provided that such transfers do not alter total expenditures approved by the Members of Council (Council). Therefore, the level of control over expenditures in these funds is the surplus or deficit of the fund as a whole.

In accordance with the Borough Code, beginning at least thirty days prior to the adoption of the budget, which shall not be later than December 31, a proposed budget for the ensuing year is prepared in a manner designated by the Council. The proposed budget is kept on file with the Borough secretary and made available for public inspection for a period of ten days. Notice that the proposed budget is available for inspection is published by the Borough

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

secretary in a newspaper of general circulation. After the expiration of the ten days, Council makes such revision in the budget as deemed advisable and adopts the budget by motion.

Cash and Cash Equivalents

The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

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

Property and Earned Income Taxes

Property tax revenue and earned income tax revenue are recognized to the extent collected during the year. Earned income taxes are recognized as a receivable when the obligation to pay the tax is incurred by the taxpayer (i.e., income subject to the taxes is earned). Interest and penalty charges accrued on unpaid taxes are recognized as revenue when received. Tax refunds are charged against revenues when paid.

Sewer Fund Accounts Receivable

Accounts receivable for sewer billings remitted to the Borough are reflected as an asset with an offsetting deferred inflow of resources to the extent not available in the fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. All capital assets are capitalized at cost and donated fixed assets are recorded at their fair values at the time of donation. The Borough maintains a capitalization threshold of \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

All reported capital assets, except for land and construction in progress, are depreciated. Depreciation is computed using the straight-line method, over the following useful lives:

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Buildings	40 years
Furniture, machinery, and equipment	5 - 20 years
Infrastructure	15 - 50 years

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position in the government-wide financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium and discount. Bond premiums and discounts are recorded as current period costs in the governmental funds.

Interfund Receivables, Payables, and Transfers

Individual fund receivable and payable balances at December 31, 2013, as well as interfund transfers for the year ended December 31, 2013, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Due To</u>	<u>Due From</u>
General Fund	\$ -	\$ 261,457	\$ 130,108	\$ -
Sewer Fund	-	232,684	232,684	-
Capital Projects Fund	488,984	-	-	357,635
Liquid Fuels Fund	5,157	-	-	5,157
	<u>\$ 494,141</u>	<u>\$ 494,141</u>	<u>\$ 362,792</u>	<u>\$ 362,792</u>

Transactions between funds which are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts. The transfers out from the Sewer Fund and the General Fund represent transfers to the Capital Projects Fund for current and future capital projects.

Compensated Absences

A liability for compensated absences is determined by the payments which would be available to employees if they would leave or retire from the Borough. These amounts are reflected as long-term liabilities in the government-wide statements unless retirements are

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

likely within the upcoming fiscal year. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Net Position

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

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets.
- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Fund Balance

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

- Nonspendable – This category represents funds that are not in spendable form. The Borough currently does not have any nonspendable funds.
-

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. This category includes unspent portions of prior years' tax millage restricted for the fire department and debt service. Restricted fund balance also includes funds that are legally restricted for sewage infrastructure.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Borough Council. Such commitment is made via a Borough Council resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Borough Council resolution. The Borough currently does not have any committed funds.
- Assigned – This category represents intentions of the Borough Council to use the funds for specific purposes. The Borough currently does not have any assigned funds.
- Unassigned – This category represents all other funds not otherwise defined.

The Borough's policy is to use funds in the order of the most restrictive to the least restrictive.

Risk Management

The Borough is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees; and natural disasters. Except for workmen's compensation (see Note 11), these risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in coverage during the year. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Adoption of Pronouncements

The Borough has adopted Governmental Accounting Standards Board (GASB) Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" This statement reclassifies

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

certain items that were reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The primary impact of this statement was to classify unavailable tax revenue as deferred inflows of resources on the fund balance sheet.

Pending Pronouncements

GASB has issued Statement No. 67, "*Financial Reporting for Pension Plans*," effective for financial statements for periods beginning after June 15, 2013, and has also issued Statement No. 68, "*Accounting and Financial Reporting for Pensions*," effective for fiscal years beginning after June 15, 2014. These statements revise existing guidance for the financial reports of most pension plans, and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The effect of implementation of this statement has not yet been determined.

