

CITY OF CHESTER

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2015



CITY OF CHESTER

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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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 or the fiduciary funds. 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' and fiduciary funds 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>
Primary government	Modified
Governmental funds	Modified
Proprietary funds	Modified
Fiduciary funds	Unmodified

Basis for Modified Opinion

We were unable to obtain sufficient appropriate audit evidence about classifications of certain revenues and expenditures and sufficient detail for an escrow account contained in the financial statements of the opinion units listed above.

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, 2015, and the changes in net position and net changes in fund balances thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The financial statements of the City of Chester and the Chester Economic Development Authority (the “Authority”) were prepared assuming the entities will continue as going concerns. The entities have experienced substantial recurring expenses in excess of revenue and a net unrestricted deficit of \$150,062,635 at December 31, 2015. The entities have limited funding available to support administrative and program delivery costs without additional funding sources or a reduction of expenses. This raises substantial doubt about the entities’ ability to continue as going concerns. The 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenues, expenditures and changes in fund balances – budget and actual – general fund, and schedules of pension plans and other postemployment benefits plan information on pages 4-11 and 64-69 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.

Milligan & Company, LLC

Philadelphia, Pennsylvania
May 7, 2018



The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

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, 2015. 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 2015 was a steady year for the City of Chester. Steady because of increased economic activities in the City and making Chester more marketable for new businesses and overall improvement projects. A major component of increase development was surrounded by City Council's adoption of the zoning ordinance rewrite, which now brings the City up to zoning and planning standards of that of the surrounding municipalities. The new zoning code makes Chester more marketable. A key point of stimulating Chester's tax base this year was reviving our business district to attract businesses and consumers. As such, through a grant from Delaware Valley Regional Planning Commission (DVRPC), the City was able to complete a \$1.5M Streetscape Project in the downtown district that not only beautified the area and changed the traffic patterns, but also allowed City owned property to become marketable for development around our transportation hub where SEPTA makes rail and bus stops. This project was instrumental for allowing the opening of a brand new Dollar General store on Avenue of the States. The home of the new Dollar General sits on previous City owned property that is not on the tax rolls. Widener University also constructed a brand new resident's hall that also houses Moe's Southwestern Grill and Einstein Bagels on the first level that is open to the public. The residence hall generated health permit fees and Earned Income Taxes from the new construction jobs. These national brand retailers are the start of what Chester is becoming, as we attract new business. Also adjacent to Widener University's campus, will be the home also to Chicago Uno's Bar and Grill, which construction started in the 4th quarter of 2015. For the first time ever, Chester will host a national chain family style restaurant which continues to showcase the future.

There was also development on the Chester waterfront, with the Philadelphia Union cutting a ribbon on the new practice fields for the team. The land, once underdeveloped, is now a beautiful site that became taxable. In very close proximity, the construction of the Wharf Annex is taking place to house the office of Union executives and Union players. The City also welcomed a new fast food store, Checker's. Checker's is the first fast food restaurant in the City limits in over 15 years. With all of these projects and construction, the City has welcomed employment for the residence and tax revenues.

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

The City had the opportunity to refinance some of its debt in an effort to have cash relief, a reduction in interest, and an overall reduction in future debt service payment. Though a financially distressed Act 47 City, we were able to work very diligently to overcome the many financial obstacles through the adoption and implementation of 2013 adopted 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 above. 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 \$250,000 during the year 2015. The City also hired an additional 14 firefighters (three women for the first time) that allowed the bureau of fire in the department of Public Safety to reduce its overtime cost drastically. After a competitive process, PNC bank was appointed as the new investment manager for the three City pension funds, which too reduced cost. The City continued its relationship with E-Collect to audit businesses in the City to ensure that we were receiving the appropriate taxes.

Since 2008 the City has reduced its resident and non-resident earned income tax rates from 2.40 percent and 1.40 percent, to 2.10 percent and 1.10 percent, respectively in 2015.

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 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 City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

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.

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 funds 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-five 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 major funds. 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 Non-major Governmental Funds." The Redevelopment Authority and the Parking Authority of the City of Chester are presented as proprietary funds.

Fiduciary Funds – The City, as noted above, has three 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.

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

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.

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 primarily due to lower than expected real-estate collection and less than enabling act taxes. Total General Fund expenditures were more than budgeted due to pension Municipal Minimum Obligation and health insurance.

Financial Analysis of the City

The following condensed financial data serves 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 2014 to 2015. Table 4 shows changes in outstanding bonded and other debt from 2014 to 2015.

Table 1
Net Position December 31,

	2015	2014
Other assets	\$ 15,477,323	\$ 22,713,590
Capital assets, net	25,780,091	25,555,522
Total assets	41,257,414	48,269,112
Deferred outflow - pension	14,818,236	-
Total assets and deferred outflow	56,075,650	48,269,112
Other liabilities	23,629,084	15,270,558
Long-term liabilities	163,666,654	81,535,613
Total liabilities	187,295,738	96,806,171
Deferred inflow - pension	553,901	-
Total liabilities and deferred inflow	187,849,639	96,806,171
Net position (deficit):		
Net investment in capital assets	15,032,956	14,369,990
Restricted for:		
Special revenue	2,091,798	4,546,214
Unrestricted	(148,898,743)	(67,453,263)
Total net position (deficit)	\$ (131,773,989)	\$ (48,537,059)

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

During the current fiscal year, the reported net deficit increased for governmental activities from the prior fiscal year by \$83,236,930. A total of \$49,819,397 of the increase was due to a restatement of the 2014 deficit due to the implementation of Government Accounting Standards Board (GASB) Statement #68.

Table 2
Statement of Activities
For the years ended December 31,

	2015	2014
Program Revenues:		
Charges for Services	\$ 3,684,173	\$ 5,172,994
Operating grants and contributions	2,193,684	1,434,708
Total program revenues	5,877,857	6,607,702
General revenues	42,507,682	47,855,287
Total revenues	48,385,539	54,462,989
Program expenses:		
Primary government activities	81,625,664	71,424,348
Business-type activities	177,408	357,451
	81,803,072	71,781,799
Net Change in Net Deficit	(33,417,533)	(17,318,810)
Net Deficit - Beginning	(48,537,059)	(32,718,249)
GASB 68 Restatement	(49,819,397)	-
Prior Period Adjustment	-	1,500,000
Net Deficit - End of year	\$ (131,773,989)	\$ (48,537,059)

During the current fiscal year, revenue decreased by \$6,077,450 and expenses increased by \$10,021,273 primarily due to the tax credits in refunds due to our major tax contributors and employer related expenses.

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

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 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, 2015 the City's governmental funds reported a fund balance deficit of \$(10,978,744), which consists of the following:

	2015		2014	
	\$	% of Total	\$	% of Total
Nonspendable	37,495	-0.3%	29,606	46.6%
Restricted	2,709,932	-24.7%	3,412,402	5370.1%
Committed	838,917	-7.6%	2,722,218	4284.0%
Assigned	614,705	-5.6%	709,748	1117.0%
Unassigned	<u>(15,179,793)</u>	138.2%	<u>(6,810,430)</u>	-10717.7%
Total fund balance (deficit)	<u>\$ (10,978,744)</u>	100%	<u>\$ 63,544</u>	100%

The change in fund balances, restricted and committed, is due to the refinancing of the 2004 and 2007 series in which had a reserved account that was released back to the City for general operating purposes. The unassigned funds deficit increased due to the police pension obligation and an increase in healthcare obligations as per arbitration award.

