

# CITY OF CHESTER

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## FINANCIAL STATEMENTS

AND

## INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2013

# CITY OF CHESTER

## Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-11
Basic Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Balance Sheet – Governmental Funds	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	18
Statement of Cash Flows – Proprietary Fund	19
Statement of Fiduciary Net Position – Pension Trust and Agency Fund	20
Statement of Changes in Fiduciary Net Position - Pension Trust Funds	21
Notes to Financial Statements	22-59
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – General Fund	60
Schedule of Pension Funding Progress	61
Schedules of Contributions from Employer and Other Contributing Entity	62
Other Post Employment Benefits Plan Schedule of Funding Progress	62

## **INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Chester, Pennsylvania

We have audited the accompanying financial statements of the governmental and business activities, each major fund, and the aggregate remaining fund information of the City of Chester (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in the blended component units' financial statements, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Summary of Opinion Units

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Modified
General Fund	Modified
Aggregate Other Governmental Funds	Modified
Proprietary Fund	Modified

We were unable to obtain sufficient appropriate audit evidence about various classifications of certain revenues and expenditures contained in the financial statements of the opinion units listed above. In addition, we were unable to sufficiently audit the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

### Modified Opinions

In our opinion, except for the effects of the matters described in the “Basis for Modified Opinion” paragraph, based on our audit and the reports of another auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental and business activities, General Fund, and the aggregate remaining fund information of the City of Chester, Pennsylvania, as of December 31, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison, and schedules of pension plan and other postemployment benefits plan information on pages 4-11 and 59-61 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.

**Emphasis of Matter Regarding Going Concern – Component Units**

The financial statements of the Chester Economic Development Authority, Redevelopment Authority of the City of Chester, and Parking Authority of the City of Chester (the "Authorities") were prepared assuming the Authorities will continue as going concerns. The Authorities have limited funding available to support administrative and program delivery costs without additional support from the City of Chester. This raises substantial doubt about the Authorities' ability to continue as going concerns. The component units' financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to this matter.

*Mulligan & Company, LLC*

Philadelphia, Pennsylvania  
June 29, 2015



The City of Chester  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*

This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the City of Chester (the City) for the year ended December 31, 2013. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the City's primary government, including the blended component units.

General

The City, incorporated on February 14, 1866, became a Home Rule Charter community in 1980. The City provides services as authorized by its charter including public safety, highways and streets, sanitation, health, recreation, public improvements, planning, zoning and general administrative services.

Financial Highlights

The year of 2013 was a turbulent, yet steady year for the City of Chester; turbulent because of adjustments being made to management and the overall climate of the City and steady due to the fact that obligations were met. It was also a year of steady economic conditions. Council and management believe the City's financial condition remains steady despite a number of projects that were delayed, many that were not in the City's control. Though a financially distressed Act 47 city, we were able to work very diligently to overcome the many financial obstacles through the adoption of a new recovery plan. The Act 47 recovery plan analyzes the City's overall financial health and lists several recommendations to reinforce ways that the City can generate additional revenues, while managing and cutting cost. This five year plan, if implemented fully, positions the City to balance its budget and/or have a surplus annually. Council and management are on track for the implementation of the plan by starting with controlling personnel costs (overtime and consolidating positions). We also welcomed a few new businesses to add to our tax base, which are detailed below. The administration continued to negotiate obligations in place such as utilities and professional services to also reduce cost for the City, which resulted in a savings of over \$200,000 during the year. The City engaged E-Collect to audit businesses in the City to ensure that we were receiving the appropriate taxes. E-Collect works on the City's behalf to collect delinquent earned income tax (EIT) and business privilege tax (BPT). This has resulted in the City receiving over \$500,000 throughout the year. We also engaged Portanoff and Associates to recoup delinquent rubbish fees owed to the City. With a third party engaged, the City was able to collect these past due dollars more rapidly.

The City's past economic activities made the City more marketable, which in turn allowed Fare and Square Market to open its doors this year. This is the first time in over 15 years that a food market has been in the City limits. Fare and Square Market created over 70 jobs; and of the 70, employees over 80% of them are Chester residents. In addition it has increased the City's tax base.

Efforts of the City not necessarily reflected in the financial statements are bringing new industry to the community, as well as helping to expand existing business, industry and educational facilities within the community, thus bringing future fiscal stability and improvement. Businesses such as Harrah's Race Track and Casino, Power Home Remodeling, PPL Park, and

The City of Chester  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*

the Philadelphia Union have brought much success to the City and puts Chester on the map nationally to attract more growth in business, which aligns with the adopted Vision 2020 plan (2012), which focuses on a city-wide beautification movement.

Fiscal year 2013 also concludes the tax exemption status of many businesses developed in Keystone Opportunity Zones (KOZ), which will increase the amount of taxes the City can collect in 2014. To further promote the economic development of the City, the City of Chester also worked with the Chester-Upland School District and Delaware County to extent the under-developed properties within the City limits. This incentive will attract more businesses to migrate to Chester.

Another revenue generating opportunity passed in 2013, but will go into effect in 2014, is an imposed parking tax. Currently with the PPL Park being an anchor institution, parking for large events has been very profitable for businesses. This is a positive thing for the City; however, there are increased costs with maintaining the upkeep of streets and sidewalks. This is the primary reason the City decided to impose a tax. This too has created seasonal jobs for Chester residents.

Since 2008 the City has reduced its resident and non-resident earned income tax rates from 2.40 percent and 1.40 percent, to 2.15 percent and 1.15 percent, respectively in 2013.

The Harrah's Race Track and Casino opened its doors in the City of Chester in late 2006. The City has earned \$12,245,279 this past year in casino-related revenue. However, the City is aware that in future years gaming revenues could decrease somewhat because of additional competition from area casinos. Faced with this ultimate reality, the City intends to be very judicious in controlling future operating costs with an anticipated decline in this important revenue stream. Nevertheless, under current law, the City is entitled to a minimum of \$10 million dollars annually as the host community for a gaming facility. In 2010 the Commonwealth of Pennsylvania voted to permit table games. The City is receiving additional revenue from table games operation in Harrah's.

One of the latest developments on the Chester waterfront has been the construction of the PPL Park, which is home to the Philadelphia Union, of Major League Soccer. The stadium was open for the Philadelphia Union soccer team's first home game in the City in June 2010. During the 2013 season, the stadium was used for several other events such as the collegiate rugby championship, collegiate lacrosse and the Big East Soccer Championship.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves. The MD&A represents management's analysis of the City's financial

The City of Chester  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*

condition and performance. Summary financial statement data and other management tools were utilized for analysis.

### **Government-wide Financial Statements**

The City's report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. These statements are intended to provide the reader with a broad overview of the City's finances, similar to the perspective found in the private sector, with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the City's assets and liabilities, with the difference 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 City as a whole is improving or deteriorating.

The second statement, the Statement of Activities, presents information on how the City's net position has changed during the most recent fiscal year. All of the current year revenues and expenses are included regardless of when cash is received or paid. Revenues and expenses are reported in this statement for some items that will result in cash flows in subsequent fiscal periods, such as uncollected taxes. An important purpose of this statement is to show the financial reliance of the City's distinct functions on revenues provided by various sources.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenue, such as grants, from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public works, highways and streets, health, sanitation, community development, culture and recreation. The government-wide financial statements include not only the City itself, but also legally separate entities for which the City is considered to be financially accountable. The component units that meet certain criteria are blended in these government-wide financial statements.

There are three blended component units that were presented separately as distinguished component units in the 2012 financial statements.

The fiduciary activities including the Police Pension Fund, Paid Firemen's Pension Fund, the Officers and Employees Retirement System, and the Chester-Upland School District tax escrow fund are not included in the government-wide statements since these assets are not available to fund the City's programs. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 20. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.



The City of Chester  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*

**Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. The funds are an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations. Major funds are separately reported, while all other are combined into a single, aggregated presentation.

The City has three types of funds - governmental funds, proprietary funds, and fiduciary funds. A proprietary fund is a fund in which customers are charged fees for specific services and the fund operates similar to a business enterprise.

Governmental Funds - almost all of the City's basic services are included in the governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements focus on a detailed short-term view that helps determine whether there are sufficient financial resources that are available at the end of the fiscal year or that can be spent in the near future to finance the programs and commitments of the City. Because this information does not encompass the additional long-term focus of government-wide statements, additional information is provided subsequent to the governmental fund statements to reconcile the differences between the two statements.

The City maintains thirty-four 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, and Chester Economic Development Authority, which are considered to be a major fund. Information relative to the other thirty-three governmental funds (which primarily represent the City's special revenue funds) is combined into a single, aggregated presentation titled "Other Nonmajor Governmental Funds." The Redevelopment Authority of the City of Chester is presented as a proprietary fund.

Fiduciary Funds – The City, as noted above, has four fiduciary funds. These are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The activities of these funds are not a part of the government wide financial statements since the City cannot use these assets to finance its operations.

Notes to Financial Statements - The notes to the financial statements provide required disclosures and other information essential to a full understanding of the material data provided in the government wide and fund financial statements. The notes present information about the City's accounting policies, significant accounts and activities, obligations, commitments and subsequent events, if any.

The City of Chester  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2013

**Budgetary Highlights**

The City adopted an annual appropriated budget for its General Fund and certain Special Revenue Funds. A project length budget is adopted for the Capital Project Fund. A budgetary comparison statement has been provided for the General Fund with the legally adopted budget to demonstrate budgetary compliance.

General Fund revenues were less than budgetary revenues. This is mostly due to actual real estate taxes and rubbish fee being less than budgeted. Also, anticipated refinancing of the bonds did not occur; therefore, expected proceeds were not received. Total General Fund expenditures were less than budgeted due to deferring capital improvements.

Financial Analysis of The City

The following condensed financial data serve as indicators of the City's financial health or financial position including the blended component units. Table 1 below shows a condensed version of the City's Statement of Net Position. The condensed change in net position is shown below in Table 2 as a condensed Statement of Activities. Table 3 provides a comparison of the components of capital assets from 2012 to 2013. Table 4 shows changes in outstanding bonded and other debt from 2012 to 2013.

**Table 1**

**Net Position December 31,**

	2013	2012
Other assets	\$ 27,303,035	\$ 12,204,528
Capital assets, net	26,309,351	22,747,878
Total assets	53,612,386	34,952,406
Other liabilities	12,938,002	6,831,398
Long-term liabilities	73,392,633	65,399,406
Total liabilities	86,330,635	72,230,804
Net position (deficit):		
Net investement in capital assets	13,208,315	9,230,995
Restricted for:		
Special revenue	7,904,353	299,723
Unrestricted	(53,830,917)	(46,809,116)
Total net position (deficit)	\$ (32,718,249)	\$ (37,278,398)

The City of Chester  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2013

During the current fiscal year, the net deficit decreased for governmental activities from the prior fiscal year by \$4,560,149. While the City is still in an economic slowdown, the decrease in the overall net deficit was a result of blending the three component units Chester Economic Development Authority (CEDA), Chester Redevelopment Authority (CRA) and Chester Parking Authority (CPA).

**Table 2**  
**Summary of Activities**  
**For the years ended December 31,**

	2013	2012
Program Revenues:		
Charges for Services	\$ 4,289,230	\$ 2,266,966
Operating grants and contributions	4,908,666	3,483,257
Total program revenues	9,197,896	5,750,223
General revenues	43,129,485	38,413,490
Total revenues	52,327,381	44,163,713
Program expenses:		
Primary government activities	61,769,117	53,690,479
Business-type activities	283,229	-
	62,052,346	53,690,479
Net Change in Net Deficit	(619,436)	(1,216,291)
Net Deficit - Beginning	(37,278,398)	(27,751,632)
Prior Period Adjustment (Note 18)	14,285,114	-
Net Deficit - End of year	\$ (23,612,720)	\$ (28,967,923)

During the current fiscal year, revenue increased by \$8,163,668 and expenses increase by \$8,361,867 primarily due to the increase in salaries and benefits.