GASB has issued Statement No. 69, "*Government Combinations and Disposals of Government Operations*," effective for fiscal years beginning after December 15, 2013 (the Borough's financial statements for the year ending December 31, 2014). GASB Statement No. 69 provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The effect of implementation of this statement has not yet been determined.

GASB has issued Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*," effective for financial statements for periods beginning after June 15, 2013. This statement addresses an issue regarding GASB Statement No. 68 relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployers contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The effect of implementation of this statement has not yet been determined.

3. CASH AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposit. The statutes also allow the pooling of governmental funds for investment purposes. The deposit and investment policy of the Borough adheres to state statutes. Governmental funds are either maintained in demand deposits and certificates of deposit or invested with the Pennsylvania Local Government Investment Trust (PLGIT). There were no deposit or investment transactions during the year that were in violation of either the state statutes or the Borough's policy.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Deposits

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

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a formal deposit policy for custodial credit risk. At December 31, 2013, \$4,259,497 of the Borough's bank balance of \$4,509,497 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have a carrying amount of \$4,202,940 as of December 31, 2013.

In addition to the deposits noted above, included in cash and cash equivalents are investments with PLGIT totaling \$92,573. The fair value of the Borough's investments with PLGIT, which is an external investment pool, is the same as the value of pooled shares. The Borough's investments in PLGIT cannot be classified by risk category, because they are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk – The Borough does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments have an average maturity of less than one year.

Credit Risk – The Borough has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2013, investments in PLGIT have received an AAAM rating from Standard & Poor's.

Pension Trust Funds

The Pension Trust Funds' investments are held separately from those of other Borough funds. Assets in the Pension Trust Funds are stated at fair value. The Borough maintains investment policies that summarize the investment philosophy of the Borough and establishes investment guidelines and performance objectives for both the Non-Uniformed Employees and Police Pension Plans.

The Pension Trust Funds are invested in various types of financial instruments. This diversification of the investment portfolio serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

values of investments could occur in the near-term and that such a change could materially affect the amount reported on the statement of fiduciary net position.

As of December 31, 2013, the Borough had the following cash and investments in its Pension Trust Funds:

Cash and Cash Equivalents or Investment Type	Fair Market Value	Investment Maturities from December 31, 2013			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years
Corporate fixed income	\$ 856,309	\$ 106,262	\$ 750,047	\$ -	\$ -
U.S. government obligations	997,747	-	275,016	72,212	650,519
Total debt-backed investments	1,854,056	\$ 106,262	\$ 1,025,063	\$ 72,212	\$ 650,519
Cash and cash equivalents	491,679				
Fixed mutual funds	2,381,191				
Equity mutual funds	1,949,642				
Other funds	284,541				
Common stock	5,318,437				
Total cash and other investments	10,425,490				
Total cash, cash equivalents, and investments	\$ 12,279,546				

The following is a description of the Pension Trust Funds' deposit and investment risks:

Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Trust Funds have no formal investment policy that would limit their investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2013, \$346,291 of the Pension Trust Funds' investments in fixed income U.S. Government obligations were rated AAA by Moody's and \$651,456 were unrated. The ratings for the Funds' investments in corporate bonds are detailed out in the schedule below:

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

<u>Bond Rating</u> Moody's	<u>Total Fair</u> <u>Market Value</u>
A1	\$ 85,618
A2	167,776
A3	159,291
Baa1	208,065
Baa2	<u>235,559</u>
Total	<u>\$ 856,309</u>

Custodial Credit Risk – For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the Pension Trust Funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The Pension Trust Funds do not have a formal deposit or investment policy for custodial credit risk. The Borough's investments in mutual funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. All money market funds have an average maturity of one year or less.

Concentration of Credit Risk – The Pension Trust Funds place no limit on the amount they may invest in any one issuer. The Manning & Napier FD Core Plus Bond Fund, constituted approximately 17% and 15%, respectively, of the plan net position for the Non-Uniformed Employees and Police plans at December 31, 2013. The pension plans did not have any investment transactions with related parties during the year.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the Pension Trust Funds' investments. The Pension Trust Funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average maturities of debt-backed investments are disclosed above.