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

CAPITAL ASSETS	2015	2014	\$ Inc/Dec
Capital Assets, not being depreciated:			
Land	\$ 1,782,256	\$ 1,782,256	\$ -
Capital Assets, Being Depreciated:			
Buildings and improvements	18,635,064	18,574,987	60,077
Machinery and equipment	14,871,701	13,897,317	974,384
Infrastructure and related improvements	14,461,941	13,649,066	812,875
Total Capital Assets	<u>49,750,962</u>	<u>47,903,626</u>	<u>1,847,336</u>
Less: Accumulated Depreciation	<u>28,956,213</u>	<u>27,333,030</u>	<u>1,623,183</u>
Net Capital Asset Value	<u>\$ 20,794,749</u>	<u>\$ 20,570,596</u>	<u>\$ 224,153</u>

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

During 2015, the City purchased a vehicle for the fire department. Infrastructure additions consisted of Welsh street upgrades, of which includes, additional parking and lighting as well as changes to the traffic pattern.

TABLE 4
CHANGES IN OUTSTANDING LONG-TERM DEBT
December 31,

SERIES	2015	2014	\$ Inc/Dec
2004 Series	\$ -	\$ 8,140,000	\$ (8,140,000)
2007 Series	-	1,445,530	(1,445,530)
2010 Series A	2,751,000	3,405,000	(654,000)
2010 Series B	2,835,000	3,078,000	(243,000)
2011 Series A	763,000	1,516,000	(753,000)
2015 Series A	8,140,000	-	8,140,000
2015 Series B	1,182,135	-	1,182,135
Total Debt	<u>\$ 15,671,135</u>	<u>\$ 17,584,530</u>	<u>\$ (1,913,395)</u>

In 2015, the 2004 and 2007 Series were refinanced in efforts to provide general operating relief to the City in which was replaced with the 2015 Series A and B.

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 through 2039 as summarized in Note 12. Amounts charged to General Fund expenditures under this agreement totaled \$441,864 for the year ended December 31, 2015. The balance outstanding was \$10,513,074 as of December 31, 2015. 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.

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2015

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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,600,714	\$ 108,381	\$ 4,709,095
Receivables (net of allowance for uncollectibles)	9,137,162	1,437,785	10,574,947
Prepaid assets	37,495	62	37,557
Restricted assets:			
Cash and cash equivalents	155,725	-	155,725
Capital assets not being depreciated:			
Land	2,860,233	243,952	3,104,185
Property held for resale	-	3,625,532	3,625,532
Capital assets, net of accumulated depreciation:			
Buildings and improvements	11,233,347	37,880	11,271,227
Machinery and equipment	3,261,226	-	3,261,226
Infrastructure	4,517,920	-	4,517,920
Total assets	<u>35,803,822</u>	<u>5,453,592</u>	<u>41,257,414</u>
DEFERRED OUTFLOWS OF RESOURCES - PENSION	<u>14,818,236</u>	<u>-</u>	<u>14,818,236</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>50,622,058</u>	<u>5,453,592</u>	<u>56,075,650</u>
LIABILITIES			
Accounts payable and accrued expenses	21,421,801	18,393	21,440,194
Due to other governments and entities	1,136,402	128,383	1,264,785
Escrow liability	899,446	24,659	924,105
Long-term liabilities:			
Due within one year:			
Compensated absences	107,389	-	107,389
Contribution agreement	442,102	-	442,102
Long term debt	7,527,357	385,901	7,913,258
Other postemployment benefits	5,130,103	-	5,130,103
Due in more than one year:			
Compensated absences	2,743,700	-	2,743,700
Contribution agreement	10,070,972	-	10,070,972
Long term debt	8,143,778	1,250,000	9,393,778
Other postemployment benefits	57,757,452	-	57,757,452
Net pension liability	<u>70,107,900</u>	<u>-</u>	<u>70,107,900</u>
Total liabilities	<u>185,488,402</u>	<u>1,807,336</u>	<u>187,295,738</u>
DEFERRED INFLOWS OF RESOURCES - PENSION	<u>553,901</u>	<u>-</u>	<u>553,901</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>186,042,303</u>	<u>1,807,336</u>	<u>187,849,639</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	12,550,592	2,482,364	15,032,956
Restricted for:			
Special revenue	2,091,798	-	2,091,798
Unrestricted	<u>(150,062,635)</u>	<u>1,163,892</u>	<u>(148,898,743)</u>
Total net position (deficit)	<u>\$ (135,420,245)</u>	<u>\$ 3,646,256</u>	<u>\$ (131,773,989)</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, 2015**

	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
Governmental Activities :						
General government	\$ 16,943,648	\$ 205,694	\$ 1,064,075	\$ (15,673,879)	\$ -	\$ (15,673,879)
Public safety	44,750,767	1,112,921	81,638	(43,556,208)	-	(43,556,208)
Highways and streets	4,359,684	1,172,122	641,159	(2,546,403)	-	(2,546,403)
Health and sanitation	1,376,795	-	-	(1,376,795)	-	(1,376,795)
Community development	2,745,369	1,184,050	334,564	(1,226,755)	-	(1,226,755)
Net debt refund to the City of Chester	1,994,797	-	-	(1,994,797)	-	(1,994,797)
Recreation	1,437,344	-	-	(1,437,344)	-	(1,437,344)
Grants and special programs	1,353,436	-	-	(1,353,436)	-	(1,353,436)
Depreciation	1,623,183	-	-	(1,623,183)	-	(1,623,183)
Interest on long-term debt	5,040,641	-	-	(5,040,641)	-	(5,040,641)
Total government activities	<u>81,625,664</u>	<u>3,674,787</u>	<u>2,121,436</u>	<u>(75,829,441)</u>	<u>-</u>	<u>(75,829,441)</u>
Business-type activities:						
Redevelopment and parking activities	177,408	9,386	72,248	-	(95,774)	(95,774)
Total business-type activities	<u>177,408</u>	<u>9,386</u>	<u>72,248</u>	<u>-</u>	<u>(95,774)</u>	<u>(95,774)</u>
Total primary government	<u>\$ 81,803,072</u>	<u>\$ 3,684,173</u>	<u>\$ 2,193,684</u>	<u>(75,829,441)</u>	<u>(95,774)</u>	<u>(75,925,215)</u>
General revenues						
Real estate taxes				4,326,819	-	4,326,819
Local enabling taxes				9,688,668	-	9,688,668
Contributions and fees				6,453,977	-	6,453,977
Cable television				437,723	-	437,723
Host community fees				12,048,195	-	12,048,195
Waste facilities fees				5,650,021	-	5,650,021
Payments in lieu of taxes				393,380	-	393,380
Lease payments				2,420,440	-	2,420,440
Investment earnings				12,317	99	12,416
Miscellaneous reimbursements and others				937,943	27,191	965,134
Rent				110,909	-	110,909
Total general revenues				<u>42,480,392</u>	<u>27,290</u>	<u>42,507,682</u>
Change in net position				<u>(33,349,049)</u>	<u>(68,484)</u>	<u>(33,417,533)</u>
Net position (deficit) - beginning, previously reported				(52,251,799)	3,714,740	(48,537,059)
GASB 68 restatement				(49,819,397)	-	(49,819,397)
Net position (deficit) - beginning, restated				<u>(102,071,196)</u>	<u>3,714,740</u>	<u>(98,356,456)</u>
Net position (deficit) - ending				<u>\$ (135,420,245)</u>	<u>\$ 3,646,256</u>	<u>\$ (131,773,989)</u>