**Governmental Funds**

The focus of the City of Chester's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Chester's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the

The City of Chester  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2013

City of Chester itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Chester's Council.

At December 31, 2013 the City's governmental funds reported a fund balance of \$12,311,052, which consists of the following:

	2013		2012	
		% of Total		% of Total
Nonspendable	\$ 32,977	0 %	\$ 161,393	3%
Restricted	6,827,845	55%	299,723	5%
Committed	2,721,257	22%	1,365,427	22%
Assigned	796,196	7%	420,857	7%
Unassigned	<u>1,932,776</u>	16%	<u>3,926,831</u>	63%
 Total fund balance	 \$ <u>12,311,051</u>	 100%	 \$ <u>6,174,231</u>	

The change in fund balances, restricted and committed, is due to the blending of component units in 2013. Unassigned funds decreased due to transfers from the Reserve Fund.

**TABLE 3**  
**CHANGES IN CAPITAL ASSETS**  
**YEAR-TO-YEAR COMPARISON**  
December 31,

CAPITAL ASSETS	2013	2012	\$ Inc/Dec
Capital Assets, not being depreciated:			
Land	\$ 1,782,256	\$ 1,782,256	\$ -
Capital Assets, Being Depreciated:			
Buildings and improvements	18,414,526	18,303,526	111,000
Machinery and equipment	13,897,316	13,664,684	232,632
Infrastructure and related improvements	<u>13,245,076</u>	<u>13,113,720</u>	<u>131,356</u>
Total Capital Assets	47,339,174	46,864,186	474,988
 Accumulated Depreciation	 <u>25,772,611</u>	 <u>24,116,308</u>	 <u>1,656,303</u>
Net Capital Asset Value	<u>\$ 21,566,563</u>	<u>\$ 22,747,878</u>	<u>\$ (1,181,315)</u>

During 2013, there were capital projects mostly at the police station and in City Hall for improvements and vehicle purchases.

The City of Chester  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*

**TABLE 4**

**CHANGES IN OUTSTANDING LONG-TERM DEBT**  
**December 31,**

<b>SERIES</b>	<b>2013</b>	<b>2012</b>	<b>\$ Inc/Dec</b>
2004 Series	\$ 9,455,000	\$ 9,460,000	\$ (5,000)
2007 Series	1,871,036	2,274,627	(403,591)
2010 Series A	4,046,000	4,675,000	(629,000)
2010 Series B	3,314,000	3,544,000	(230,000)
2011 Series A	2,260,000	2,995,000	(735,000)
 Total Debt	<u>\$ 20,946,036</u>	<u>\$ 22,948,627</u>	<u>\$ (2,002,591)</u>

The County of Delaware contributed funds as part of the overall financing to build a soccer stadium in the City of Chester. The City has agreed to contribute to the County annual payments as summarized in Note 12 through 2039 as the City's share of funds required for the project. Amounts charged to General Fund expenditures under this agreement totaled \$442,208 for the year ended December 30, 2013. The balance outstanding was \$11,396,415 as of December 31, 2013. The liability related to this agreement has been recorded in the City's governmental activities Statement of Net Position with current year payments serving to reduce the balance owed on the liability.

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for its funds. If you have questions regarding this report or would like additional information, contact the Department of Accounts and Finance, the City of Chester, City Hall, 1 Fourth Street, Chester, Pennsylvania, 19013.

Complete financial statements for the individual component units can be obtained from their administrative offices at Chester Economic Development Authority, Redevelopment Authority of the City of Chester and The Parking Authority of the City of Chester, 1 Fourth Street, Chester, Pennsylvania, 19013.



**CITY OF CHESTER**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,779,265	\$ 275,617	\$ 8,054,882
Receivables (net of allowance for uncollectibles)	14,844,828	2,093,698	16,938,526
Prepaid assets	29,154	14,065	43,219
Other assets	4,638	-	4,638
Restricted assets:			
Cash and cash equivalents	2,261,770	-	2,261,770
Capital assets not being depreciated:			
Land	2,860,233	-	2,860,233
Property held for resale	-	3,621,628	3,621,628
Capital assets, net of accumulated depreciation:			
Buildings and improvements	12,301,900	43,183	12,345,083
Machinery and equipment	3,353,758	-	3,353,758
Infrastructure	4,128,649	-	4,128,649
Total assets	<u>47,564,195</u>	<u>6,048,191</u>	<u>53,612,386</u>
			-
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	6,103,813	114,509	6,218,322
Due to other governments and entities	(151,274)	257,011	105,737
Unearned revenue	956,218	96,311	1,052,529
Escrow liability	919,682	119,986	1,039,668
Long-term liabilities:			
Due within one year:			
Compensated absences	125,253	-	125,253
Contribution agreement	441,477	-	441,477
Long term debt	3,388,045	218,780	3,606,825
Other postemployment benefits	372,500	-	372,500
Due in more than one year:			
Compensated absences	2,324,910	-	2,324,910
Contribution agreement	10,954,938	-	10,954,938
Long term debt	17,557,991	1,600,000	19,157,991
Other postemployment benefits	39,430,485	-	39,430,485
Total liabilities	<u>82,424,038</u>	<u>2,406,597</u>	<u>84,830,635</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	11,318,504	1,889,811	13,208,315
Restricted for:			
Special revenue	7,904,353	-	7,904,353
Unrestricted	(55,582,700)	1,751,783	(53,830,917)
Total net position (deficit)	<u>\$ (36,359,843)</u>	<u>\$ 3,641,594</u>	<u>\$ (32,718,249)</u>

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

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

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>						
General government	\$ 16,411,164	\$ 243,372	\$ 805,209	\$ (15,362,583)	\$ -	\$ (15,362,583)
Public safety	25,630,312	1,050,157	1,192,905	(23,387,250)	-	(23,387,250)
Highways and streets	3,408,183	2,995,701	653,926	241,444	-	241,444
Health and sanitation	597,166	-	-	(597,166)	-	(597,166)
Community development	2,418,158	-	1,993,757	(424,401)	-	(424,401)
Recreation	1,006,833	-	5,000	(1,001,833)	-	(1,001,833)
Grants and special programs	978,193	-	-	(978,193)	-	(978,193)
Other post employment benefit expense	8,022,089	-	-	(8,022,089)	-	(8,022,089)
Depreciation	1,650,199	-	-	(1,650,199)	-	(1,650,199)
Interest on long-term debt	1,646,820	-	-	(1,646,820)	-	(1,646,820)
Total government activities	<u>61,769,117</u>	<u>4,289,230</u>	<u>4,650,797</u>	<u>(52,829,090)</u>	<u>-</u>	<u>(52,829,090)</u>
<b>Business-type activities:</b>						
Redevelopment expenses	185,578	-	257,869	-	72,291	72,291
Interest on long-term debt	97,651	-	-	-	(97,651)	(97,651)
Total business-type activities	<u>283,229</u>	<u>-</u>	<u>257,869</u>	<u>-</u>	<u>(25,360)</u>	<u>(25,360)</u>
Total primary government	<u>\$ 62,052,346</u>	<u>\$ 4,289,230</u>	<u>\$ 4,908,666</u>	<u>(52,829,090)</u>	<u>(25,360)</u>	<u>(52,854,450)</u>
General revenues						
Property taxes				8,910,116	-	8,910,116
Local enabling taxes				11,175,920	-	11,175,920
Contributions and fees				1,315,907	-	1,315,907
Cable television				464,795	-	464,795
Host community fees				12,245,280	-	12,245,280
Waste facilities fees				5,217,420	-	5,217,420
Payments in lieu of taxes				1,092,674	-	1,092,674
Lease payments				662,187	-	662,187
Investment earnings				18,610	2,146	20,756
Miscellaneous refunds and reimbursements				1,929,974	7,056	1,937,030
Rent				87,400	-	87,400
Total general revenues				<u>43,120,283</u>	<u>9,202</u>	<u>43,129,485</u>
Change in net position				<u>(9,708,807)</u>	<u>(16,158)</u>	<u>(9,724,965)</u>
Net position (deficit) - beginning, as previously stated				(37,278,398)	-	(37,278,398)
Prior period adjustment (Note 18)				10,627,362	3,657,752	14,285,114
Net position (deficit) - beginning, restated				<u>(26,651,036)</u>	<u>3,657,752</u>	<u>(22,993,284)</u>
Net position (deficit) - ending				<u>\$ (36,359,843)</u>	<u>\$ 3,641,594</u>	<u>\$ (32,718,249)</u>

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

**CITY OF CHESTER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	General Fund	Chester Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,573,436	\$ 2,893,810	\$ 2,312,019	\$ 7,779,265
Property tax receivable (net of allowance for uncollectibles)	3,233,171	-	-	3,233,171
Trash assessments receivable (net of allowance for uncollectibles)	2,040,857	-	-	2,040,857
Other receivables (net of allowance for uncollectibles)	4,544,864	5,049,372	180,986	9,775,222
Due from other funds and governments	166,767	187,632	-	354,399
Prepaid expenditures and other assets	28,339	4,638	815	33,792
Restricted cash and cash equivalents	-	2,261,770	-	2,261,770
<b>TOTAL ASSETS</b>	<b>\$ 12,587,434</b>	<b>\$ 10,397,222</b>	<b>\$ 2,493,820</b>	<b>\$ 25,478,476</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued expenditures	\$ 5,141,405	\$ 448,637	\$ 514,860	\$ 6,104,902
Accrued payroll and related costs	179,603	-	-	179,603
Due to other governments and entities	-	48,626	4,522	53,148
Due to other funds	-	188,711	166,767	355,478
Escrow	459,669	-	460,013	919,682
Total liabilities	<u>5,780,677</u>	<u>685,974</u>	<u>1,146,162</u>	<u>7,612,813</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue	<u>4,945,627</u>	<u>608,984</u>	<u>-</u>	<u>5,554,611</u>
Fund balance (deficit):				
Nonspendable	28,339	4,638	-	32,977
Restricted	-	6,556,695	271,150	6,827,845
Committed	-	1,930,845	790,412	2,721,257
Assigned	-	507,417	288,779	796,196
Unassigned	1,832,791	102,669	(2,683)	1,932,777
Total fund balance (deficit)	<u>1,861,130</u>	<u>9,102,264</u>	<u>1,347,658</u>	<u>12,311,052</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 12,587,434</b>	<b>\$ 10,397,222</b>	<b>\$ 2,493,820</b>	<b>\$ 25,478,476</b>

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

**CITY OF CHESTER**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

<b>Total fund balances - governmental funds</b>		\$ 12,311,052
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the funds. These assets, net of accumulated depreciation, consist of:		
Land	\$ 2,860,233	
Buildings and Improvements	12,301,900	
Machinery and Equipment	3,353,758	
Infrastructure	<u>4,128,649</u>	
Total capital assets, net		22,644,540
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Unearned revenue - property taxes and rubbish fees		4,945,627
Long term debt		(22,446,036)
Accrued interest on long term debt		(165,463)
Compensated absences		(2,450,163)
Contribution Agreement		(11,396,415)
Other postemployment benefits		<u>(39,802,985)</u>
<b>Net deficit of governmental activities</b>		<u><u>\$ (36,359,843)</u></u>