4. REAL ESTATE TAXES

Allegheny County is responsible for establishing assessed values (corresponding to 100% of market value) for real property in the Borough. Except for exempt parcels, real estate taxes due to the Borough are calculated by multiplying assessed value by the millage rates set by the Borough. The Borough Code permits real estate tax rates for primary governments of up to 30 mills and additional millage for certain specified purposes. The Borough's real estate

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

tax rate applicable for 2013 was 8.97 mills (4.87 General Government, 2.47 Debt Service, 0.22 Library, and 1.41 Fire Department). Taxable assessed value applied in 2013 was approximately \$388 million.

Real estate taxes are billed and collected by an elected tax collector. Taxes are levied on April 1. Taxes paid by May 31 are reduced by a 2% discount. Taxes paid after July 31 are subject to a 10% penalty. Amounts not collected before the following December 31 are turned over to a contractor for collection.

5. LONG-TERM DEBT

Changes in the Borough's long-term debt for the year ended December 31, 2013 were as follows:

	Beginning Balance at January 1, 2013	Additions	Retirements and Refunding	Accretion	Ending Balance at December 31, 2013
General obligation bonds:					
Series of 1997 - capital appreciation	\$ 3,042,817	\$ -	\$ (700,000)	\$ 165,282	\$ 2,508,099
General obligation notes:					
2006 Note	153,329	-	(71,694)	-	81,635
2011 Note	252,011	-	(45,036)	-	206,975
AIM Loan of 2013	-	12,493	(2,499)	-	9,994
Tax exempt appropriation note of 2003	62,497	-	(62,497)	-	-
	<u>\$ 3,510,654</u>	<u>\$ 12,493</u>	<u>\$ (881,726)</u>	<u>\$ 165,282</u>	<u>\$ 2,806,703</u>

General Obligation Bonds - 1997

In 1997, the Borough issued \$1,265,000 in Current Interest General Obligation Bonds and \$2,041,634 in Capital Appreciation General Obligation Bonds (1997 Bonds) with interest rates from 4.0% to 5.45%. The 1997 Bonds are due serially through 2018. The outstanding accreted amount of the 1997 Bonds at December 31, 2013 was \$2,508,099.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

General Obligation Note - 2006

In 2006, the Borough issued a General Obligation Note (2006 Note) in the amount of \$524,191. The proceeds of the 2006 Note were used to refinance the 2000 Note. The 2006 Note bears an interest rate of 4.79%. Interest payments are required on the last day of each month commencing December 31, 2006 and continuing each month thereafter through the date of maturity on January 31, 2015.

General Obligation Note - 2011

In 2011, the Borough issued a General Obligation Note (2011 Note) in the amount of \$620,000. The proceeds of the 2011 Note were used to purchase a parking lot. The 2011 Note bears an interest rate of 3.25%. Interest and principal payments are required on the first day of each month commencing April 1, 2011 and continuing each month thereafter through the date of maturity on March 1, 2026.

Tax Exempt Appropriation Note - 2003

In 2003, the Borough obtained a tax-exempt appropriation note (TEAN) in the amount of \$520,000. The proceeds of the TEAN were used to finance the cost of a salt storage enclosure and renovation to the Public Works building. The TEAN bore an interest rate of 4.80%. Principal and interest payments of \$33,100 were required on a semi-annual basis commencing May 31, 2004 and continuing thereafter through the date of maturity on November 30, 2013.

Annual debt service requirements of the Borough are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 777,479	\$ 54,802	\$ 832,281
2015	685,293	75,915	761,208
2016	647,813	106,964	754,777
2017	618,523	136,254	754,777
2018	77,595	20,189	97,784
	<u>\$ 2,806,703</u>	<u>\$ 394,124</u>	<u>\$ 3,200,827</u>

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

6. CAPITAL ASSETS

Capital asset activity for the primary government for the year ended December 31, 2013 was as follows:

	Balance at January 1, 2013	Increases	Decreases	Balance at December 31, 2013
Capital assets, not being depreciated:				
Land	\$ 1,802,975	\$ -	\$ -	\$ 1,802,975
Total capital assets, not being depreciated	1,802,975	-	-	1,802,975
Capital assets, being depreciated:				
Buildings	9,104,169	-	-	9,104,169
Furniture, machinery, and equipment	2,704,409	85,737	-	2,790,146
Infrastructure	15,660,340	-	-	15,660,340
Total capital assets, being depreciated	27,468,918	85,737	-	27,554,655
Less: accumulated depreciation for:				
Buildings	(3,601,568)	(238,490)	-	(3,840,058)
Furniture, machinery, and equipment	(1,623,588)	(246,755)	-	(1,870,343)
Infrastructure	(9,990,890)	(315,789)	-	(10,306,679)
Total accumulated depreciation	(15,216,046)	(801,034)	-	(16,017,080)
Capital assets being depreciated, net	12,252,872	(715,297)	-	11,537,575
Capital assets, net	\$ 14,055,847	\$ (715,297)	\$ -	\$ 13,340,550

Depreciation expense for capital assets was allocated to the various functions as follows:

General government	\$ 562,786
Public safety	100,879
Highways, roads and streets	101,100
Parks and recreation	36,269
Total depreciation expense	<u>\$ 801,034</u>

The Borough entered into an agreement with Cochran Real Estate, L. P. to exchange properties as part of the West Liberty Avenue Redevelopment Plan. The Borough swapped land with an appraised value of \$620,000 in exchange for property with an appraised value of \$640,000. No gain or loss has been recognized in the financial statements, since the Borough has determined that the difference in value is not material to the financial statements.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

7. PENSION PLAN

Plan Descriptions

The Borough administers two single-employer defined benefit pension plans: Non-Uniformed Employees and Police (Plans). These Plans cover substantially all full-time employees. All Plans provide retirement and disability benefits to Plans' members and their beneficiaries. Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth (Act). The Plans are governed by the Council, who has delegated the authority to manage the Plans' assets to an outside third party. The Plans do not issue separate reports.

Non-Uniformed Employees Plan

The Non-Uniformed Employees Plan (Plan) is a defined benefit plan available to all full-time Borough employees under the Act. According to the Plan, participants are eligible for retirement upon the later of the completion of 20 years of credited service or attainment of age 65. Participants are fully vested in this Plan upon the completion of 10 years of credited service. The monthly pension benefit is equal to 1.25 percent of the final monthly average compensation multiplied by years of credited service.

Police Plan

The Police Plan (Plan) is a defined benefit plan available to all full-time Borough police officers under the Act. According to the Plan, participants are eligible for retirement upon the later of the completion of 25 years of aggregate service or attainment of age 50. Participants are fully vested in this Plan upon the completion of 12 years of aggregate service. The monthly pension benefit is equal to 50 percent of the final monthly average salary. Included in the Borough's Police Plan is a Deferred Retirement Option Plan (DROP). The DROP activity is included in the Police Pension Trust Fund for reporting purposes.

At January 1, 2013, the date of the most recent valuation, participants in the Plans were as follows:

	<u>Police</u>	<u>Non-Uniformed</u>
Participants:		
Retired and inactive	12	4
Active employees	11	22

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Summary of Significant Accounting Policies

Financial information of the Borough's Plans is presented on the accrual basis of accounting. Employer contributions to each Plan are recognized when due as required by the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the individual Plan.

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

At December 31, 2013, no individual pension investment constituted more than 5% of any of the Plan net position available for benefits. The Plans did not have any investment transactions with related parties during the year.

Contributions and Funding Policy

The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO in excess of the Commonwealth of Pennsylvania allocation must be funded by the Borough.

The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.5% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized using the level dollar open method (closed method for the Police Plan).

For 2013, Non-Uniformed Employees were required to contribute to the Plan at a rate of 3.8% and Police were required to contribute to the Plan at a rate of 8%.

The MMO obligation for the Non-Uniformed Employees and Police Plans was \$10,134 and \$269,858, respectively, at December 31, 2013.

The Borough's annual pension cost and related information is as follows:

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	<u>Non-Uniformed Employees</u>	<u>Police</u>
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Open	Level Dollar Closed
Amortization period	17	10
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.5%	5.5%
Underlying inflation rate	3.0%	3.0%
Cost of living adjustments	n/a	n/a

n/a = not applicable

As noted above, certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2013. The next actuarial valuation will be performed as of January 1, 2015.