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

**CITY OF CHESTER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	Chester Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 494,211	\$ 3,171,005	\$ 935,498	\$ 4,600,714
Property tax receivable (net of allowance for uncollectibles)	1,458,733	-	-	1,458,733
Trash assessments receivable (net of allowance for uncollectibles)	249,983	-	-	249,983
Other receivables (net of allowance for uncollectibles)	5,280,146	640,404	398,254	6,318,804
Due from other funds and governments	580,161	89,481	440,000	1,109,642
Prepaid expenditures and other assets	37,495	-	-	37,495
Restricted cash and cash equivalents	-	155,725	-	155,725
TOTAL ASSETS	\$ 8,100,729	\$ 4,056,615	\$ 1,773,752	\$ 13,931,096
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenditures	\$ 20,702,977	\$ 544,268	\$ 163,433	\$ 21,410,678
Accrued payroll and related costs	11,125	-	-	11,125
Due to other governments and entities	-	19,556	62,696	82,252
Due to other funds	398,858	96,685	558,607	1,054,150
Escrow	390,172	3,000	506,274	899,446
Total liabilities	<u>21,503,132</u>	<u>663,509</u>	<u>1,291,010</u>	<u>23,457,651</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue	<u>1,403,250</u>	<u>48,939</u>	<u>-</u>	<u>1,452,189</u>
Fund balance (deficit):				
Nonspendable	37,495	-	-	37,495
Restricted	-	2,709,932	-	2,709,932
Committed	-	-	838,917	838,917
Assigned	-	433,571	181,134	614,705
Unassigned	(14,843,148)	200,664	(537,309)	(15,179,793)
Total fund balance (deficit)	<u>(14,805,653)</u>	<u>3,344,167</u>	<u>482,742</u>	<u>(10,978,744)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,100,729	\$ 4,056,615	\$ 1,773,752	\$ 13,931,096

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, 2015

Total fund balances - governmental funds		\$ (10,978,744)
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	11,233,347	
Machinery and equipment	3,261,226	
Infrastructure	<u>4,517,921</u>	
Total capital assets, net		21,872,727
Deferred outflows and inflows of resources related to pensions are applicable to future periods and consists of the following:		
Deferred outflows of resources related to pensions	14,818,236	
Deferred inflows of resources related to pensions	<u>(553,901)</u>	
		14,264,335
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		1,452,190
Long term debt		(15,671,135)
Compensated absences		(2,851,089)
Contribution agreement		(10,513,074)
Pension		(70,107,900)
Other postemployment benefits		<u>(62,887,555)</u>
Net deficit of governmental activities		<u><u>\$ (135,420,245)</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, 2015

	General Fund	Chester Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes and assessments:				
Real estate	\$ 8,613,740	\$ -	\$ -	\$ 8,613,740
Rubbish fees	1,172,122	-	-	1,172,122
Local enabling act taxes	9,688,668	-	-	9,688,668
Licenses - permits	845,913	-	-	845,913
Cable television	437,723	-	-	437,723
Fines, forfeits	205,694	-	-	205,694
Rent	110,909	-	-	110,909
Investment earnings	-	12,060	257	12,317
Public utility realty tax	21,773	-	-	21,773
Grants, intergovernmental revenue	530,664	2,652,891	1,022,839	4,206,394
Departmental earnings	267,008	-	-	267,008
Commonwealth of Pennsylvania pension aid	1,497,759	-	-	1,497,759
Waste facilities fees	5,650,021	-	-	5,650,021
Payments in lieu of taxes	393,380	-	-	393,380
Casino host community fees	11,524,529	-	523,666	12,048,195
Reimbursements	937,943	-	-	937,943
Other revenue	4,147,837	2,138,115	168,025	6,453,977
Total revenues	<u>46,045,683</u>	<u>4,803,066</u>	<u>1,714,787</u>	<u>52,563,536</u>
EXPENDITURES				
Current:				
General government	15,778,508	695,134	21,378	16,495,020
Public safety	29,096,072	-	-	29,096,072
Highways and streets	2,947,958	-	712,971	3,660,929
Health and sanitation	557,228	-	303,683	860,911
Community development	-	2,422,431	322,938	2,745,369
Recreation	748,258	-	180,810	929,068
Grants and special programs	670,859	-	88,686	759,545
Debt service:				
Principal	-	1,410,000	3,830,510	5,240,510
Interest	441,864	725,525	546,137	1,713,526
Capital outlay:				
Public safety and general government	-	-	110,077	110,077
Total expenditures	<u>50,240,747</u>	<u>5,253,090</u>	<u>6,117,190</u>	<u>61,611,027</u>
Excess (deficiency) of revenues over expenditures	<u>(4,195,064)</u>	<u>(450,024)</u>	<u>(4,402,403)</u>	<u>(9,047,491)</u>
Other Financing Sources (Uses) of Funds				
Transfers in	686,600	-	4,470,869	5,157,469
Transfers out	(4,470,869)	-	(686,600)	(5,157,469)
Net debt refund	-	(1,994,797)	-	(1,994,797)
Total other financing sources (uses) of funds	<u>(3,784,269)</u>	<u>(1,994,797)</u>	<u>3,784,269</u>	<u>(1,994,797)</u>
Net Change in Fund (deficit)	(7,979,333)	(2,444,821)	(618,134)	(11,042,288)
Fund Balances - Beginning	<u>(6,826,320)</u>	<u>5,788,988</u>	<u>1,100,876</u>	<u>63,544</u>
Fund Balances (deficit) - Ending	<u>\$ (14,805,653)</u>	<u>\$ 3,344,167</u>	<u>\$ 482,742</u>	<u>\$ (10,978,744)</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, 2015

Net change in fund balances - total governmental funds \$ (11,042,288)

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

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.

In the current period these amounts were:

Capital outlay	110,077	
Transfer from other government	1,737,259	
Depreciation expense	<u>(1,623,183)</u>	224,153

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 net position. In the current year, these amounts consisted of principal payments of:

1,913,395

Increase in compensated absences (662,644)

Decrease in contribution agreement 441,864

Increase in other post employment benefits (13,912,440)

Increase in pension costs (6,024,168)

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.

(4,286,921)

Change in net deficit of governmental activities \$ (33,349,049)

City of Chester
Statement of Net Position - Proprietary Funds
December 31, 2015

Assets	<u>CRA</u>	<u>CPA</u>	<u>TOTAL</u>
Current assets:			
Cash and cash equivalents	\$ 92,387	\$ 15,994	\$ 108,381
Receivables	6,580	-	6,580
Entitlement receivable, current portion	1,425,000	-	1,425,000
Prepaid expenses	-	62	62
Due from other governments	6,205	-	6,205
Total current assets	<u>1,530,172</u>	<u>16,056</u>	<u>1,546,228</u>
Noncurrent assets:			
Land	-	243,952	243,952
Capital asset held for resale	3,625,532	-	3,625,532
Leasehold improvements and equipment, net	37,880	-	37,880
Total noncurrent assets	<u>3,663,412</u>	<u>243,952</u>	<u>3,907,364</u>
Total assets	<u>5,193,584</u>	<u>260,008</u>	<u>5,453,592</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	7,666	10,727	18,393
Escrow and escheat liabilities	24,659	-	24,659
Due to other governments	117,662	10,721	128,383
Loan payable	200,000	-	200,000
Current portion of long-term debt	185,901	-	185,901
Total current liabilities	<u>535,888</u>	<u>21,448</u>	<u>557,336</u>
Noncurrent liabilities:			
Loan payable	1,250,000	-	1,250,000
Total liabilities	<u>1,785,888</u>	<u>21,448</u>	<u>1,807,336</u>
Net position			
Net investment in capital assets	2,238,412	243,952	2,482,364
Unrestricted	1,169,284	(5,392)	1,163,892
Total net position	<u>\$ 3,407,696</u>	<u>\$ 238,560</u>	<u>\$ 3,646,256</u>

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 Funds
Redevelopment and Parking Authorities of the City of Chester
For the Year Ended December 31, 2015