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

**CITY OF CHESTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Chester Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes and assessments:				
Real estate	\$ 7,309,555	\$ -	\$ -	\$ 7,309,555
Rubbish fees	1,207,756	-	-	1,207,756
Local enabling act taxes	11,175,920	-	-	11,175,920
Licenses - permits	641,839	-	28,500	670,339
Cable television	464,795	-	-	464,795
Fines, forfeits	243,372	-	-	243,372
Rent	87,400	-	-	87,400
Investment earnings	36	17,690	442	18,168
Public utility realty tax	21,167	-	-	21,167
Grants, intergovernmental revenue	249,636	2,952,046	1,199,478	4,401,160
Departmental earnings	408,318	-	3,646	411,964
Commonwealth of Pennsylvania pension aid	1,512,895	-	-	1,512,895
Waste facilities fees	5,217,420	-	-	5,217,420
Payments in lieu of taxes	1,092,674	-	-	1,092,674
Casino host community fees	11,847,880	-	397,400	12,245,280
Reimbursements	1,862,938	36,332	12,337	1,911,607
Other revenue	346,137	673,217	484,942	1,504,296
Total revenues	<u>43,689,738</u>	<u>3,679,285</u>	<u>2,126,745</u>	<u>49,495,768</u>
<b>EXPENDITURES</b>				
Current:				
General government	12,830,781	2,203,129	296,476	15,330,386
Public safety	25,250,801	-	220,736	25,471,537
Highways and streets	2,791,227	-	616,956	3,408,183
Health and sanitation	597,166	-	-	597,166
Community development	-	2,132,504	285,654	2,418,158
Recreation	771,116	-	235,717	1,006,833
Grants and special programs	440,267	-	537,926	978,193
Debt service:				
Principal	442,208	5,000	2,002,591	2,449,799
Interest	-	662,187	984,633	1,646,820
Capital outlay:				
Highways and streets	-	-	137,164	137,164
Public safety and general government	16,650	-	321,174	337,824
Total expenditures	<u>43,140,216</u>	<u>5,002,820</u>	<u>5,639,027</u>	<u>53,782,063</u>
Excess of Revenues Over (Under) Expenditures	<u>549,522</u>	<u>(1,323,535)</u>	<u>(3,512,282)</u>	<u>(4,286,295)</u>
Other Financing Sources (Uses) of Funds				
Transfers in	1,259,683	-	4,036,299	5,295,982
Transfers out	(4,036,299)	-	(1,259,683)	(5,295,982)
Total Other Financing Sources (Uses) of Funds	<u>(2,776,616)</u>	<u>-</u>	<u>2,776,616</u>	<u>-</u>
Net Change in Fund Balance	<u>(2,227,094)</u>	<u>(1,323,535)</u>	<u>(735,666)</u>	<u>(4,286,295)</u>
Fund Balances - Beginning as Previously Reported	4,088,224	-	720,580	4,808,804
Prior Period Adjustments (Note 18)	-	10,425,799	1,362,744	11,788,543
Fund Balances - Beginning, as Restated	<u>4,088,224</u>	<u>10,425,799</u>	<u>2,083,324</u>	<u>16,597,347</u>
Fund Balances - Ending	<u>\$ 1,861,130</u>	<u>\$ 9,102,264</u>	<u>\$ 1,347,658</u>	<u>\$ 12,311,052</u>

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



**CITY OF CHESTER**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (4,286,295)</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.</p>	
<p>In the current period these amounts were:</p>	
Capital outlay	\$ 474,988
Depreciation expense	<u>(1,650,199)</u> (1,175,211)
Write-off bond issuance costs pursuant to change in accounting principle	(426,828)
Repayment of long term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities and receivables in the statement of position. In the current year, these amounts consisted of principal payments of:	2,007,591
Increase in compensated absences	(156,639)
Decrease in contribution agreement	442,208
Principal portion of lease receivable payments reported as revenue in government funds and a reduction of note receivable in the statement of net position	(5,000)
Increase in other post employment benefits	(8,022,089)
Some of the City's taxes and fees will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are not reported as an asset in the funds. The amount is reported as deferred inflow of resources in the balance sheet.	3,356,360
Other various differences	<u>(1,442,904)</u>
<b>Change in net deficit of governmental activities</b>	<b><u>\$ (9,708,807)</u></b>

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

**City of Chester**  
**Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund**  
**Redevelopment Authority of the City of Chester**  
**For the Year Ended December 31, 2013**

Operating Revenues	
Grant revenues	\$ 209,768
Support from other governments	48,101
Other revenue and reimbursements	7,056
Total operating revenues	264,925
Operating Expenses	
Professional services	19,872
Contractual services	5,796
Administrative expenses	55,852
Waterfront development expenses	100,000
Depreciation	4,058
Total operating expenses	185,578
Operating income	79,347
Nonoperating Revenues and Expenses	
Gain on sale of property	1,760
Interest income	386
Interest expense	(97,651)
Total nonoperating revenues and expenses	(95,505)
Change in net position	(16,158)
Net position - beginning of year	3,657,752
Net position - end of year	\$ 3,641,594

The notes to the financial statements are and integral part of this statement.

**City of Chester**  
**Statement of Cash Flows - Proprietary Fund**  
**Redevelopment Authority of the City of Chester**  
**For the Year Ended December 31, 2013**

Cash Flows from Operating Activities:	
Cash received from grant activity	\$ 169,565
Cash received from other income	7,056
Cash paid for administrative activities and operations	<u>(199,358)</u>
Net cash utilized by operating activities	<u>(22,737)</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of property for resale	(687)
Proceeds of sale	1,761
CDBG funds received for mortgage payment	175,000
Principal paid on mortgage and capital debt	(175,000)
Interest paid on capital debt	<u>(103,973)</u>
Net cash utilized by capital and related activities	<u>(102,899)</u>
Cash Flows from Investing Activities:	
Cash received from security deposit	500
Cash used for escrow payments made	(11,335)
Interest income	<u>386</u>
Net cash utilized by investing activities	<u>(10,449)</u>
Net decrease in cash and cash equivalents	(136,085)
Cash and cash equivalents - beginning of year	<u>411,702</u>
Cash and cash equivalents - end of year	<u><u>\$ 275,617</u></u>
Reconciliation of Operating Income to Net Cash Provided (Utilized) by	
Operating income	\$ 79,347
Adjustments to reconcile operating income to net cash utilized by operating	
Depreciation	4,058
Decrease in accounts receivable	21,463
Increase in prepaid expenses	(3,123)
Increase in due from other governments	(5,810)
Decrease in accounts payable an accrued expenses	(55,171)
Increase in due to other governments	40,471
Decrease in advanced grant revenue	<u>(103,972)</u>
Net cash utilized by cooperating activities	<u><u>\$ (22,737)</u></u>

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

**CITY OF CHESTER**  
**STATEMENT OF FIDUCIARY NET POSITION - PENSION TRUST AND AGENCY FUND**  
**DECEMBER 31, 2013**

	Pension Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,563,941	\$ 106,986
Accounts receivable, net	2,228,276	-
Investments, at fair value:		
Mutual funds	51,659,794	-
Total Assets	56,452,011	106,986
<b>LIABILITIES</b>		
Benefits payable	4,939,038	-
Held in trust for the school district	-	106,986
Total Liabilities	4,939,038	106,986
<b>NET POSITION</b>		
Total Net Position	\$ 51,512,973	\$ -

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

**CITY OF CHESTER**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - PENSION**  
**TRUST FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Pension Trust Funds 2013
Additions	
Contributions:	
Employee	\$ 681,862
City	2,187,965
State	1,491,594
Other revenue	6,975
Investment appreciation	7,383,340
Total additions	11,751,736
 Deductions:	
Benefit payments	6,724,963
Administrative expenses and refunds	179,745
Total deductions	6,904,708
 Change in net position	4,847,028
 Net position - beginning, as previously stated	46,706,224
Prior period adjustment	(40,279)
Net position - beginning, restated	46,665,945
Net position - ending	\$ 51,512,973

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



THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chester (the “City”) was incorporated on February 14, 1866. In 1980, a Home Rule Charter was approved by the citizens of the City. The legislative body of the City is City Council, which is comprised of five members, one of whom is elected under the title of Mayor. The City provides the following services as authorized by its charter: public safety (police and fire), health and sanitation, highways and streets, and recreation.

In prior years, as a result of expenditures in excess of revenue, the City issued long-term debt to fund current operations. In April 1995, the City was designated as a “Distressed Municipality” under the Municipalities Financial Recovery Act (Note 11). The City’s continuation as a going concern is dependent upon its ability to implement its recovery plan. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts, or amounts of liabilities that might be necessary, should the City be unable to meet its obligations as they come due.

The City's financial statements include the accounts of all City operations and its blended component units. The accounting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applicable to municipalities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the authoritative standard-setting body for establishing governmental accounting and financial reporting principles. In the government wide financial statements, the City has applied Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City has elected not to apply those FASB or APB opinions impacting those statements issued after November 30, 1989. The following is a summary of the more significant new applicable effective and upcoming GASB pronouncements:

GASB Statement No. 61, “The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34,” was effective for the year ended December 31, 2013. The objective of this Statement is to improve financial reporting of component units for a government reporting entity. The City has adopted this standard which requires that three of the City’s six potential component units, Chester Economic Development Authority, the Redevelopment Authority of the City of Chester, and The Parking Authority of the City of Chester, be blended with the City’s financial statements.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position," is also effective for the year ended December 31, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period; so will not be recognized as an outflow of resources (expenditure) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. City management has determined that the Statement affects the City's financial statements in the following ways: the previously-used term "Net Assets" has been changed to "Net Position" on the Statement of Net Position. Certain previously-reported "Unearned Revenue" is now classified as "Deferred Inflow of Resources".

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53," is also effective for the year ended December 31, 2013. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establishes when the effective hedging relationship continues and hedge accounting should continue to be applied. The City's management has determined that adoption of this Statement does not impact the City's financial statements.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," issued March 2012, is effective also for the year ended December 31, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City's management evaluated how the adoption of this statement impacts the City's financial statements and determined that December 31, 2012 bond issuance cost in the amount of \$172,410 was to be charged against net position.

GASB Statement No. 66, "Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62," issued March 2012, is also effective for the year ended December 31, 2013. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," and No. 62, "Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The City's management has adopted this statement with no effect on its financial statements.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

GASB Statement No. 67, "Financial Reporting for Pension Plans -- an amendment of GASB Statement No. 25," issued June 2012, will be effective for the year ending December 31, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. Since the City does not issue separate pension plan financial statements, this statement does not apply.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions -- an amendment of GASB No. 27," issued June 2012, will be effective for the year ending December 31, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pension plans. It also improves information provided by state and local governmental employers about financial support for pension plans that is provided by other entities. The City's management is in the process of evaluating, but has not yet determined how the adoption of this statement will impact the City's financial statements.

Basis of Presentation

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Three of the City's component units have been reported as part of the primary government. These statements display information about the government of the City as a whole. The effect of interfund activity among the governmental funds has been removed from these statements.

These statements typically distinguish between governmental and business type activities. The City, however, does not have any business type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues.

The Statement of Activities demonstrates the degree to which the expenses of a given function or segment are offset by program revenues. Expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from services or privileges provided by a given function or segment and 2) grants that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items are reported as general revenues.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

**Fund Financial Statements**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflow of resources, liabilities, deferred inflow of resources, fund balance, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those accounted for in another fund.
- Chester Economic Development Authority (blended component unit)
- The Redevelopment Authority of the City of Chester (blended component unit)

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units. These funds include the accounts of the Police Pension Fund, Paid Firemen's Pension Fund, Officers and Employees Retirement System, and an agency fund for real estate taxes held on behalf of the Chester-Upland School District.

Reporting Entity

As required by accounting principles generally accepted in the United States, these financial statements present the City and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The following is a brief review of each potential component unit addressed in defining the government's reporting entity:

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Chester Water Authority ("CWA") and Chester-Upland School District ("CUSD")

Based on the above criteria, CWA and CUSD were excluded from the reporting entity. CUSD has a separately elected governing board. Part of the CWA's governing board is appointed by City Council. CUSD and CWA provide services to residents within, as well as, outside the geographical boundaries of the City. These potential component units are excluded from the reporting entity because the City does not have an ability to exercise influence over their daily operations, approve spending plans or provide funding.

Chester Housing Authority ("CHA")

CHA is administered by a court appointed management company. Due to the City's lack of governing and oversight responsibilities, CHA is excluded from the reporting entity.

Chester Economic Development Authority ("CEDA")

The CEDA governing board is appointed by City Council. The City approves the CEDA annual plan and signs its contracts and grant performance reports as the contracting authority.