The Borough has a net pension asset (a negative net pension obligation (NPO)) as of December 31, 2013 calculated as follows:

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	Non-Uniformed	
	Employees	Police
Annual required contribution	\$ 10,134	\$ 269,858
Interest on NPO	(4,036)	(7,538)
Adjustment to the ARC	5,786	14,655
Annual pension cost and other	11,884	276,975
Contribution made	10,134	269,858
Change in NPO	1,750	7,117
NPO, 12/31/2012	(53,820)	(100,501)
NPO, 12/31/2013	\$ (52,070)	\$ (93,384)

Three-Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
Non-Uniformed Employees:			
	12/31/2011	\$ 13,551	86%
	12/31/2012	12,838	86%
	12/31/2013	11,884	85%
Police:			
	12/31/2011	\$ 182,536	116%
	12/31/2012	193,664	97%
	12/31/2013	276,975	97%

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

Funding Status and Funding Progress

The following is funded status information for each Plan as of January 1, 2013, the most recent actuarial evaluation date:

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
<u>Police:</u>	\$ 8,228,566	\$ 9,004,774	\$ (776,208)	91.38%	\$1,013,131	(76.61%)
<u>Non-Uniformed Employees:</u>	2,527,053	2,088,682	438,371	120.99%	1,080,001	40.59%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the AAL for benefits.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBS)

Plan Description

In addition to the pension benefits previously described, the Borough provides certain other postemployment benefits to its retirees. The benefit limits and employee and employer contributions are established through union contracts and past practices. The plan is not accounted for as a trust fund, an irrevocable trust has not been established, the plan does not issue a separate report, and activity of the plan is reported in the Borough's General Fund.

Details of the benefits provided are as follows:

Police

The Borough provides \$350 per month towards the purchase of health insurance coverage until the retiree reaches Medicare eligibility (age 65). This benefit will only be paid if the retiree has not obtained health care coverage from any other source (e.g., other employment, spousal coverage, etc.).

Public Works Employees

The Borough provides \$150 per month towards the purchase of health insurance coverage until the retiree reaches age 65.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Desk Officers and Fire Apparatus Officers

The Borough provides \$100 per month towards the purchase of health insurance coverage for a maximum of five years following the date of retirement. This benefit will only be paid if the retiree has not obtained health care coverage from any other source (e.g., other employment, spousal coverage, etc.).

General Employees

No post-retirement benefits are offered by the Borough.

Funding Policy

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. For fiscal year 2013, the Borough incurred \$11,151 for postemployment benefits other than pension benefits.

The Borough's annual 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over an open period not to exceed 30 years. The following table shows the component of the Borough's annual OPEB cost for the year, the amount actually contributed, and changes in the Borough's net OPEB obligation:

Annual required contribution	\$ 17,900
Interest on net OPEB obligation	1,676
Adjustment to annual required contribution	<u>(2,864)</u>
Annual OPEB cost	16,712
Contributions made	<u>(11,151)</u>
Increase in net OPEB obligation	5,561
Net OPEB obligation - beginning of year	<u>37,255</u>
Net OPEB obligation - end of year	<u>\$ 42,816</u>

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation were as follows:

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Fiscal Year Ending	Annual OPEB Cost	% of AOC Contributed	Net OPEB Obligation (Asset)
December 31, 2013	\$ 16,712	67%	\$ 42,816
December 31, 2012	16,793	85%	37,255
December 31, 2011	N/A	N/A	N/A

N/A - The Borough implemented GASB Statement No. 45 in 2012.