	<u>CRA</u>	<u>CPA</u>	<u>TOTAL</u>
Operating Revenues:			
Grant revenues	\$ 18,191	\$ -	\$ 18,191
CEDA contribution	54,057	-	54,057
Parking lot lease	-	7,000	7,000
Meter collection	-	2,386	2,386
Other revenue and reimbursements	5,900	1,600	7,500
Total operating revenues	<u>78,148</u>	<u>10,986</u>	<u>89,134</u>
Operating Expenses:			
Professional services	30,810	-	30,810
Contractual services	8,273	-	8,273
Administrative expenses	42,568	12,569	55,137
Depreciation	2,368	-	2,368
Total operating expenses	<u>84,019</u>	<u>12,569</u>	<u>96,588</u>
Operating loss	<u>(5,871)</u>	<u>(1,583)</u>	<u>(7,454)</u>
Nonoperating Revenues and Expenses:			
Gain on sale of property	19,691	-	19,691
Legal settlement	-	(5,000)	(5,000)
Interest income	99	-	99
Interest expense	(75,820)	-	(75,820)
Total nonoperating expenses	<u>(56,030)</u>	<u>(5,000)</u>	<u>(61,030)</u>
Change in net position	(61,901)	(6,583)	(68,484)
Net position - beginning of year	3,469,597	245,143	3,714,740
Net position - end of year	<u>\$ 3,407,696</u>	<u>\$ 238,560</u>	<u>\$ 3,646,256</u>

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

City of Chester
Statement of Cash Flows - Proprietary Funds
Redevelopment and Parking Authorities of the City of Chester
For the Year Ended December 31, 2015

	CRA	CPA	TOTAL
Cash Flows from Operating Activities:			
Cash received from grant activity	\$ 52,463	\$ -	\$ 52,463
Cash received from meters	-	2,386	2,386
Cash received from parking lot lease	-	7,000	7,000
Cash received from other income	5,900	1,600	7,500
Cash paid for administrative activities and operations	(39,767)	(8,985)	(48,752)
Net cash provided by operating activities	18,596	2,001	20,597
Cash Flows from Capital and Related Financing Activities:			
Purchase of property for resale	(2,784)	-	(2,784)
CDBG funds received for mortgage payment	175,000	-	175,000
Principal paid on mortgage and capital debt	(175,000)	-	(175,000)
Interest paid on capital debt	(78,312)	-	(78,312)
Net cash utilized by capital and related activities	(81,096)	-	(81,096)
Cash Flows from Investing Activities:			
Escrow on sale	9,269	-	9,269
Interest income	99	-	99
Net cash provided by investing activities	9,368	-	9,368
Net increase (decrease) in cash and cash equivalents	(53,132)	2,001	(51,131)
Cash and cash equivalents - beginning of year	145,519	13,993	159,512
Cash and cash equivalents - end of year	\$ 92,387	\$ 15,994	\$ 108,381
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating loss	\$ (5,871)	\$ (1,583)	\$ (7,454)
Adjustments to reconcile operating income to net cash utilized by operating activities:			
Depreciation	2,368	-	2,368
Increase in accounts receivable	(1,969)	-	(1,969)
Decrease in prepaid expenses	15,697	978	16,675
Increase in due from other governments	(6,205)	-	(6,205)
Increase/(Decrease) in accounts payable and accrued expense	379	(165)	214
Increase in due to other governments	26,183	2,771	28,954
Decrease in advanced grant revenue	(11,986)	-	(11,986)
Net cash provided by operating activities	\$ 18,596	\$ 2,001	\$ 20,597

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

CITY OF CHESTER
STATEMENT OF FIDUCIARY NET POSITION - PENSION TRUST
DECEMBER 31, 2015

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 699,072
Accounts receivable, net	10,009,786
Investments, at fair value:	
Mutual funds	<u>44,505,594</u>
Total Assets	<u>55,214,452</u>
LIABILITIES	
DROP account balances	<u>4,463,219</u>
Total Liabilities	<u>4,463,219</u>
NET POSITION	
Total Net Position	<u><u>\$ 50,751,233</u></u>

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
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Pension Trust</u> <u>Funds</u>
Additions:	
Contributions:	
Employee	\$ 685,049
City	4,556,726
State	1,497,759
Other revenue	17,526
Investment appreciation	234,964
Total additions	<u>6,992,024</u>
Deductions:	
Benefit payments	8,784,200
Administrative expenses and refunds	<u>150,357</u>
Total deductions	<u>8,934,557</u>
Change in net position	(1,942,533)
Net position - beginning	52,765,581
Adjustment for DROP participant account	<u>(71,815)</u>
Net position - beginning, restated	<u>52,693,766</u>
Net position - ending	<u><u>\$ 50,751,233</u></u>

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, 2015

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. 68, “Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27,” issued June 2012, is effective for the year ended 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 are provided by other entities. Additionally, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The City implemented this statement as of December 31, 2015.

GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date,” was issued in November 2013 to address an issue regarding application of the transition provisions of Statement No. 68, “Accounting and Financial Reporting for Pensions”. This Statement is effective simultaneously with the provisions of Statement No. 68. GASB Statement No. 71 amends GASB No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date at the beginning of the pension liability. The City implemented this Statement as of December 31, 2015 and has restated the beginning net position for the 2014 contributions.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

GASB Statement No. 72, “Fair Value Measurement and Application” is effective for periods beginning after June 15, 2015. This Statement was issued to address accounting and financial reporting issues related to fair value measurements. 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.

During the year ended December 31, 2015, the City adopted the provisions of Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The adoption of this Statement had no effect on current or previous reported amounts.

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 three blended component units. These statements display information about the government of the City as a whole. The effect of interfund activity among the governmental funds have been removed from these statements.

These statements typically distinguish between governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business type activities are funded by user charges and other similar 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.

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 CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Presentation, Continued

Fund Financial Statements, Continued

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

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.

Reporting Entity

As required by GAAP, 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:

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.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Chester Housing Authority (“CHA”)

CHA is administered by a court appointed management company. Due to the City’s lack of governing and oversight responsibilities over CHA, it 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, 2015. 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, 2015. 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 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’s financial statements have 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, 2015. Complete financial statements for this component unit may be obtained from the Chester Parking Authority, 1 Fourth Street, Chester, PA 19013.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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. Under the full 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.

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, that is revenues and other financing sources and decreases as 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.

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 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.

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.

The Pension Trust maintained by the City utilizes the accrual basis of accounting in which revenues are recognized when they are earned and expenses are recognized when they are incurred. 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.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Use of Estimates

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 City-wide and Proprietary Funds statements 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 prior to June 1999. 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

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, pension and other post employment benefit liabilities.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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. The compensated absences are accrued when incurred and are 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 is 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.

Fund Statements

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

- a. *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.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Net Position and Fund Balance Classifications, (Continued)

- b. *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.
- c. *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 32 and amounts held for debt service meet the definition of committed fund balances.
- d. *Assigned* - resources neither restricted nor committed for which a government has 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 the City's general revenue sources, but reported in the capital improvements fund.
- e. *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 balances). It is the City's policy to consider the restricted fund balances to have been depleted before using any of the components of unrestricted fund balances. Further, when the components of unrestricted fund balance can be used for the same purpose, the committed fund balance is depleted first, followed by the assigned fund balance. The unassigned fund balance is applied last.

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).

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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. Revenue for 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 allowances for uncollectible real estate taxes and trash fees were increased by approximately \$5,364,055 as of December 31, 2015. This adjustment was also recorded as a reduction in real estate taxes in the statement of activities.

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 a lien, and penalties and interest, which are assessed by the City Treasurer.

Deferred Outflow/Inflow of Resources

Under the modified accrual basis of accounting, 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. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Deferred Outflow/Inflow of Resources, (Continued)

The governmental funds balance sheet 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.