In accordance with GASB Statement No. 61, CEDA meets the criteria for its financial statements to be blended with the City's primary government financial statements. The key criteria for blending are (1) CEDA's debt will be funded primarily with funds from the City and (2) CEDA provides services entirely to and benefits the City. CEDA has a June 30 year-end and the financial information presented is for the fiscal year ended June 30, 2013. Complete financial statements for this component unit may be obtained at CEDA's administrative offices: Chester Economic Development Authority, 1 Fourth Street, Chester, PA 19013.

The Redevelopment Authority of the City of Chester ("CRA")

The Redevelopment Authority of the City of Chester, incorporated in 2000, is organized to function within the territorial limits of the City of Chester under Urban Redevelopment Law. CRA's governing board is appointed by City Council. Any redevelopment proposal must be approved in advance by the City. The sale of land within a redevelopment area must also be approved by the City. CRA's financial statements have been blended with the City's financial statements to emphasize that although it is legally separate from the City, CRA provides services almost entirely to and benefits the City. CRA has a December 31 year-end. The financial information presented is for the year ended December 31, 2013. Complete financial statements for this component unit may be obtained from the Redevelopment Authority of the City of Chester, 1 Fourth Street, Chester, PA 19013.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

The Parking Authority of the City of Chester (“CPA”)

The CPA administers and manages parking lots and parking facilities of the City. CPA’s governing board is appointed by City Council. CPA has been blended with the City’s financial statements to emphasize that although it is legally separate from the City CPA provides services entirely to and benefits the City. CPA has a June 1 year-end. The financial information presented is for the year ended June 1, 2013. Complete financial statements for this component unit may be obtained from the Chester Parking Authority, 1 Fourth Street, Chester, PA 19013.

Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied is determined by the applicable measurement focus and basis of accounting. Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. On the government-wide Statement of Net Position and Statement of Activities, transactions are presented using the economic resources measurement focus. The objective of the economic resources measurement focus is the determination of net position and changes in net position using the full accrual basis of accounting. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources whether current or non-current, are reported.

Governmental funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Operating statements of such funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets. These funds use “fund balance” as their measure of financial resources at the end of the period.

Proprietary funds are accounted for using the *accrual basis of accounting*. These funds account for operations that are financed primarily by user charges. The *economic resource focus* concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days of the year-end. Expenditures, including capital outlays are recorded when the related fund liability is incurred, except for long term debt and liabilities, principal and interest which are reported when due. Penalties and interest are recorded when received in cash because they are generally not measurable until actually

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

received. Interest is accrued when its receipt occurs soon enough after the end of the accounting period so as to be both measurable and available.

The Pension Trust and Agency Funds maintained by the City utilize the accrual basis of accounting in which revenues are recognized when they are earned and expenses are recognized when they are incurred, and the economic resources measurement focus, except for the Agency Fund, which does not measure operations and does not have a measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activities are included on their balance sheets. Operating statements of these funds present additions (revenues) and deductions (expenses) in net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Capital Assets

Capital assets are reported in the governmental activities statement of net position. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the threshold established. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, if any, are reported at estimated fair value at the date of donation.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	20 – 40 years
Machinery and equipment	3 – 20 years
Infrastructure and related improvements	7 – 25 years

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Capital Assets, Continued

CRA reports property acquired for resale at the acquisition cost. Consequently, there is no depreciation associated with these capital assets.

Long-term Liabilities

All long-term liabilities to be repaid from governmental resources are reported on the government-wide statements. Long-term liabilities consists of notes payable, contribution agreement, accrued compensated absences and other post employment benefit liabilities.

Compensated Absences

Employees accumulate sick and vacation time in accordance with applicable union contracts or City policies. Non-uniformed employees are not compensated for unused vacation or sick leave upon termination. Upon termination for any reason, uniformed employees are entitled to 100% of their accumulated sick time as specified in the collective bargaining agreements. Unused vacation days are not paid upon termination and must be used prior to year end. Compensated absences balances are accrued when incurred and reported as a liability in the government-wide financial statements.

Net Position and Fund Balance Classifications

*Government-wide Statements*

Net position is classified in three components:

- a. Net investment in capital assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position - consists of net position with constraints placed on its use either by outside parties such as grantors, or laws and regulations of other governments.
- c. Unrestricted net position - includes all other components of net position that do not meet the definition of "restricted" or "net investment in capital assets."

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.



THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Net Position and Fund Balance Classifications, (Continued)

*Fund Statements*

In the fund financial statements, the governmental fund balance is presented in five possible categories:

*Nonspendable* - resources which cannot be spent because they are either a) not in spendable form; or b) legally or contractually required to be maintained intact. The City's nonspendable amounts consist of prepaid expenditures.

*Restricted* - resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Restrictions on the City's fund balance primarily relate to specific purposes accounted for in the Special Revenue Funds.

*Committed* - resources which are subject to limitations the government imposes upon itself at its highest level of decision making, and that remain binding unless removed in the same manner. The stabilization arrangement described on page 33 and amounts held for debt service meet the definition of committed fund balances.

*Assigned* - resources neither restricted nor committed for which a government has a stated intended use as established by the governing body or an official to which the governing body has delegated the authority to assign amounts for specific purposes. The City's assigned fund balance consists of amounts designated for future capital-related purposes, which are from City general revenue sources, but reported in the capital improvements fund.

*Unassigned* - resources which cannot be properly classified in one of the other four categories. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Net Position and Fund Balance Classifications, (Continued)

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

Receivables

In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received. The allowance for uncollectible amounts in both government-wide and fund statements, particularly with regard to real estate taxes and trash collections, are based upon historical trends. Amounts collectible but not available, such as real estate taxes and trash fees, are not recognized in the fund financial statements in accordance with the modified accrual basis of accounting; they are recognized as deferred inflows of resources - unearned revenue. Based on management's analysis of historical collection trends, the allowance for uncollectible real estate taxes and trash fees were reduced by approximately \$3 million as of December 31, 2013.

Prepays

Certain payments to vendors, which reflect costs applicable to future accounting periods, are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased. In the government fund balance sheet, the prepaid expenditure amount is recorded as an asset and nonspendable fund balance.

Program Revenues

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

Property Taxes

Property taxes, which attach as an enforceable lien on real property, are levied as of March 1 and payable by June 30. The billing is considered past due 30 days after the due date, at which time the applicable receivable is subject to lien and penalties and interest, which are assessed by the City Treasurer.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Deferred Inflow of Resources

Deferred inflow of resources represents revenues that apply to a future period and so will not be recognized as revenue until that time. Financial resources should be recognized in the accounting period in which they become both measurable and available. The City reports items, which arise under the modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, deferred inflow of resources is reported only in the governmental funds balance sheet. The governmental funds statement of revenues, expenditures and changes in fund balances reports unavailable revenues from property taxes, trash fees and other sources as deferred inflows of resources. These amounts are deferred and recognized as revenue in the period that the amounts become available.

Interfund Receivables and Payables

Interfund receivables and payables arise from interfund transactions. Principally, these amounts result from operating subsidies or loans. Interfund receivables and payables are eliminated within the government-wide financial statements but are shown on the governmental funds statements.

Interfund Transfers

The City reports interfund transfers among funds. Transfers are used to (1) move revenues from the fund that a statute or the budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the fund disbursing the receipts as debt service payments become due, and (3) use unrestricted revenues collected to finance various programs accounted for in other funds pursuant to authorizations.

Stabilization Arrangement

On April 25, 2007, the City Council adopted a resolution to establish and maintain a revenue stabilization reserve account ("rainy day fund").

Expenditure of amounts in the revenue stabilization reserve may occur only when specific circumstances exist such as unanticipated and non-recurring expenditures, unexpected revenue shortfalls or budget deficits, or to cover short-term cash flow deficiencies. These circumstances are not expected to occur routinely.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

To allow for the withdrawal of the resources, there must be an approved resolution by City Council. If there is a General Fund surplus and the reserve account falls below 5% of the General Fund revenues, as a result of either approved expenditures or due to an increase in annual revenue, City Council will seek to restore this level as soon as possible in the following fiscal year.

During the year 2013, no additional money was set aside and \$1,249,685 was released from the reserve account. The reserve account's balance at December 31, 2013 was \$115,742.

Note 2 BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States for the General Fund and certain Special Revenue Funds. Capital Projects Funds adopt project-length budgets. All annual appropriations lapse at fiscal year-end. The City's legal level of budgetary control is at the fund level.

The Director of Accounts and Finance submits a preliminary budget to City Council for its review at least 45 days prior to the end of the fiscal year. On or before 30 days prior to the end of the fiscal year, Council completes its review and adopts a preliminary budget. No later than 10 days following the adoption of the preliminary budget, the City publishes a notice of date, time and place at which Council shall hold a public meeting on the proposed budget prior to its final adoption. Following advertising and a public meeting, Council adopts a final budget.

For the year ended December 31, 2013, the General Fund's expenditures exceeded appropriations by \$2,657,211. The budgetary schedule for the General Fund is located in required supplementary information.

Note 3 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk for Deposits is the risk that in the event of a bank failure, the government's deposits may not be returned or the government will not be able to recover collateral securities in the possession of an outside party. The City does not have a policy for custodial credit risk.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 3 DEPOSITS AND INVESTMENTS, (Continued)

Deposits, (Continued)

The City primarily maintains deposits with financial institutions which are partially insured by the Federal Deposit Insurance Corporation (FDIC). Pennsylvania Act No. 72, *Standardizing the Procedures for Pledges of Assets* requires that pooled assets are to be pledged to secure public deposits to collateralize the excess deposits not insured by the FDIC. The City does not have formal agreements with all banking institutions regarding deposits held in excess of FDIC coverage; one bank has pledged collateral over the City's funds.

As of December 31, 2013, the aggregate bank balance of deposits included in cash and cash equivalents was \$8,054,882 of which \$1,001,032 was insured by the FDIC. Assets have been pledged to cover \$1,268,437 held by one institution.

As of December 31, 2013, the City's fiduciary funds (i.e. pension and agency funds) total bank balance was \$2,670,927 of which \$250,000 was insured by the FDIC, and the remainder was uninsured.

Investments

As of December 31, 2013, the City's Pension Trust Funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Avg Maturity (Years)</u>
Foreign Currency Funds	\$ 9,387,611	N/A
US Government Bond Funds	12,635,468	7
Equity Funds	28,005,349	N/A
Real Estate Funds	1,631,366	N/A
Total fair value	<u>\$ 51,659,794</u>	

Foreign currency risk is the risk that the fair value of such securities will be adversely affected by changes in exchange rates. The City's pension plans held no investments that were exposed to foreign currency risk.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 3 DEPOSITS AND INVESTMENTS, (Continued)

Investments, (Continued)

Component Units

The aggregate bank balance of deposits included in cash and cash equivalents for the Chester Economic Development Authority, a blended component unit, was \$2,900,564 as of June 30, 2013, of which \$250,000 was insured by FDIC. Restricted cash and cash equivalents in the amount of \$2,261,770 were held in a Sinking Fund pursuant to a bond covenant of which \$250,000 was insured by the FDIC. The balances of total deposits were additionally fully collateralized with securities pledged and held by the financial institutions in accordance with Pennsylvania statutes.

The bank balance for The Redevelopment Authority of the City of Chester, a blended component unit, was \$288,105 of which \$250,000 was insured by FDIC. The balances of total deposits were additionally fully collateralized with securities pledged and held by the financial institutions in accordance with Pennsylvania statutes.

The bank balance for the Chester Parking Authority, a blended component unit, was \$2,230 at June 1, 2013, of which all was insured by FDIC.

Note 4 RECEIVABLES

Property Taxes

Property taxes are levied on March 1 and payable by June 30. A 2% discount is available for payments made by April 30<sup>th</sup> of each year.

Subsequent to June 30 of each year, a 10% penalty is assessed. Taxes are billed and collected by the City Treasurer. Property taxes in arrears attach as an enforceable lien on the property as of February 28 of the subsequent year. The City levied taxes at the rate of \$29.792 per \$1,000 of assessed valuation.