The ARC for the current year was computed as of January 1, 2013 using the following actuarial assumptions:

- actuarial cost method - entry age normal cost;
- amortization method - level dollar;
- amortization period - 30 years;
- discount rate - 4.5% compounded annually;
- mortality - RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment;

The schedule of funding progress for the postemployment benefits is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(a)-(b)]/(c)
January 1, 2012	\$ -	\$ 180,946	\$ 180,946	0.00%	N/A	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status and 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 as Required Supplementary Information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 actuarial methods and

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

9. COMMITMENTS AND CONTINGENCIES

Administrative Consent Order

In 1997, the United States Environmental Protection Agency (USEPA) identified 51 communities tributary to the Allegheny County Sanitary Authority (ALCOSAN), which includes the Borough, whose sanitary sewers are subject to wet weather overflows. The Borough signed an Administrative Consent Order (ACO). The ACO details the timetable for completion of each phase which will involve inspecting, mapping, correcting, and monitoring the sewer system. The Borough is subject to a civil penalty for untimely completion of each term or provision of the ACO. The Borough has paid no civil penalties for the year ended December 31, 2013. The Borough's engineers have estimated the cost to comply with the ACO under the following four scenarios:

- The cost to comply with the ACO being proposed by the Borough, where the Borough's previous work is accepted, is estimated at \$260,748.
- The cost to comply with the ACO being proposed by the Borough, where none of the Borough's previous work is accepted, is estimated at \$1,072,957.
- The cost to comply with a strict interpretation of the Agency's ACO, where some of the Borough's previous work is accepted, is estimated at \$2,188,908.
- The cost to comply with a strict interpretation of the Agency's ACO is estimated at \$2,871,669.

It is management's opinion that costs to comply with the ACO being proposed will approximate \$260,748 over the next three years. In addition, the Borough will be participating in the multi-municipal portion of the Consent Decree which will involve approximately \$7,000,000 in costs over the next 20 years.

The Borough will seek to recover certain of the costs through intergovernmental grants. The Borough also anticipates paying for its portion of the corrective action through the sewer fees paid by residents with no increase in that fee seen at this time.

In addition to the above, the Borough is involved in various disputes. Management is of the opinion that any outcome resulting from these actions would not have a material effect on the Borough's financial position.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

10. RISK FINANCING

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

For its workers compensation insurance coverage, the Borough participates in the Municipal Risk Management Workers Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of 199 cities, municipalities, boroughs, townships, and municipal authorities. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals of the Pennsylvania Department of Labor and Industry as mandated by Act 44 of 1993 (Act 44). All Trust participants may be subject to a supplemental assessment/dividend based on the overall experience of the participants, pursuant to Act 44. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers' Compensation Act and Occupational Disease Act of each and every participant of the Trust. Political subdivisions joining the Trust must remain members for a minimum of four years; a member may withdraw from the Trust after that time by giving ninety days' notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments but has no claim on any other assets of the Trust.

11. DEFERRED COMPENSATION PLAN

The Borough offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salaries until future years. Participation in the Plan is optional. The deferred compensation is not available to the employee until termination, retirement, death, or unforeseeable emergency. At December 31, 2013, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust solely for the benefit of the participants. Investments are managed by the Plan's trustee under several investment options selected by the participant. Under the provisions of GASB Statement No. 32, *"Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,"* the Plan is not required to be included in the Borough's financial statements.

BOROUGH OF DORMONT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

12. TAX INCREMENT FINANCING

In September 2012, Borough Council voted to move forward with plans to develop West Liberty Avenue, including a Transportation Oriented Development (TOD) adjacent to the Dormont Junction "T" Stop. As part of that process, Council also agreed to proceed with the creation of a Tax Increment Financing (TIF) District to help provide infrastructure improvements for the developer of the TOD. On December 19, 2012, Borough Council approved a resolution authorizing the Borough to pursue a TIF plan. No other significant development has occurred for the TIF or the TOD.

**Required Supplementary
Information**

BOROUGH OF DORMONT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ACTUAL AND BUDGET (NON-GAAP BUDGETARY BASIS) BUDGETED GOVERNMENTAL FUND TYPES - GENERAL FUND