The governmental-wide statement of net position reports pension-related deferred inflows and outflows. These amounts will be amortized, as applicable and recognized as pension expense as defined by GASB 68.

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.

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 2015, no additional money was set aside, however, \$100,000 was released from the reserve account. The reserve account’s balance at December 31, 2015 was \$15,742.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015, the General Fund's expenditures were over appropriations by \$910,045. The budgetary schedule for the General Fund is located in the 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 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, 2015, the City's aggregate bank balance of deposits included in cash and cash equivalents was \$1,602,065 of which \$1,000,000 was insured by the FDIC. Assets have been pledged to cover \$340,499 held by two institutions.

As of December 31, 2015, the City's fiduciary funds (pension funds) total bank balance was \$699,072 of which \$250,000 was insured by the FDIC, and the remainder was uninsured.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 3 DEPOSITS AND INVESTMENTS, (Continued)

Investments

As of December 31, 2015, the City's Pension Trust Funds had the following investments:

Investment Type	Fair Value	Investment Maturity (Years)	Quality
International Funds	\$ 7,547,578	N/A	N/A
US Government Bond Funds	6,175,273	6-10	N/A
Corporate Bonds	6,187,263	6-10	BBB
Equity Funds	24,595,480	N/A	N/A
Total fair value	\$ 44,505,594		

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.

Component Units

The aggregate bank balance of deposits included in cash and cash equivalents for the CEDA, a blended component unit, was \$3,171,005 as of June 30, 2015, of which \$250,000 was insured by FDIC. Restricted cash and cash equivalents in the amount of \$155,725 were held in a Sinking Fund pursuant to a bond covenant which is insured by the FDIC. The balance 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 CRA, a blended component unit, was \$92,387 which was all FDIC insured.

The bank balance for the CPA, a blended component unit, was \$15,994 at June 1, 2015, of which all was FDIC insured.

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 of each year.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 4 RECEIVABLES, (Continued)

Property Taxes, (Continued)

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, 2015. Management reevaluated the collectability of delinquent taxes and made an adjustment to the allowance of \$1,923,152. In addition, a deferral of \$1,215,317 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.

Gross property taxes receivable	\$	5,466,912
Less: allowance for uncollectible taxes		(2,085,027)
Less: delinquent uncollectible taxes for property taxes		<u>(1,923,152)</u>
Net total property taxes receivable	\$	<u><u>1,458,733</u></u>

Schedule of Real Estate Taxes - 2015 Duplicate
 For the year ended December 31, 2015

	<u>Assessed Valuation</u>	<u>Total Tax Levy</u>
Tax rate in mills		<u>\$ 29.792</u>
Net tax duplicate	<u>\$ 311,499,888</u>	9,280,205
Deduct: taxes collected (net of and including adjustments)		<u>7,605,101</u>
2015 taxes receivable		<u><u>\$ 1,675,104</u></u>

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 4 RECEIVABLES, (Continued)

Property Taxes, (Continued)

Fiscal Year	Tax Rates		
	General Operation	Debt Service	Total
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
2011	27.400	2.392	29.792
2012	27.400	2.392	29.792
2013	27.400	2.392	29.792
2014	27.400	2.392	29.792
2015	27.400	2.392	29.792

The following schedule presents property taxes levied and collected through 2015 and a ten year summary showing the relationship between amount levied and actually collected.

TAX LEVIES AND TAX COLLECTIONS FOR THE
 LAST TEN FISCAL YEARS

Fiscal Year	Net Total Tax Levy	Amount of Current Taxes Collected	Percent of Current Taxes Collected
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%
2014	7,494,336	5,678,903	75.78%
2015	* 9,280,205	7,605,101	81.95%

*Due to end of the Keystone Opportunity Zone Program (KOZ), several significantly valued properties became taxable which created an increase in assessments during 2015.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 4 RECEIVABLES, (Continued)

<u>Trash Assessments Receivable</u>	<u>2015</u>
Gross trash assessments receivable	\$ 3,137,359
Less: allowance for uncollectible accounts	(1,098,076)
Less: delinquent uncollectible for trash assessments	(1,789,300)
	<u>\$ 249,983</u>

A deferral of \$187,933 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.

Other Receivables

Commonwealth of Pennsylvania / gaming revenue	\$ 2,861,918
Covanta host fees	1,404,083
Chester Upland School District	694,761
Reimbursements	340,265
Payments in lieu of taxes	322,492
Grants	203,897
Cable TV fees	111,171
Other receivables	36,320
	<u>5,974,907</u>
Less: allowance for uncollectible accounts	** (694,761)
	<u>\$ 5,280,146</u>

** The allowance for uncollectable accounts relates to the Chester Upland School District; all other receivables are fully collectible as of December 31, 2015.

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, 2015, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 580,161	\$ 398,858
Other Nonmajor Funds	440,000	621,303
	<u>\$ 1,020,161</u>	<u>\$1,020,161</u>

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 5 INTERFUND RECEIVABLES/PAYABLES AND INTERFUND TRANSFERS, (Continued)

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, 2015 are as follows:

	Transfer In	Transfer Out
General Fund	\$ 686,600	\$ 4,470,869
Other Nonmajor Funds	4,470,869	686,600
	\$ 5,157,469	\$ 5,157,469

Note 6 LOANS RECEIVABLE

CEDA, a blended component unit, makes funds available to qualifying individuals and businesses under various programs. Loans receivable balances, which are included in receivables on the statement of net position and in other receivables on the balance sheet, are as follows as of June 30, 2015:

Regular rehabilitation	\$ 143,773
Emergency rehabilitation	2,188
Homestead rehabilitation	45,940
Low income homeless	12,998
Commercial loans/small business	264,551
	469,450
Less: allowance for doubtful accounts	(255,866)
	\$ 213,584

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 7 CHANGES IN CAPITAL ASSETS

City of Chester

A summary of changes in the City of Chester's capital assets (excludes blended component units) follows:

	Balance at 1/1/2015	Additions	Deletions	Balance at 12/31/15
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	18,574,987	60,077	-	18,635,064
Machinery and equipment	13,897,317	974,384	-	14,871,701
Infrastructure	13,649,066	812,875	-	14,461,941
Total capital assets, being depreciated	<u>46,121,370</u>	<u>1,847,336</u>	<u>-</u>	<u>47,968,706</u>
Less accumulated depreciation for:				
Buildings and improvements	6,744,248	657,469	-	7,401,717
Machinery and equipment	11,055,408	555,067	-	11,610,475
Infrastructure	9,533,374	410,647	-	9,944,021
Total accumulated depreciation	<u>27,333,030</u>	<u>1,623,183</u>	<u>-</u>	<u>28,956,213</u>
Total capital assets being depreciated, net	<u>18,788,340</u>	<u>224,153</u>		<u>19,012,493</u>
Net capital asset value	<u>\$ 20,570,596</u>	<u>\$ 224,153</u>	<u>\$ -</u>	<u>\$ 20,794,749</u>

Additions include \$1,737,259 in transfers from CEDA and actual capital outlays totaled \$110,077.

Depreciation expense was charged to governmental activities as follows:

General government	\$ 627,789
Public safety	263,927
Highway and streets	507,239
Recreation	224,228
	<u>\$ 1,623,183</u>

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, 2015

Note 7 CHANGES IN CAPITAL ASSETS, (Continued)

CEDA, Continued

	2015			
	Balance at 7/1/2014	Additions	Deletions	Balance at 6/30/2015
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

CRA

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

	2015			
	Balance at 1/1/2015	Additions	Deletions	Balance at 12/31/2015
Land	\$ 3,622,748	\$ 2,783	\$ -	\$ 3,625,531 *
Equipment	34,582	-	-	34,582
Leasehold improvements	71,027	-	-	71,027
Total	3,728,357	2,783	-	3,731,140
Less accumulated depreciation	65,360	2,368	-	67,728
Capital assets, net	\$ 3,662,997	\$ 415	\$ -	\$ 3,663,412

*These assets are shown as, "Property Held for Resale" in the Statement of Net Position.