An allowance for uncollectible accounts has been established on the balance of taxes owed as of December 31, 2013. In addition, a deferral of \$2,988,813 has been established, shown on the General Fund financial statements as unearned revenue, representing that portion of net delinquent taxes not expected to be available and measurable as revenue in the current period. The government-wide financial statements do not show such a deferral, consistent with the accrual basis of accounting.

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 4 RECEIVABLES, (Continued)

Property Taxes, (Continued)

Gross property taxes receivable	\$ 3,907,609
Less: allowance for uncollectible taxes	<u>(674,438)</u>
Net total property taxes receivable	<u>\$ 3,233,171</u>

Schedule of Real Estate Taxes - 2013 Duplicate  
 For the year ended December 31, 2013

	<u>Assessed Valuation</u>	<u>Total Tax Levy</u>
Tax rate in mills		<u>\$ 29.792</u>
Net tax duplicate	<u>\$ 256,705,270</u>	7,647,763
Deduct: taxes collected (net of and including adjustments)		<u>(6,073,000)</u>
2013 taxes receivable		<u>\$ 1,574,763</u>

TAX RATES AND TAX LEVIES FOR THE  
 LAST TEN YEARS

Fiscal Year	Tax Rates*			Total
	General Operation	Debt Service		
2004	27.400	2.392		29.792
2005	27.400	2.392		29.792
2006	27.400	2.392		29.792
2007	27.400	2.392		29.792
2008	27.400	2.392		29.792
2009	27.400	2.392		29.792
2010	27.400	2.392		29.792

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 4 RECEIVABLES, (Continued)

Property Taxes, (Continued)

Following schedule details property taxes collections for 2012 and a ten year summary of property taxes showing the relationship between amount levied and amount actually collected.

Fiscal Year	Net Total Tax Levy	Current Taxes Collected	Current Taxes Collected
2004	8,320,357	6,277,397	75.45%
2005	8,308,503	6,254,179	75.27%
2006	7,920,967	6,267,533	79.13%
2007	7,887,274	6,552,978	83.08%
2008	7,844,101	6,522,135	83.15%
2009	7,799,215	6,426,365	82.40%
2010	7,750,361	6,422,303	82.86%
2011	7,765,079	6,221,450	80.12%
2012	7,694,586	6,283,197	81.66%
2013	7,647,763	6,073,000	79.41%

Trash Assessments Receivable

	2013
Gross trash assessments receivable	\$ 2,721,141
Less: allowance for uncollectible accounts	(680,285)
	<u>\$ 2,040,856</u>

Other Receivables

Commonwealth of Pennsylvania / gaming revenue	\$ 1,835,584
Chester Upland School District	694,761
Reimbursements	291,698
Payments in lieu of taxes	450,000
Grants	5,750
Cable TV fees	108,347
Other receivables	<u>122,865</u>
	5,239,625
Less: allowance for uncollectible accounts	(694,761)
	<u>\$ 4,544,864</u>



THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 5 INTERFUND RECEIVABLES/PAYABLES AND INTERFUND TRANSFERS

Interfund Receivables and Payables

Interfund receivables and payables arise from interfund transactions. Principally, these amounts result from operating subsidies or loans. Interfund receivables and payables are eliminated within the government-wide financial statements but are shown on the governmental fund statements. Individual fund interfund receivable and payable balances as of December 31, 2013, was as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 166,767	\$ -
Other Nonmajor Funds	-	166,767
	\$ 166,767	\$ 166,767

Interfund Transfers

The City reports interfund transfers among funds. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the funds making the debt service payments as they become due, and (3) use unrestricted revenues collected to finance various programs accounted for in other funds pursuant to authorizations. Interfund transfers for the year ended December 31, 2013 follow:

	Transfers In	Transfers Out
General Fund	\$ 1,259,683	\$ 4,036,299
Other Nonmajor Funds	4,036,299	1,259,683
	\$ 5,295,982	\$ 5,295,982

Note 6 LOANS RECEIVABLE

The Chester Economic Development Authority, a blended component unit, makes funds available to qualifying individuals and businesses under various programs. Loans receivable balances as of June 30, 2013 follow:

Housing loans	\$ 3,872,575
Regular rehabilitation	192,694
Emergency rehabilitation	6,511
Urban Homestead	74,331
Low income homeless	15,573
Commercial loans/small business	484,153
	4,645,837
Less: allowance for doubtful accounts	\$ (300,974)
	\$ 4,344,863

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 7 CHANGES IN CAPITAL ASSETS

City of Chester

A summary of changes in the City of Chester's capital assets follows:

	Balance at 1/1/2013	Additions	Deletions	Balance at 12/31/13
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,782,256	\$ -	\$ -	\$ 1,782,256
Total capital assets, not being depreciated	<u>1,782,256</u>	<u>-</u>	<u>-</u>	<u>1,782,256</u>
Capital assets, being depreciated:				
Buildings and improvements	18,303,526	111,000	-	18,414,526
Machinery and equipment	13,664,684	232,633	-	13,897,317
Infrastructure	13,113,720	131,355	-	13,245,075
Total assets, being depreciated	<u>45,081,930</u>	<u>474,988</u>	<u>-</u>	<u>45,556,918</u>
Less accumulated depreciation for:				
Buildings and improvements	5,489,326	623,300	-	6,112,626
Machinery and equipment	9,958,792	578,663	-	10,537,455
Infrastructure	8,668,190	448,236	-	9,116,426
Total accumulated depreciation	<u>24,116,308</u>	<u>1,650,199</u>	<u>-</u>	<u>25,766,507</u>
Total capital assets being depreciated, net	<u>20,965,622</u>	<u>(1,175,211)</u>		<u>19,790,411</u>
Net capital asset value	<u>\$ 22,747,878</u>	<u>\$ (1,175,211)</u>	<u>\$ -</u>	<u>\$ 21,572,667</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 595,230
Public safety	298,046
Highway and streets	546,933
Recreation	209,990
	<u>\$ 1,650,199</u>

Chester Economic Development Authority (CEDA)

A summary of changes in capital assets of CEDA, a blended component unit, follows:

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 7 CHANGES IN CAPITAL ASSETS, (Continued)

	2013			
	Restated Balance at 7/1/2012	Additions	Deletions	Balance at 6/30/2013
Land	\$ 1,077,977	\$ -	\$ -	\$ 1,077,977
Furniture and equipment	90,990	-	-	90,990
Total	1,168,967	-	-	1,168,967
Less accumulated depreciation for:				
Furniture and equipment	90,990	-	-	90,990
Total accumulated depreciation	90,990	-	-	90,990
Capital assets, net	\$ 1,077,977	\$ -	\$ -	\$ 1,077,977

The Redevelopment Authority of the City of Chester (CRA)

A summary of changes in capital assets of CRA, a blended component unit, follows:

	2013			
	Balance at 1/1/2013	Additions	Deletions	Balance at 12/31/2013
Land	\$ 3,620,941	\$ 687	\$ -	\$ 3,621,628
Equipment	34,582	-	-	34,582
Leasehold improvements	71,027	-	-	71,027
Total	3,726,550	687	-	3,727,237
Less accumulated depreciation:	58,367	4,059	-	62,426
Capital assets, net	\$ 3,668,183	\$ (3,372)	\$ -	\$ 3,664,811

Chester Parking Authority

A summary of changes in capital assets of the Chester Parking Authority, a blended component unit, follows:

	2013			
	Balance at 6/2/12	Additions	Deletions	Balance at 6/1/13
Land	\$ 243,952	\$ -	\$ -	\$ 243,952
Capital assets, net	\$ 243,952	\$ -	\$ -	\$ 243,952

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 8 LONG-TERM DEBT

The full faith, credit and taxing power of the City are irrevocably pledged for the prompt and full payment of all general obligation notes payable. The City's notes generally require approximately equal payments due annually. All long-term liabilities are expected to be repaid primarily from General Fund revenues.

The following is a summary of notes outstanding as of December 31, 2013:

Description	Date of Issue	Final Maturity Date	Interest Rate %	Original Amount	Notes Outstanding Balance		Principal Paid
					01/01/13	12/31/13	
A	2/2/2004	3/1/2019	Variable	\$ 9,500,000	\$ 9,460,000	\$ 9,455,000	\$ 5,000
B	9/12/2007	10/1/2017	5.25	4,000,000	2,274,627	1,871,036	403,591
C	11/29/2010	6/25/2019	1.935	5,895,000	4,675,000	4,046,000	629,000
C	11/29/2010	6/25/2025	2.605	3,985,000	3,544,000	3,314,000	230,000
C	9/25/2011	9/25/2016	1.216	3,720,000	2,995,000	2,260,000	735,000
				<u>\$ 27,100,000</u>	<u>\$ 22,948,627</u>	<u>\$ 20,946,036</u>	<u>\$ 2,002,591</u>

A – Chester Economic Development Authority

B – Revenue Note - Wells Fargo

C - General Obligation Note – Delaware Valley Regional Finance Authority

Debt service requirements as of December 31, 2013 follow:

	Principal	Interest	Total
2014	\$ 3,388,045	\$ 861,859	\$ 4,249,904
2015	3,510,991	739,404	4,250,395
2016	3,665,138	584,374	4,249,512
2017	3,050,862	422,556	3,473,418
2018	2,693,000	268,915	2,961,915
2019-2023	4,009,000	249,601	4,258,601
2024-2025	629,000	16,477	645,477
	<u>\$ 20,946,036</u>	<u>\$ 3,143,186</u>	<u>\$ 24,089,222</u>

In 2004, the Chester Economic Development Authority (CEDA) issued bonds totaling \$9,500,000. The City has pledged its full faith, credit and taxing power for payment of the principal and interest on the 2004 bonds. Residual funds from tipping fees received from the trash to steam plant in the City are pledged to satisfy the 2004 obligation.

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 8 LONG-TERM DEBT, (Continued)

City of Chester

The 2007 notes, carrying a rate of 5.25%, were issued for the purpose of various capital improvements. See Note 9 regarding pledged revenues.

In 2010, the City refunded its Series 2001 notes in the amount of \$8,210,000, with Series 2010 notes in the amounts of \$5,895,000 and \$3,985,000. The 2010 issuance was intended for 1) the refunding of the 2001 notes resulting in an economic benefit of a savings in interest and cash flow for the City; and 2) the payment of the initial fee required for the Chester Upland School District to become a sponsor of the Delaware County Community College (DCCC).

In 2011, the City refunded its Series 2006 notes in the amount of \$3,588,361 with Series 2011 notes in the amount of \$3,720,000. The 2011 issuance resulted in a reduction of payments of \$385,568.

For its 2010 and 2011 general obligation notes, the City is not in compliance with the covenant to submit timely annual financial statements to the Delaware Regional Finance Authority (“DelVal”). DelVal has not taken any action pursuant to this default.

The City has notes outstanding with Delaware Valley Regional Finance Authority (DelVal) as described above. DelVal has issued bonds to provide funds for these loans and has entered into interest rate swap agreements with Bank of America, N.A., Barclays Bank, PLC and Citibank, N.A. (the “counterparties”). The objective is to reduce the costs of participants in the DelVal Loan Program and to enhance the ability of participants to manage their interest rate risk. The interest rate swaps serve as hedges against swings in the cash flows that would be required to repay outstanding debt.

DelVal’s interest rate swap terms and fair value as of December 31, 2013 follow:

	Principal Outstanding	Swap Market Value (1)	
		Fixed Rate Loans (2)	DelVal Bonds (3)
2010 A-1 Note	\$ 1,962,000	\$ (36,230)	\$ 257,586
2010 A-2 Note	2,084,000	(35,706)	273,603
2010 B-1 Note	729,000	(20,812)	95,708
2010 B-2 Note	1,071,000	(43,932)	140,609
2010 B-3 Note	1,514,000	26,857	198,769
Total 2010 Notes	7,360,000	(109,823)	966,275
2011 Note	2,260,000	(18,553)	296,709
Total 2010 and 2011 Notes	<u>\$ 9,620,000</u>	<u>\$ (128,376)</u>	<u>\$ 1,262,984</u>

All notes mature in 2025 and have fixed interest rates.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 8 LONG-TERM DEBT, (Continued)

City of Chester, (Continued)

1. Market value is the estimated price that DelVal would receive (pay) if the agreements were terminated as of December 31, 2013.
2. DelVal enters into interest rate swap transactions to provide fixed interest rates to borrowers. The DelVal swap transactions related to the fixed rate loans are effective under both the consistent critical terms and the quantitative methods standards of GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments.
3. DelVal entered into interest rates swap transactions related to its debt issues to hedge its exposure to future changes in long-term interest rates.