YEAR ENDED DECEMBER 31, 2013

	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis
Revenues:			
Taxes	\$ 5,244,628	\$ (24,861)	\$ 5,219,767
Licenses and permits	201,750	-	201,750
Fines and forfeits	110,115	(1,562)	108,553
Interest, rents, and royalties	324,941	(5,319)	319,622
Intergovernmental	205,996	-	205,996
Charges for services	1,382,883	(17,013)	1,365,870
Miscellaneous	40,545	-	40,545
Total revenues	7,510,858	(48,755)	7,462,103
Expenditures:			
Current:			
General government	894,003	(10,351)	883,652
Public safety	2,233,260	6,501	2,239,761
Highways, roads, and streets	613,069	16,673	629,742
Sanitation	638,637	(32,656)	605,981
Public works - other	95,423	(7,194)	88,229
Parks and recreation	564,374	(1,939)	562,435
Miscellaneous	1,430,310	48,619	1,478,929
Debt service	897,118	-	897,118
Total expenditures	7,366,194	19,653	7,385,847
Excess (Deficiency) of Revenues over Expenditures	144,664	(68,408)	76,256
Other Financing Sources (Uses):			
Refunds of prior year expenditures	69,155	13,421	82,576
Operating transfers out	(261,457)	130,108	(131,349)
Total other financing sources (uses)	(192,302)	143,529	(48,773)
Net Change in Fund Balance	\$ (47,638)	\$ 75,121	\$ 27,483

(Continued)

BOROUGH OF DORMONT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) BUDGETED GOVERNMENTAL FUND TYPES - GENERAL FUND

YEAR ENDED DECEMBER 31, 2013
(Continued)

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget
Revenues:				
Taxes	\$ 5,299,265	\$ 5,299,265	\$ 5,219,767	\$ (79,498)
Licenses and permits	175,050	175,050	201,750	26,700
Fines and forfeits	103,600	103,600	108,553	4,953
Interest, rent, and royalties	306,400	306,400	319,622	13,222
Intergovernmental	198,516	198,516	205,996	7,480
Charges for services	1,251,850	1,251,850	1,365,870	114,020
Miscellaneous	1,000	1,000	40,545	39,545
Total revenues	7,335,681	7,335,681	7,462,103	126,422
Expenditures:				
Current:				
General government	857,785	857,785	883,652	(25,867)
Public safety	2,159,581	2,159,581	2,239,761	(80,180)
Highways, roads, and streets	612,137	612,137	629,742	(17,605)
Sanitation	622,000	622,000	605,981	16,019
Public works - other	87,300	87,300	88,229	(929)
Parks and recreation	622,898	622,898	562,435	60,463
Miscellaneous	1,475,736	1,475,736	1,478,929	(3,193)
Debt service	902,895	902,895	897,118	5,777
Total expenditures	7,340,332	7,340,332	7,385,847	(45,515)
Excess (Deficiency) of Revenues over Expenditures	(4,651)	(4,651)	76,256	80,907
Other Financing Sources (Uses):				
Refunds of prior year expenditures	71,000	71,000	82,576	11,576
Operating transfers in	65,000	65,000	-	(65,000)
Operating transfers out	(131,349)	(131,349)	(131,349)	-
Total other financing sources (uses)	4,651	4,651	(48,773)	(53,424)
Net Change in Fund Balance	\$ -	\$ -	\$ 27,483	\$ 27,483

(Concluded)

BOROUGH OF DORMONT

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (NON-GAAP BUDGETARY BASIS)
ALL BUDGETED GOVERNMENTAL FUND TYPES - SEWER FUND

YEAR ENDED DECEMBER 31, 2013

	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis
Revenues:			
Interest, rents, and royalties	\$ 1,694	\$ -	\$ 1,694
Charges for services	1,690,248	22,120	1,712,368
Total revenues	1,691,942	22,120	1,714,062
Expenditures:			
Sanitation	1,245,940	424,011	1,669,951
Excess (Deficiency) of Revenues over Expenditures	446,002	(401,891)	44,111
Other Financing Sources (Uses):			
Operating transfers out	(232,684)	232,684	-
Net Change in Fund Balance	\$ 213,318	\$ (169,207)	\$ 44,111

(Continued)

BOROUGH OF DORMONT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) BUDGETED GOVERNMENTAL FUND TYPES - SEWER FUND

YEAR ENDED DECEMBER 31, 2013

(Continued)