CPA

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

	2015			
	Balance at 6/1/14	Additions	Deletions	Balance at 6/1/15
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, 2015

Note 8 SHORT TERM DEBT

In January 2015, the City of Chester took a Tax and Revenue Anticipation Note under and pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, from a financial institution in the amount of \$2,000,000 with an interest rate of 1.579%. The note matured on December 31, 2015 and there was no outstanding principal and/or interest balance on this date. The note was taken to help with the City's cash flow shortfall and provide funds for operations.

Changes in the City's short-term debt during the year ended June 30, 2015 is as follows:

Balance 1/1/2015	Additions	Deletions	Balance 12/31/2015
\$ -	\$ 2,000,000	\$ 2,000,000	\$ -

Note 9 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. 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, 2015:

Description	Date of Issue	Final Maturity Date	Interest Rate %	Original Amount	Notes Outstanding Balance		Principal Paid	
					01/01/15	12/31/15		
A	2/2/2004	3/1/2019	Variable	\$ 9,500,000	\$ 8,140,000	\$ -	\$ -	
B	9/12/2007	10/1/2017	5.25	4,000,000	* 1,445,530	-	-	
C	11/29/2010	6/25/2019	1.935	5,895,000	3,405,000	2,751,000	654,000	
C	11/29/2010	6/25/2025	2.605	3,985,000	3,078,000	2,835,000	243,000	
C	9/25/2011	9/25/2016	1.216	3,720,000	1,516,000	763,000	753,000	
D	6/30/2015	3/1/2024	3.283	8,140,000	-	8,140,000	-	
D	6/30/2015	10/1/2017	2.682	1,600,000	-	1,182,135	417,865	
					\$ 36,840,000	\$ 17,584,530	\$ 15,671,135	\$ 2,067,865

A – Chester Economic Development Authority

B – Revenue Note - Wells Fargo

C – General Obligation Note – Delaware Valley Regional Finance Authority

D – Revenue Note - PNC Bank

* The City refinanced its 2004 and 2007 debt during 2015. An additional cost of \$154,470 was incurred to refinance the 2007 debt, which had an outstanding balance at the end of 2014 of \$1,445,530. The additional amount was added to the new principal balance, which is \$1,600,000 as of December 31, 2015.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 9 LONG-TERM DEBT, (Continued)

Debt service requirements as of December 31, 2015 were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 7,527,357	\$ 783,829	\$ 8,311,186
2017	1,546,278	242,243	1,788,521
2018	942,500	201,125	1,143,625
2019	942,500	170,183	1,112,683
2020	942,500	139,240	1,081,740
2021-2025	3,770,000	247,538	4,017,538
	<u>\$ 15,671,135</u>	<u>\$ 1,784,158</u>	<u>\$ 17,455,293</u>

City of Chester

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. However, the balances are classified as current as of December 31, 2015.

In 2015, the City refunded both the 2004 note in the amount of \$8,140,000 and the 2007 note in the amount of \$1,445,530 with the Series 2015 note A series in the amount of \$8,140,000 and the B series in the amount of \$1,600,000. The 2015 Series issuance resulted in a reduction of payments of \$196,438.

Interest Rate Management

The City has notes outstanding with Delaware Valley Regional Finance Authority ("DVRFA") as described below. The DVRFA 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 CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 9 LONG-TERM DEBT, (Continued)

Interest Rate Management, Continued

The objective of the swaps is to reduce the costs of participants in the DVRFA Loan Program and to enhance the ability of participants to manage their interest rate risks. The interest rate swaps serve as hedges against swings in the cash flows that would be required to repay outstanding debt.

Interest Rate Risk

The City has the option under the loan agreements to pay a variable rate of interest or a fixed rate of interest. If the City elects the variable rate, the interest rate, based upon the Securities Industry and Financial Markets Association Municipal Swap Index (the "Municipal Swap Index"), adjusts weekly with a maximum interest rate of 15 percent. If the City elects a fixed rate, the rate, with terms and conditions selected by the City, would be set based upon the fixed rate swap market at that time with a new confirmation executed by DVRFA under the DVRFA Swap Agreement. The City has the option to convert all or a portion of the variable rate notes to a fixed rate at any time to mitigate the exposure to changes in interest rates. The City has converted all of its loans with Del Val to bear interest at a fixed rate in order to mitigate against such exposure.

Basis Risk

The City is not exposed to basis risk.

Credit Risk

The City is exposed to credit risk on the swaps only when their fair values are positive. At December 31, 2015, the swaps had a negative fair value; the maximum amount of loss due to credit risk of the counterparty is zero. The long-term unsecured, senior debt ratings of DVRFA at December 31, 2015 are currently A2 and A+ by Moody's Investors Service ("Moody") and Standards & Poor's Global Rating ("S&P"), respectively.

Rating downgrades by Moody's and S&P can precipitate collateralization requirements under the DelVal Swap Agreement. The failure to post collateral when it is required constitutes an event of default under the DelVal Swap Agreement and may result in termination.

- If the long term, unsecured, senior debt ratings of Bank of America NA ("BANA") are reduced below "A2" by Moody's or "A" by S&P and if DelVal would receive a payment from BANA upon termination, BANA is required to post collateral equal to the market value of each of the swap agreements executed with DelVal. BANA's current ratings are "A1" by Moody's, "A" by S&P, and "A+" by Fitch Ratings ("Fitch").

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 9 LONG-TERM DEBT, (Continued)

Credit Risk, Continued

If the long term, unsecured, senior debt ratings of BANA or DelVal are downgraded below “Baa2” by Moody’s or “BBB” by S&P, the respective counterparty may terminate the BANA Swap Agreement.

Termination Risk

The City is obligated to pay any termination payment associated with the portion of the DVRFA Swap Agreement allocable to the applicable note. A termination payment may be incurred due to the termination of all or a portion of the DVRFA Swap Agreement with the mutual consent of DVRFA, Bank of America, Citibank, Barclays and the City. These termination payments could be triggered in the event of (i) a payment default by the City under the Loan Agreement: (ii) a payment default by DVRFA, Bank of America, Barclays, or Citibank under the DVRFA Swap Agreement: (iii) the occurrence of events that may precipitate a payment default by DVRFA, Bank of America, Barclays, or Citibank; or (iv) the downgrading of the long-term, unsecured, senior debt ratings of Bank of New York, Barclays, Citibank, or DVRFA.

In all instances of termination, except a payment default on a note converted to a fixed rate, DVRFA would seek to replace the DVRFA Swap Agreement with a new interest rate swap agreement with similar terms and conditions. The amount of the termination payment is determined by the market value of the DVRFA Swap Agreement; therefore, the cost or income of the replacement swap should offset the cost or income from the termination payment.

DVRFA may not be able to secure the replacement interest rate swap if the swap market is not functioning normally or if DVRFA does not have access to the swap market. If DVRFA was obligated to make a payment and sufficient funds were not available, DVRFA could access each borrower its allocable share of the termination payment.