In accordance with the notes payable to DelVal, the City is obligated to pay any termination payment (the "Termination Charge") associated with the termination of the portion of DelVal's Swap Agreement allocable to its 2011 and 2010 Participant Notes (collectively, the "DelVal Notes"). All or a portion of the DelVal Swap Agreement allocable to the DelVal Notes may be terminated with the mutual consent, as applicable, of the City, DelVal, and respective counterparties. A termination could also be triggered in the event of (i) a payment default by the City under the DelVal Notes, (ii) a payment default by DelVal, or the counterparties under the DelVal Swap Agreement, (iii) the occurrence of events that may precipitate a payment default by the City, DelVal, or the counterparties, or (iv) the downgrading of the long term, unsecured, senior debt ratings of the banks or DelVal.

The most likely causes for a termination are under control of the City: (i) the City elects to prepay a fixed rate portion of the DelVal Notes before the end of their scheduled terms or (ii) the City defaults on its payments due under the DelVal Notes.

In all instances of termination, except the termination of a swap used to provide a fixed rate for a loan, DelVal would seek to replace the terminated portion of the DelVal Swap Agreement with a new interest rate swap agreement on similar terms and conditions. The fair value of the terminated portion of the DelVal Swap Agreement and the fair value of the replacement swap agreement should largely offset one another.

The notional amount of the Swap Agreement that relates to or is allocable to the City's Note Agreement is equal to the principal amount outstanding on each Note. The maximum annual interest rate which the City may pay under the Note with respect to any Swap Agreement allocable to the City's Notes is 15% per annum.

Under the DelVal 2010 and 2011 note agreements, the City is required to submit its annual financial statements to DelVal within 180 days after each fiscal year. The City has not submitted its statements in a timely manner. DelVal has taken no action pursuant to this noncompliance with the financial covenants and has not indicated any intention to do so.

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 8 LONG-TERM DEBT, (Continued)

Redevelopment Authority Of The City Of Chester (CRA)

The City has entered into a management services agreement with CRA and CEDA for the receipt and management of funds relative to various improvements to the Barry Bridge Park Project in the City. This project consists of such items as construction of a road, parking lot, recreational pier, river walk, grading and curb work, lighting, landscaping, signage and a pedestrian bridge. The City was awarded a \$1,400,000 Brownsfield Economic Development Initiative (BEDI) grant, of which \$1,000,000 is to be used for interest payments on a Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee. The balance of \$400,000 was to be used for a debt service reserve for the project.

The City has designated CRA as its Designated Public Agency to serve as the borrower for the Section 108 Loan guarantee in the amount of \$3,000,000 for the Barry Bridge Park project, which funds have been received by CRA. In addition to the BEDI grant funds, the City will pay to CRA a dedicated portion of its Community Development Block Grant Funds to serve as debt service for the loan being guaranteed under the Section 108 program for this project:

Payments were interest only beginning in 2005 with the first principal payment made in 2007. The CRA financial statements reflect the total of \$1,775,000 from the HUD CDBG program as of December 31, 2013, and the corresponding Section 108 loan payable.

Interest and principal payments as of December 31, 2013 follow:

	Interest	Principal
2014	\$ 95,520	\$ 175,000
2015	86,892	175,000
2016	78,020	175,000
2017	68,937	175,000
2018	59,680	175,000
2019 through 2023	154,638	900,000
	\$ 543,687	\$ 1,775,000

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 8 LONG-TERM DEBT, (Continued)

Chester Economic Development Authority

CEDA issued revenue bonds on July 1, 2004 in the amount of \$9,500,000, for which the City has pledged its full faith, credit, and taxing power for payment of the principal and interest of those bonds. As part of the bond issue, CEDA transferred \$8,000,000 to the City to finance its operations. The City established an agreement with CEDA from which the payments will satisfy debt requirements as well as debt service reserve requirements pursuant to the debt covenant. The first debt service payment was made in 2005. Residual monies from the City's tipping fees revenue from the trash to steam plant located in the City are committed as collateral for the loan. A debt service fund has been established and held by the bond indenture trustee, and the current balance in that account is shown as restricted on CEDA's financial statements. Additional funds over and above the annual debt service requirements were required to be remitted by the City until the reserve equaled \$1,930,825, which it reached in 2011. Such reserve is to be the lesser of 10% of the initial principal, net of original issue discount, or the maximum annual debt service or 125% of the average annual debt service.

Payments are reflected as revenue in CEDA's financial statements and as expenditures in the City's government fund financial statements.

Debt service payments for the next five years and thereafter are as follows:

YEAR ENDING	INTEREST RATE	INTEREST	PRINCIPAL	TOTAL
June 30,				
2014	7.00%	\$ 661,850	\$ 1,315,000	\$ 1,976,850
2015	7.00%	569,800	1,410,000	1,979,800
2016	7.00%	471,100	1,510,000	1,981,100
2017	7.00%	365,400	1,620,000	1,985,400
2018	7.00%	252,000	1,735,000	1,987,000
2019	7.00%	130,550	1,865,000	1,995,550
		<u>\$ 2,450,700</u>	<u>\$ 9,455,000</u>	<u>\$ 11,905,700</u>

Final debt payment is expected to be on March 1, 2019.

Changes in CEDA's long-term debt during fiscal year ended June 30, 2013 was as follows:

Balance 7/1/2013	Additions	Deletions	Balance 6/30/2013
\$ 9,460,000	\$ -	\$ 5,000	\$ 9,455,000



THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 9 PLEDGED REVENUES

*CEDA Guaranteed Revenue Bonds – 2004 Series*

The City has pledged future revenues to be received pursuant to an agreement approving the location of a solid waste disposal facility within the City (Host Revenues) to make payments received (“tipping fees”) used to repay Chester Economic Development Authority’s Guaranteed Revenue Bonds – 2004 Series originally issued in the amount \$9,500,000. The bonds were issued to finance the City’s operations. Payments are payable from the pledged revenues and City’s general revenues, if the pledged revenues are insufficient, through 2019. Annual payments are expected to require approximately 37% of pledged revenues. For the current year, payments and current pledged revenues were \$667,019 and \$5,217,420, respectively.

*2007 Guaranteed Host Community Revenue Note*

The City has pledged future Host Community Revenues (See Note 14) from the Commonwealth of Pennsylvania to repay its 2007 Guaranteed Host Community Revenue Note originally issued in the amount \$4,000,000. Host Community Revenues are defined as 2% of Harrah’s Chester Casino and Race Track (Harrah’s) gross terminal revenue or \$10,000,000 annually, whichever is greater; received pursuant to the Pennsylvania *Race Horse Development and Gaming Act* (the “Gaming Act”). Proceeds from this revenue note were used to finance various capital improvement projects. The note is payable through 2017 from the pledged revenues and general revenues, if the pledged revenues are insufficient. Annual debt service payments are expected to require approximately 5% of pledged revenues. Total debt service remaining to be paid on this revenue note is \$1,871,036. For the current year, debt service payments and current pledged revenues were \$516,706 and \$5,624,653, respectively.

*General Obligation Notes – 2010 Series*

The City has pledged the following future revenues, not otherwise required for payment of previously issued debt or obligations under the Contribution Agreement (see below), to repay its general obligation notes – 2010 Series A and B originally issued in the amounts of \$5,895,000 and \$3,985,000, respectively:

- a) Host Revenues, as defined above,
- b) Host Community Revenues, as defined above, and
- c) Revenues representing 2% of Harrah’s gross table game revenue received from the Commonwealth of Pennsylvania pursuant to the Pennsylvania *Race Horse Development and Gaming Act* (Harrah’s Table Game Revenues – see Note 14).

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 9 PLEDGED REVENUES, (Continued)

Proceeds from these notes were used to refund the City's Series 2001 notes and pay the initial fee required for the Chester Upland School District to become a sponsor of the Delaware County Community College.

The notes are payable through 2019 and 2025, respectively, from the pledged revenues and general revenues, if the pledged revenues are insufficient. Annual debt service payments are expected to require approximately 8% of pledged revenues. Total debt service remaining to be paid on these notes is \$8,227,682. For the current year, debt service payments and current pledged revenues were \$1,034,215 and \$12,245,279 respectively.

*Delaware County Community College*

The Gaming Act provides that 50% of the local share assessment (2% of table game revenue) shall be used by the City for the purpose of ensuring the best possible educational opportunity for pupils of the school district. The City has pledged its local share assessment toward a Sponsorship Agreement with Delaware County Community College ("DCCC"). The City agrees to remit to the Chester Upland School District (the "District") a proportional share of a portion of DCCC's annual budget to the extent such funds are actually received by the City. The City paid DCCC \$601,285 during 2013.

*General Obligation Note – 2011 Series*

The City has pledged Host Revenues, Host Community Revenues and Harrah's Table Game Revenues, as defined above, not otherwise required for payment of previously issued debt or obligations under the Contribution Agreement, to repay its general obligation note - 2011 Series originally issued in the amount of \$3,720,000. Proceeds from this note were used to refund the City's Series 2006 note. The 2011 note is payable through 2016 from the pledged revenues and general revenues, if the pledged revenues are insufficient. Annual debt service payments are expected to require approximately 6% of pledged revenues. Total debt service remaining to be paid on this note is \$2,309,874. For 2013, debt service payments and current pledged revenues were \$769,185 and \$12,245,279, respectively.

*Contribution Agreement*

The City has pledged 50% of Host Community Table Revenues, as defined above, to secure payments required under the Contribution Agreement dated February 15, 2009 with the County of Delaware (see Note 12) as part of the overall financing used to build a soccer stadium in the City. Payments are payable from the pledged revenues and general revenues, if the pledged revenues are insufficient, through 2039. Annual payments are expected to require approximately 36% of pledged revenues. Total payments remaining to be paid are \$11,396,415. For the current year, payments and current pledged revenues were \$442,208 and \$772,856, respectively.

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 10 LONG-TERM LIABILITIES

On the Statement of Net Position changes in long term liabilities were as follows:

	2013			
	1/1/2013	Additions	Deductions	1/1/2013
Contribution agreement	\$ 11,838,623	\$ -	\$ 442,208	\$ 11,396,415
Compensated absences	2,245,923	158,775	-	2,404,698
Long term debt	22,948,627	-	2,002,591	20,946,036
Other post employment benefits	31,780,896	8,022,089	-	39,802,985
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 68,814,069</b>	<b>\$ 8,180,864</b>	<b>\$ 2,444,799</b>	<b>\$ 74,550,134</b>

Note 11 DISTRESSED MUNICIPALITY

In April 1995, the Secretary of the Pennsylvania Department of Community and Economic Development (DCED), designated the City of Chester as a “Distressed Municipality” under the Municipalities Financial Recovery Act (Act 47). The Secretary appointed a recovery coordinator who, in turn, appointed a recovery team to formulate a recovery plan for the City. In February 1996, a recovery plan was issued for approval by City Council. On April 8, 1996, City Council approved the recovery plan. In May 2013, the City issued an Amended Recovery Plan. The recovery plan calls for the “introduction of strong central administration of the City, professional management of day-to-day operations, strict and consistent budgetary purchasing and other basic financial management controls and drastic reduction of operating expenditures.” In addition, the Plan contains revenue enhancement recommendations. The City continues to follow the various aspects of its recovery plan.

Note 12 CONTRIBUTION AGREEMENT

The County of Delaware contributed funds as part of the overall financing to build a soccer stadium in the City of Chester. The City has agreed to contribute to the County annual payments, as summarized below through 2039 as the City’s share of funds required for the project. Amounts charged to general fund expenditures under this agreement totaled \$442,208 for the year ended December 31, 2013.