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget
Revenues:				
Interest, rent, and royalties	\$ 2,200	\$ 2,200	\$ 1,694	\$ (506)
Charges for services	1,902,400	1,902,400	1,712,368	(190,032)
Total revenues	1,904,600	1,904,600	1,714,062	(190,538)
Expenditures:				
Sanitation	1,482,000	1,482,000	1,669,951	(187,951)
Other	139,916	139,916	-	139,916
Total expenditures	1,621,916	1,621,916	1,669,951	(48,035)
Excess (Deficiency) of Revenues over Expenditures	282,684	282,684	44,111	(238,573)
Other Financing Sources (Uses):				
Operating transfers out	(282,684)	(282,684)	-	282,684
Net Change in Fund Balance	\$ -	\$ -	\$ 44,111	\$ 44,111

(Concluded)

BOROUGH OF DORMONT

NOTE TO REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON SCHEDULES

YEAR ENDED DECEMBER 31, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

The operating budget for the General Fund and Sewer Funds were adopted on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

Within the funds, the secretary/manager is authorized to transfer budgeted amounts between departments and/or accounts provided that such transfers do not alter total expenditures approved by the Members of Council (Council). Therefore, the level of control over expenditures in the funds is the surplus or deficit of the funds as a whole.

In accordance with the Borough Code, beginning at least thirty days prior to the adoption of the budget, which shall not be later than December 31, a proposed budget for the ensuing year is prepared in a manner designated by the Council. The proposed budget is kept on file with the Borough secretary and made available for public inspection for a period of ten days. Notice that the proposed budget is available for inspection is published by the Borough secretary in a newspaper of general circulation. After the expiration of the ten days, Council makes such revision in the budget as deemed advisable and adopts the budget by motion.

For the year ended December 31, 2013, General Fund expenditures for General Government, Public Safety, and Highways, Roads and Streets exceeded the departmental budget. The excess appropriations in the General Fund were funded by budget surpluses in other departments and transfers from other funds.

For the year ended December 31, 2013, Sewer Fund expenditures for Sanitation exceeded the departmental budget. The excess appropriations in the Sewer Fund were funded by budget surpluses in other departments.

BOROUGH OF DORMONT

PENSION PLANS

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Excess of Assets Over AAL	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
Non-Uniformed Employees:						
1/1/2009	\$ 1,976,330	\$ 1,638,533	\$ 337,797	120.62%	\$ 812,589	41.57%
1/1/2011	2,232,679	1,946,501	286,178	114.70%	891,142	32.11%
1/1/2013	2,527,053	2,088,682	438,371	120.99%	1,080,001	40.59%
Police:						
1/1/2009	\$ 6,789,569	\$ 7,357,944	\$ (568,375)	92.28%	\$ 1,239,321	-45.86%
1/1/2011	7,431,157	8,636,284	(1,205,127)	86.05%	1,041,935	-115.66%
1/1/2013	8,228,566	9,004,774	(776,208)	91.38%	1,013,131	-76.61%

Note: State law requires biennial valuations on the odd-numbered years.

See accompanying note to required supplementary pension schedules.

BOROUGH OF DORMONT

PENSION PLANS SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Calendar Year	Non-Uniformed Employees		Police	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2008	\$ 15,701	100%	\$ 134,026	100%
2009	-	n/a	138,271	100%
2010	-	n/a	134,673	100%
2011	11,682	100%	177,879	119%
2012	11,030	100%	187,043	100%
2013	10,134	100%	269,858	100%

Note: Contributions include state pension aid

See accompanying note to required supplementary pension schedules.

BOROUGH OF DORMONT

NOTE TO REQUIRED SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2013

The information presented in the required supplementary pension schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Non-Uniformed Employees</u>	<u>Police</u>
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Open	Level Dollar Closed
Amortization period	17	10
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.5%	5.5%
Underlying inflation rate	3.0%	3.0%
Cost of living adjustments	n/a	n/a

n/a - not applicable

BOROUGH OF DORMONT

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBS) SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2007	N/A	N/A	N/A	N/A	N/A	N/A
1/1/2009	N/A	N/A	N/A	N/A	N/A	N/A
1/1/2012	\$	\$ 180,946	\$ 180,946	0.00%	N/A	N/A

Note: Valuation as of 01/01/12 represents the initial valuation for the plan, since this was the first year the Borough implemented GASB Statement No. 45.