Terms: The significant terms of the interest rate swaps are as follows:

Description	Type	Average Rate	Loan Principal Outstanding	Maturity Date	Market Value of Related Swap for Fixed Rate Loans	Market Value of Related Swap for Del Val Bonds
2010 A Note	Fixed	1.935%	\$2,751,000	June 25, 2019	\$(49,428)	\$502,305
2010 B Note	Fixed	2.605%	\$2,835,000	June 25, 2025	\$(137,223)	\$517,643
2011 Note	Fixed	1.216%	\$763,000	Sept. 25, 2016	\$(3,483)	\$139,316

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 9 LONG-TERM DEBT, (Continued)

Termination Risk, Continued

The estimated termination payment (i.e., the market value) for the DVRFA Swap Agreements allocable to the City debt as of December 31, 2015, is shown in the table above. In the event of a termination payment, DVRFA would assess the net loss, if any, to the City. Any net gain on the termination payment allocable to any variable rate notes would be retained by DVRFA.

Rollover Risk

This is the risk that the derivative does not last as long as the associated debt is outstanding. There is rollover risk on the interest rate swaps only to the extent that the swaps may be terminated prior to the maturity of the debt, as described above. Absent a termination event, the swap is scheduled to mature at the same time as the related debt.

Market Access Risk

The City does not have market access risk.

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 Brownfield 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 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 \$1,600,000 from the HUD CDBG program as of December 31, 2015, and the corresponding Section 108 loan payable.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 9 LONG-TERM DEBT, (Continued)

CRA, Continued

During the current year, CRA refinanced the remaining balance of the note (\$1,600,000) pursuant to and as part of a public offering undertaken by the Department of Housing and Urban Development (HUD) with an interest rate ranging from .28% to 2.8% and a maturity date of 2023. The refinancing resulted in a net savings of \$220,844 between the time of the offering and the final maturity date of the note.

Interest and principal payments as of December 31, 2015 follow:

	Interest	Principal
2016	\$ 26,163	\$ 175,000
2017	24,710	175,000
2018	23,083	175,000
2019	20,755	175,000
2020	17,465	175,000
2021 through 2023	29,488	550,000
	\$ 141,664	\$ 1,425,000

In addition to the \$175,000 included in long-term liabilities due within one year, CRA borrowed \$200,000 from CEDA in 2013 for the purpose of demolishing a specific property and to remove any environmental contaminants. A portion of the loan is expected to be repaid from grant proceeds received under the Industrial Sites Reuse (ISR) program of the Commonwealth of Pennsylvania. The remaining portion of the loan is to be repaid from the net sales proceeds when the property is ultimately sold to a redeveloper. Also, approximately \$11,000 is also included for interest payable due on the Section 108 loan above.

CEDA

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 entered into an agreement with CEDA which provided that the City will make the payments to CEDA sufficient to 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.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 9 LONG-TERM DEBT, (Continued)

CEDA, Continued

The Authority refunded these bonds in the amount of \$8,140,000 in June 2015. Further as a result of the refunding, the Authority paid back to the City the balance of the previous reserve account (as noted above) in the amount of \$1,930,825, as well as principal paid for mandatory redemption during the fiscal year in the amount of \$1,410,000. With the extension of the debt service through 2024 combined with the refunding, the City expects to save approximately \$1,250,000 beginning in 2020. The financial covenant requires a ratio of pledged revenues to debt service greater than 1.2 times the debt service, measured at the end of each fiscal year.

The bonds carry a variable rate not to exceed 11% per annum. Accrued interest on the unpaid balance of the Note shall be payable at the rate of 3.283% until March 1, 2020 (the initial rate reset date). From and after the initial rate reset date, until the earlier of the tender date and the maturity date, interest on the unpaid balance of this note shall be payable at the variable rate. The variable rate shall be a floating rate per annum which will be equal to 70% of the Daily LIBOR rate plus 250 basis points.

Debt service payments for the remaining term are as follows:

<u>YEAR ENDING</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>TOTAL</u>
June 30,			
2016	\$ 1,320,049	\$ 600,000	\$ 1,920,049
2017	777,563	942,500	1,720,063
2018	673,888	942,500	1,616,388
2019	570,213	942,500	1,512,713
2020	466,537	942,500	1,409,037
2021-2024	829,401	3,770,000	4,599,401
	<u>\$ 4,637,651</u>	<u>\$ 8,140,000</u>	<u>\$ 12,777,651</u>

Change in long-term debt, which includes the mandatory redemption of \$1,410,000 as noted above and the refunding of the remaining \$6,730,000 this fiscal year was as follows:

Balance <u>7/1/2014</u>	Additions	Deletions	Balance <u>6/30/2015</u>
\$ 8,140,000	\$ 8,140,000	\$ 8,140,000	\$ 8,140,000

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 10 PLEDGED REVENUES

CEDA Guaranteed Revenue Bonds – 2015 A (formerly 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 CEDA’s Guaranteed Revenue Bonds – 2004 Series originally issued in the amount of \$9,500,000. In June 2015, the bonds were refunded to 2015A Series and the tipping fees are currently pledged to repay the new debt ; see Chester Economic Development Authority above. The original bonds were issued to finance the City’s operations. Payments on the new debt are payable from the pledged revenues and City’s general revenues, if the pledged revenues are insufficient, through 2024. Annual payments are expected to require approximately 37% of pledged revenues. For the current year, payments and current pledged revenues were \$0 and \$5,650,021, respectively.

2015B Guaranteed Host Community Revenue Note (formerly 2007 Series)

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 of \$4,000,000. In June 2015, the City refunded this bond in the amount of \$1,600,000 to 2015B Series; see Chester Economic Development Authority above. 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. Debt service payments are made 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 \$1,182,135, principal only. For the current year, debt service payments and current pledged revenues were \$417,865 and \$5,650,021, respectively.

General Obligation Notes Refinanced – 2010 Series

The City has pledged the following future revenues, not otherwise required for payment of previously issued refinanced 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, 2015

Note 10 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 \$5,586,000, principal only. For the current year, debt service payments and current pledged revenues were \$1,033,576, and \$12,048,195, 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"), that covers the Chester Upland School Districts (the "District") sponsorship of DCCC. The City paid DCCC on behalf of the District, \$674,815 during 2015.

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 \$763,000, principal only. For 2015, debt service payments and current pledged revenues were \$769,220, and \$12,048,195, 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 \$10,513,074. For the current year, payments and current pledged revenues were \$441,864 and \$674,815, respectively.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

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, a drastic reduction of operating expenditures and other basic financial management controls.” In addition, the Plan contains revenue enhancement recommendations.

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 annual payments to the County, 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 \$441,864 for the year ended December 31, 2015.

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.

Future payments are as follows:

<u>Year Ending December 31.</u>	
2016	\$ 442,102
2017	440,958
2018	440,933
2019	440,758
2020	440,758
2021-2025	2,197,864
2026-2030	2,191,053
2031-2035	2,182,727
2036-2039	1,735,922
	<u>\$ 10,513,075</u>

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

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 (collectively the “Plans”). 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 6% of their compensation depending upon the date of hire and coverage status and 1% of compensation if hired after December 31, 1987.

As of December 31, 2015, 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 & Employees Retirement System</u>
Participants			
Active Employees	81	53	112
Retirees, disabled and beneficiaries currently receiving benefits	138	73	57
Terminated employees entitled to benefits but not yet receiving them	-	-	1
	<u>219</u>	<u>126</u>	<u>170</u>

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

Plan Description, Continued

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 1/40th 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.

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 1/40th 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.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

Plan Description, Continued

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.

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.

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 PNC Financial Services Group, Inc. (PNC). 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 PNC, 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. The Act does not require employees to contribute; such contributions resulted from 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 2015, the Police and Paid Firemen were required to contribute based upon the financial requirements established by their respective collective bargaining agreements. Non-uniformed employees' contributions are based on the plan document. During this period, the Police contributed \$425,108, the Paid Firemen contributed \$199,437, and the Officers and Employees contributed \$60,504.