The liability related to this agreement has been recorded in the City’s governmental activities statement of net assets with current year payments serving to reduce the balance owed on the liability.

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 12 CONTRIBUTION AGREEMENT, (Continued)

Future payments are as follows:

<u>Year Ending December 31,</u>	
2014	\$ 441,477
2015	441,864
2016	442,101
2017	440,958
2018	440,933
2019-2023	2,200,889
2024-2028	2,194,261
2029-2033	2,186,380
2034-2038	2,174,226
2039	433,326
	<u>\$ 11,396,415</u>

Note 13 PENSION PLANS

Plan Description

The City of Chester administers three single-employer defined benefit pension plans: Police Pension Fund, Paid Firemen’s Pension Fund and Officers & Employees Retirement System. These plans cover substantially all full-time employees. All plans provide retirement and disability benefits to plan members and a death benefit for surviving spouses, provided the surviving spouse is not remarried, or to dependent children under the age of eighteen. Plan provisions are established by City ordinance with the authority for City contributions required by Act 205 of the Commonwealth of Pennsylvania (the “Act”). Collective Bargaining Agreements (CBA) have the authority to adopt these ordinances. Arbitration awards are entered into if these CBA or ordinances need clarification. The City is in the process of consolidating ordinances, CBA, and arbitration awards. Police and Paid Firemen contribute 5% of their salaries plus \$1.50 per month for Police and \$1 per month for Firemen. Officers and Employees, hired before January 1, 1988 pay a percentage ranging from 1% to 5% of their compensation depending upon the date of hire and coverage status and 1% of compensation if hired after December 31, 1987.

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 13 PENSION PLANS, (Continued)

As of January 1, 2013, the date of the most recent actuarial valuation, participants in the plans were as follows:

	<u>Police Pension Fund</u>	<u>Paid Firemen's Pension Fund</u>	<u>Officers &amp; Employees Retirement System</u>
Participants			
Active Employees	91	42	118
Retirees, disabled and beneficiaries currently receiving benefits	123	61	64
Terminated employees entitled to benefits but not yet receiving them	-	-	2
	<u>214</u>	<u>103</u>	<u>184</u>

Police

All full-time members of the police force join the Plan upon employment. Members are eligible for normal retirement after completion of 20 years of service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse, provided the surviving spouse is not remarried, or to dependent children under the age of 18 equal to 50% of the amount payable to the member at the time of the member's death. The amount of monthly pension is 50% of average monthly pay earned in the last 52 weeks, plus a service increment of 1/40<sup>th</sup> of such pension per year of service over 20 years but not occurring after age 65. The maximum service increment is \$150 per month. There are early retirement and disability provisions in eligible circumstances.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 13 PENSION PLANS, (Continued)

Firemen

All full-time paid firemen join the Plan upon employment. Members are eligible for normal retirement after completion of 20 years of service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse, provided the surviving spouse is not remarried, or to dependent children under the age of 18 equal to 100% of the amount payable to the member at the time of the member's death. The amount of monthly pension is 50% of average monthly compensation, plus a service increment of 1/40<sup>th</sup> of such pension per year of service after January 1, 1972 over 20 years but not occurring after age 65. The maximum service increment is \$100 per month. The average monthly compensation is based upon the member's monthly salary at the date of retirement or the highest average salary during any five consecutive years, if higher. For members hired after December 31, 1987, average monthly compensation is based upon the member's average salary during his/her final five years of employment. There are late retirement and disability retirement provisions in eligible circumstances.

There also exists the opportunity to elect to participate in a deferred retirement option plan ("DROP") for active members who have met the eligibility for normal retirement for police and firemen.

Officers and Employees

All non-uniformed employees are covered by the Plan with the exception of per diem laborers, who are covered at their option. Members hired before January 1, 1988 are eligible for normal retirement after attaining the age of 60 and 20 years of service. For those hired subsequent to that date, members are eligible after attaining age 65 and the completion of 25 years of service. Normal retirement pension is payable in semi-monthly installments for life with payments continuing upon death to the surviving spouse, provided the spouse is not remarried, in an amount equal to 50% of the benefit the member was receiving at the time of death. For those hired before January 1, 1988, monthly pension is equal to 50% of the average monthly compensation. If joint coverage has been elected, the pension is reduced by 40% of primary social security. For those hired subsequent to that date, the amount of monthly pension is equal to .75% of average monthly compensation times full years of service. Disability retirement benefits are provided in eligible circumstances.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 13 PENSION PLANS, (Continued)

Summary of Significant Accounting Policies

Financial information of the City's plans is presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the individual plan.

Summary of Significant Accounting Policies, (Continued)

Investments of the plans are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price. The City's pension plan assets are managed by TD Ameritrade (TD). In accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Unrealized gains and/or losses due to fluctuations in fair value are recorded in the financial statements. Realized gains or losses are recorded at the time of sale. Net appreciation in the fair value of plan investments includes both realized and unrealized gains and losses. For those funds managed by TD, related fees are also included in the appreciated value and investment income portion of the financial statements.

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 annual actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth allocates certain funds to assist the City in pension funding. Any financial requirement established by the MMO that exceeds the Commonwealth allocation must be funded by the City (and could include employee contributions).

In 2012, the Police, Paid Firemen and Officers & Employees were required to contribute based upon the financial requirements established by their respective collective bargaining agreements. During this period, the Police contributed \$382,544, the Paid Firemen contributed \$232,264, and the Officers and Employees contributed \$53,345.

Further, the City was required to contribute state aid along with City funds necessary to meet the 2013 MMO obligations of each of the respective funds as follows:

Police Pension Fund	\$ 2,906,548
Paid Firemen Pension Fund	\$ -
Officers & Employees Retirement System	\$ 606,847

The City received a total of \$1,408,987 in its Commonwealth allocation during this period.

**THE CITY OF CHESTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Note 13 PENSION PLANS, (Continued)

Contributions and Funding Policy, (Continued)

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

The City's Annual Pension Cost (APC), Percentage of APC Contributed and Net Pension Obligation for the current and each of the two preceding years were as follows:

Valuation Date	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1/1/2011	\$ 1,964,538	100%	-
1/1/2012	\$ 2,182,922	100%	-
1/1/2013	\$ 2,265,018	100%	-

As of January 1, 2013, the most recent actuarial valuation date, the funding status of the plan was as follows:

	Police	Paid Firemen's	Non-uniformed	Total
Actuarial accrued liability (AAL)	\$ 59,723,152	\$ 29,843,252	\$ 9,160,992	\$ 98,727,396
Actuarial value of plan assets	22,684,586	32,323,327	882,488	55,890,401
Unfunded actuarial accrued liability (UAAL)	\$ 37,038,566	\$ (2,480,075)	\$ 8,278,504	\$ 42,836,995
Funded Ratio (actuarial value of plan assets/AAL)	38.0%	108.3%	9.6%	56.6%
Covered Payroll (annual payroll of active employees covered by the plan)	\$ 7,217,231	\$ 3,831,824	\$ 4,721,792	\$ 15,770,847
UAAL as a % of covered payroll	513.2%	-64.7%	175.3%	271.6%

The City's actuarial assumptions and methods and related information for each of the plans as of January 1, 2013 are as follows:

	Police Pension Fund	Paid Firemen's Pension Fund	Officers & Employees Retirement System
Actuarial valuation date	1/1/2013	1/1/2013	1/1/2013
Actuarial cost method	Entry age Normal	Entry age Normal	Entry age Normal
Amortization method	Level dollar closed, level percentage of projected payroll for initial base closed	N/A	Level dollar closed, level percentage of projected payroll for initial base closed
Asset valuation method	Per section 210(a) of Act 44	Per section 210(a) of Act 44	Per section 210(a) of Act 44
Remaining amortization period	22 Years	N/A	N/A
Actuarial assumptions			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	5%	5%	5%



THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 13 PENSION PLANS, (Continued)

Contributions and Funding Policy, (Continued)

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CEDA Pension Plan**

The Authority sponsors a defined contribution pension plan for the benefit of its employees. The Plan has its own Board and investments are participant directed. The plan, previously with the Redevelopment Authority of the City of Chester, has an amended effective date of July 2, 1982, with additional amendments made to maintain compliance with requisite Internal Revenue Service requirements. The plan covers substantially all regular employees who are classified as a permanent employee and whose customary employment is for more than twenty hours per week and for more than five months per year. An employee may become a participant on any anniversary date such employee has completed thirty days of continuous employment and is a least seventeen years old. A participating employee must contribute a least three percent but may contribute up to nineteen percent of compensation subject to the maximum annual limitations as determined by the Internal Revenue Service.

The Authority shall match the employee's contribution, up to a maximum of six percent. The employee is subject to vesting schedule for Authority contributions as follows:

<b>Completed Years of Service</b>	<b>% Vested</b>
Less than one year	0%
One year but less than two years	20%
Two years but less than three years	40%
Three years but less than four years	60%
Four years but less than five years	80%
Five or more years	100%

The employee's contributions plus the earnings thereon are at all times fully vested. Full vesting shall not be later than the date on which HUD funding ceases.

Contributions are made to the Pension Fund each payroll period. At balance sheet date, the plan value of funds with Great West amounted to \$1,025,037 reported at fair value as determined by Great West. Separate plan financial statements are available at the Authority.

Employee and Authority contributions and total payroll for the three most recent periods are as follows:

	<b>Year Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Employer Contribution	\$ 16,772	\$ 21,067	\$ 21,881
Employee Contribution	\$ 22,942	\$ 35,087	\$ 35,643
Total Payroll	\$ 455,924	\$ 471,864	\$ 408,739

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 14 CHESTER CASINO AND RACETRACK

In 2007, Harrah's Casino and Racetrack opened in the City of Chester. The City receives revenue from its land lease agreement with Harrah's and a share of gaming revenue from the Commonwealth of Pennsylvania. Harrah's Chester Casino and Racetrack pays the City 2.0% of gross terminal revenue generated by gaming and the Commonwealth remits 2.0% of gross table game revenue from the Chester site.

1.0% of table game revenue received from the Commonwealth of Pennsylvania is restricted for the DCCC sponsorship agreement (Note 9). The City received \$12,449,072 in 2013 in total from its share of the gaming revenue and the land lease agreement with Harrah's.

Note 15 OTHER POST EMPLOYMENT BENEFITS

The City pays certain other post employment benefits (OPEB) for both uniform and non-uniform municipal employees under the City of Chester Health and Welfare Plan (the Plan), a single employer defined benefit plan. Uniform employees, both police and fire, receive medical benefits for the employee and spouse. Should these employees be on permanent disability, the City will continue to pay medical coverage. Non-uniform employees who retire at 60 years of age receive a portion of their respective medical coverage costs based on their respective years of service. During 2013, the City paid \$4,451,137 for post employment benefits.

The City's OPEB Plan is unfunded. The Plan is authorized and under the control, maintenance and operation of City Council. The required contribution of the City is based on a pay-as-you-go financing requirement. City Council has the authority within contractual limitations to amend the Plan including changing the obligation of Plan members and the City to contribute to the Plan. The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined as of January 1, 2013 in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB No. 45 establishes standards of financial accounting and reporting for governmental employers providing postretirement benefits to their employees. Benefits defined as OPEB include medical, prescription drug, dental, vision, and life insurance (as applicable).

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 15 OTHER POST EMPLOYMENT BENEFITS, (Continued)

The ARC is equal to normal cost and the amortization (over 26 years) of the Unfunded Actuarial Accrued Liability, plus interest. The following shows the components of the annual OPEB cost for the year, the amount actually contributed to the Plan, and the changes in the City's OPEB obligation:

Annual required contribution	\$ 13,134,060
Interest on OPEB obligation	1,100,842
Adjustment to annual required contribution	<u>(1,761,676)</u>
Annual OPEB cost	12,473,226
Contributions made (pay as you go)	<u>(4,451,137)</u>
Increase in net OPEB obligation	8,022,089
Net OPEB obligation at January 1, 2013	<u>31,780,896</u>
Net OPEB obligation at December 31, 2013	<u><u>\$ 39,802,985</u></u>

The City's annual OPEB cost, percentage of OPEB cost contributed, and net post-employment benefit obligation for the Plan for the past three years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	\$ 8,364,235	26%	\$ 16,312,272
12/31/2011	\$ 8,614,972	26%	\$ 22,648,472
12/31/2012	\$ 12,139,507	25%	\$ 31,780,896
12/31/2013	\$ 12,473,226	36%	\$ 39,802,985
		Actuarial accrued liability (AAL)	\$146,177,144
		Actuarial value of plan assets	-
		Unfunded actuarial accrued liability (UAAL)	<u><u>\$146,177,144</u></u>

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 15 OTHER POST EMPLOYMENT BENEFITS, (Continued)

The ARC for the Plan was determined as part of the January 1, 2013 actuarial valuation using the following methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Discount rate	4.00%
Healthcare cost trend rate	5.00%
Amortization Method and Period	Level dollar, Closed, 26 years

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, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan 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, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the City maintains no Plan assets, information relative to Plan asset required disclosures is not applicable.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the City and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Note 16 COMMITMENTS AND CONTINGENCIES

Intergovernmental Grants

The City and CEDA received Federal and State grants for specific purposes that are subject to review and audit by the funding agencies or their representatives. If grant revenues are received for expenditures that are subsequently disallowed, the City may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements as of December 31, 2013.

THE CITY OF CHESTER  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 16 COMMITMENTS AND CONTINGENCIES, (Continued)

Tax Assessment Appeals

Tax assessment appeals were filed by several taxpayers for various tax years. Although the outcome of these appeals is not presently determinable, management believes the resolution of these matters will not have a material adverse effect on the net position of the City.

Claims and Other Legal Proceedings

The City and its component units are involved in various claims and lawsuits arising in the normal course of business, including claims for property damage, personal injury and labor matters. In the opinion of management, the unrecorded potential claims against the City, not covered by insurance, resulting from such claims and lawsuits, would not have a material adverse effect on the City's net position as of December 31, 2013.

Going Concern – Component Units

As of December 31, 2013, the Chester Economic Development Authority, Redevelopment Authority of the City of Chester, and Parking Authority of the City of Chester (the "Authorities") had limited funds available for administrative costs necessary to continue as going concerns. The City committed to providing Chester Economic Development Authority sufficient funding to allow the authority to operate through December 31, 2013 with additional funding budgeted through June 30, 2014. Similar funding was committed by the City to the Redevelopment Authority of the City of Chester to operate through December 31, 2014 and to The Parking Authority of the City of Chester to operate through June 1, 2014.

Note 17 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, and employees' workers compensation. The General Fund is used to account for the risks for all risk financing activities.

The City purchases commercial insurance for these risks of loss. There have been no significant changes in insurance coverage in the past three years, and settled claims have not exceeded the commercial coverage in those years.

THE CITY OF CHESTER  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

Note 18 PRIOR PERIOD ADJUSTMENTS

The City adopted GASB Statement No. 61 which requires three of the City's potential component units to be blended with the City's financial statements: Chester Economic Development Authority (CEDA), the Redevelopment Authority of the City of Chester (CRA), and The Parking Authority of the City of Chester (CPA). The beginning of year net position and fund balances have been adjusted to add the blended component units. In addition, the City adopted GASB Statement No. 65 that required bond discounts to be written off to expense. During 2013, management determined that the accurate compensated absences liability was greater than reported in the December 31, 2012 financial statements. The reserve fund was reported as a major fund for 2012 and non major for 2013. The prior period adjustments are presented below:

Fund statements prior period adjustments:

Fund balance adjustment – CEDA	\$10,425,799
Fund balance adjustment – CRA	(10,430)
Fund balance adjustment – CPA	<u>(2,683)</u>
 Net fund statements prior period adjustment	 <u>\$10,412,686</u>

Government-wide statements prior period adjustments:

Net position adjustment – CEDA	\$10,044,961
Net position adjustment – CRA	3,657,752
Net position adjustment - CPA	241,269
Adjustment to CEDA-related debt	1,500,000
Change in major/nonmajor funds	1,365,427
Adoption of GASB No. 65 – bond issue cost	(172,410)
Adjustment of compensated absences 2012	<u>(851,885)</u>
 Net position total prior period adjustment	 <u>\$15,785,114</u>

Note 19 SUBSEQUENT EVENTS

In February, 2014, the credit rating agency, Standard and Poor's suspended the City's credit rating of its general obligation debt. Upon submission of the City's 2013 financial statements, the rating is expected to be reinstated.

The City evaluated its December 31, 2013 financial statements for subsequent events through June 29, 2015 the date the financial statements were available to be issued. With the exception of the event noted above, the City is not aware of any additional subsequent events which would require recognition or disclosure in the accompanying financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF CHESTER**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original and Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>			
Taxes and assessments			
Real estate	\$ 8,184,320	\$ 7,309,555	\$ (874,765)
Rubbish fees	1,359,500	1,207,756	(151,744)
Local enabling act taxes	10,400,000	11,175,920	775,920
Licenses - permits	665,000	641,839	(23,161)
Cable television	410,000	464,795	54,795
Fines, forfeits	300,000	243,372	(56,628)
Rent	92,700	87,400	(5,300)
Investment earnings	-	36	36
Public utility realty tax	25,000	21,167	(3,833)
Grants intergovernmental revenue	911,683	249,636	(662,047)
Departmental earnings	490,950	408,318	(82,632)
State pension aid	1,410,000	1,512,895	102,895
Waste facilities fees	5,302,502	5,217,420	(85,082)
Payments in lieu of taxes	871,000	1,092,674	221,674
Casino host community fees	12,400,000	11,847,880	(552,120)
Reimbursements	1,420,000	1,862,938	442,938
Other income	2,930,000	346,137	(2,583,863)
Total revenues	<u>47,172,655</u>	<u>43,689,738</u>	<u>(3,482,917)</u>
<b>EXPENDITURES</b>			
General government	10,272,617	12,830,782	(2,558,165)
Public safety	25,917,618	25,250,801	666,817
Health and sanitation	586,331	597,166	(10,835)
Highways and streets	3,007,864	2,791,227	216,637
Recreation	2,477,749	771,116	1,706,633
Grants and special programs	425,891	440,267	(14,376)
Debt service	3,099,358	442,208	2,657,150
Capital outlay	10,000	16,650	(6,650)
Total expenditures	<u>45,797,428</u>	<u>43,140,217</u>	<u>2,657,211</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,375,227</u>	<u>549,521</u>	<u>(825,706)</u>
<b>OTHER FINANCING SOURCES (USES) OF FUNDS:</b>			
Operating transfer in	-	1,259,683	1,259,683
Operating transfer out	(1,375,227)	(4,036,299)	(2,661,072)
Total other financing sources (uses) of funds, net	<u>(1,375,227)</u>	<u>(2,776,616)</u>	<u>(1,401,389)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES AND USES OF FUNDS</b>	<u>\$ -</u>	<u>\$ (2,227,095)</u>	<u>\$ (2,227,095)</u>
<b>FUND BALANCE - BEGINNING</b>		<u>4,088,224</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 1,861,129</u>	

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



**CITY OF CHESTER  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION FUNDING PROGRESS  
UNAUDITED**

**Police Pension Fund  
Actuarial Report as of January 1**

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2006	\$ 24,550,219	n/a	n/a	n/a	n/a	n/a
2007	\$ 26,668,786	\$ 42,761,177	\$ (16,092,391)	62.4%	\$ 5,379,321	-299.2%
2008	\$ 27,587,648	n/a	n/a	n/a	n/a	n/a
2009	\$ 25,877,310	\$ 46,837,236	\$ (20,959,926)	55.2%	\$ 6,176,704	-339.3%
2010	\$ 24,684,536	n/a	n/a	n/a	n/a	n/a
2011	\$ 23,542,691	\$ 52,960,297	\$ (29,417,606)	44.5%	\$ 6,568,456	-447.9%
2012	\$ 23,244,451	n/a	n/a	n/a	n/a	n/a
2013	\$ 22,684,586	\$ 59,723,152	\$ (37,038,566)	38.0%	\$ 7,217,231	-513.2%

**Paid Firemen's Pension Fund  
Actuarial Report as of January 1**

2006	\$ 29,132,106	n/a	n/a	n/a	n/a	n/a
2007	\$ 32,230,902	\$ 20,664,162	\$ 11,566,740	156.0%	\$ 3,522,902	328.3%
2008	\$ 33,628,041	n/a	n/a	n/a	n/a	n/a
2009	\$ 29,582,395	\$ 22,601,709	\$ 6,980,686	130.9%	\$ 3,636,767	191.9%
2010	\$ 30,256,620	n/a	n/a	n/a	n/a	n/a
2011	\$ 31,307,765	\$ 26,312,596	\$ 4,995,769	119.0%	\$ 3,029,285	164.9%
2012	\$ 31,930,891	n/a	n/a	n/a	n/a	n/a
2013	\$ 32,323,327	\$ 29,843,252	\$ 2,480,075	108.3%	\$ 3,831,824	64.7%

**Officers and Employees Retirement System  
Actuarial Report as of January 1**

2006	\$ 2,023,769	n/a	n/a	n/a	n/a	n/a
2007	\$ 2,086,355	\$ 8,719,204	\$ (6,632,849)	23.9%	\$ 4,104,311	-161.6%
2008	\$ 1,950,026	n/a	n/a	n/a	n/a	n/a
2009	\$ 1,697,146	\$ 9,054,477	\$ (7,357,331)	18.7%	\$ 4,348,894	-169.2%
2010	\$ 1,603,681	n/a	n/a	n/a	n/a	n/a
2011	\$ 1,428,535	\$ 9,066,136	\$ (7,637,601)	15.8%	\$ 4,749,925	-160.8%
2012	\$ 1,306,327	n/a	n/a	n/a	n/a	n/a
2013	\$ 882,488	\$ 9,160,992	\$ (8,278,504)	9.6%	\$ 4,721,792	-175.3%

Analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and the unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of a plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the plan is becoming financially stronger or weaker. Trends in assets in excess of actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the assets in excess of actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of each plan's progress made in accumulating sufficient assets to pay benefits when due.

n/a--not available

**CITY OF CHESTER**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITY**  
**UNAUDITED**

Calendar Year	Police Pension Fund		Paid Firemen's Pension Fund		Officers and Employees Retirement System	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2006	\$ 1,418,690	100.00%	\$ -	100.00%	\$ 283,092	100.00%
2007	\$ 1,414,455	100.00%	\$ -	100.00%	\$ 261,219	100.00%
2008	\$ 1,447,528	100.00%	\$ -	100.00%	\$ 292,315	100.00%
2009	\$ 1,957,889	100.00%	\$ -	100.00%	\$ 346,478	100.00%
2010	\$ 1,648,447	100.00%	\$ -	100.00%	\$ 316,091	100.00%
2011	\$ 1,809,741	100.00%	\$ -	100.00%	\$ 373,181	100.00%
2012	\$ 1,865,056	100.00%	\$ -	100.00%	\$ 399,962	100.00%
2013	\$ 2,906,548	100.00%	\$ -	100.00%	\$ 606,847	100.00%

**OTHER POST EMPLOYMENT BENEFITS PLAN**  
**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
1/1/2010	\$ -	\$ 120,015,563	\$ 120,015,563	-	\$ 12,241,137	980.4%
1/1/2011	\$ -	\$ 119,752,829	\$ 119,752,829	-	\$ 12,871,885	930.3%
1/1/2012	\$ -	\$ 140,573,756	\$ 140,573,756	-	\$ 15,813,147	889.0%
1/1/2013	\$ -	\$ 146,177,144	\$ 146,177,144	\$ -	\$ 19,415,335	752.9%

The notes to the financial states are an integral part if this statement.