Further, the City was required to contribute State aid along with City funds necessary to meet the 2015 MMO obligations of each of the respective funds as follows:

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

Contributions and Funding Policy, Continued

Police Pension Fund	\$ 4,931,999
Paid Firemen Pension Fund	\$ 111,792
Officers & Employees Retirement System	\$ 1,010,694

The City received a total of \$1,497,759 in its State allocation during this period.

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

Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pension

At December 31, 2015, the City reported a net pension liability of \$70,107,900 for all Plans. The actuarial valuation is performed biennially at January 1. The total pension liability was determined as part of an actuarial valuation at January 1, 2015. Update procedures were used to roll forward to the City's fiscal plan year ending December 31, 2015. The Plans total pension liability, fiduciary net position, and changes thereto are presented below:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/2014	\$ 102,584,978	\$ 52,765,581	\$ 49,819,397
Changes for the year:			
Service cost	1,951,745	-	1,951,745
Interest	8,743,820	-	8,743,820
Changes in benefit terms	1,601,173	-	1,601,173
Differences between expected and actual experience	12,489,102	-	12,489,102
Changes of Assumptions	2,426,219	-	2,426,219
Contributions - employer	-	4,556,726	(4,556,726)
Contributions - state aid	-	1,497,759	(1,497,759)
Contributions - member	-	685,049	(685,049)
Net Investment income	-	252,489	(252,489)
Benefit payments	(8,937,904)	(8,937,904)	-
Administrative expense	-	(68,467)	68,467
Other changes	-	-	-
Net changes	18,274,155	(2,014,348)	20,288,503
Balances at 12/31/15	\$ 120,859,133	\$ 50,751,233	\$ 70,107,900

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pension, Continued

For the year ended December 31, 2015, the City recognized total pension expense for the Plans of \$6,024,168. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to the Plans as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 10,095,450	\$ (536,925)
Changes in assumptions	1,900,689	-
Net differences between projected and actual earnings on pension plan investments	2,822,097	(16,976)
	<u>\$ 14,818,236</u>	<u>\$ (553,901)</u>

Amounts reported as pension deferred outflows and deferred inflows of resources for all Plans will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	Amount
2016	\$ 4,157,388
2017	4,157,388
2018	3,924,760
2019	2,225,611
2020	(24,370)
Thereafter	<u>(176,442)</u>
	<u>\$ 14,264,335</u>

Actuarial Assumptions

The City's actuarial assumptions and methods and related information for each of the Plans as of January 1, 2015 are as follows:

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

Actuarial Assumptions, Continued

	<u>Police Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Employees Retirement System</u>
Actuarial valuation date	1/1/2015	1/1/2015	1/1/2015
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
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	15 years	14 years	16 years
Actuarial assumptions			
Inflation	2.25%	2.25%	2.25%
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	5.00%	5.00%	5.00%
Retirement Age:			
Normal	20 years of service	20 years of service	Before 1/1/88 age 60 and 20 years of ser- vice; after 12/31/87, age 65 and 25 years of service
Early	Age 60	None	Age 60 or 65 and 12 years of service

Mortality rates were based on the Blue Collar RP-2000 Table projected to 2015 using Scale AA.

Investment Policy Summary

The Plans' investment policy in regard to the allocation of invested assets is established and may be amended by the City Council and Pension Board. The objective of the investment strategy is to reduce risk while maximizing returns through the prudent diversification of the portfolio in order to maintain a fully funded status and meet the benefit and expense obligations when due.

The Plan's formal Investment Policy Statement which is revised periodically provides more comprehensive details on investment strategy and authorized investments.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

Investment Policy Summary, Continued

The Plan's investment policy establishes the following target allocation across asset classes:

<u>Asset Class</u>	<u>Target</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equities	52.5%	5.8%
International Equity	17.5%	7.2%
Fixed Income	27.0%	0.5%
Cash	3.0%	<u>0.0%</u>
 Total Net Blended Return		 4.08%
Inflation		<u>2.00%</u>
Total Long-term Expected Rate of Return		<u>6.08%</u>

The long-term expected rate of return on the Plan's investments was determined using an asset allocation study conducted by the Plan's investment management consultant in December 2015 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best-estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2015 are listed in the table above.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Based upon the Plan's current target investment allocation and the associated long-term expected investment returns for its asset classes, the Plan's long-term returns may be less than its actuarial discount rate assumption used to determine its pension liability. This may result in future increased total and net pension liability.

Net Pension Liability Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 7.50% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

Net Pension Liability Sensitivity, (Continued)

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
Police Pension Fund			
Net Pension Liability	\$ 64,119,160	\$ 55,808,788	\$ 48,812,740
Paid Fireman's Pension Fund			
Net Pension Liability	10,479,268	6,349,327	2,897,458
Officers & Employees Pension Fund			
Net Pension Liability	<u>8,875,173</u>	<u>7,949,785</u>	<u>7,156,438</u>
Total	\$ <u>83,473,601</u>	\$ <u>70,107,900</u>	\$ <u>58,866,636</u>

CEDA Pension Plan

The Authority sponsors a defined contribution pension plan for the benefit of its employees. This Plan has its own Board and investments are participant directed. This plan has an amended effective date of July 2, 1982, with additional amendments made to maintain compliance with requisite Internal Revenue Service requirements. This 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 at 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:

Completed Years of Service	% Vested
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 CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 13 PENSION PLANS, (Continued)

CEDA Pension Plan, (Continued)

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 \$1,052,704 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:

	Year Ended June 30,		
	2015	2014	2013
Employer Contribution	\$ 17,172	\$ 17,045	\$ 16,772
Employee Contribution	\$ 17,172	\$ 17,045	\$ 22,942
Total Payroll	\$ 320,023	\$ 317,902	\$ 455,924

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 Harrah's gaming revenue paid to 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.

A total of 1.0% of table game revenue assessments (50% of the local share assessment) received from the Commonwealth of Pennsylvania is restricted for the DCCC sponsorship agreement (Note 10). The City received \$12,048,195 in 2015 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 firemen, receive medical benefits for the employee and spouse upon retirement. 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 2015, the City paid \$5,016,917 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, 2014 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*.

THE CITY OF CHESTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

Note 15 OTHER POST EMPLOYMENT BENEFITS, (Continued)

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 ARC is equal to the 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	\$ 20,269,678
Interest on OPEB obligation	1,963,190
Adjustment to annual required contribution	<u>(3,303,511)</u>
Annual OPEB cost	18,929,357
Contributions made (pay as you go)	<u>(5,016,917)</u>
Increase in net OPEB obligation	13,912,440
Net OPEB obligation at January 1, 2015	<u>48,975,115</u>
Net OPEB obligation at December 31, 2015	<u><u>\$ 62,887,555</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
12/31/2013	\$ 12,473,226	36%	\$ 39,802,985
12/31/2014	\$ 18,398,945	28%	\$ 48,975,115
12/31/2015	\$ 18,929,357	27%	\$ 62,887,555

The ARC for the Plan was determined as part of the January 1, 2014 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

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 15 OTHER POST EMPLOYMENT BENEFITS, (Continued)

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, 2015.

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.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 16 COMMITMENTS AND CONTINGENCIES, (Continued)

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, 2015.

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.

Note 18 SUBSEQUENT EVENTS

The City evaluated its December 31, 2015 financial statements for subsequent events through May 7, 2018, the date the financial statements were available to be issued.

The City has been in the Pennsylvania's Act 47 Financial Recovery Program since 1995. The General Assembly enacted Act 199 of 2014, which amended Act 47 in various respects. One focus of Act 199 is to limit the period of time in which a municipality may remain in distress status under Act 47.

Under Act 199, a municipality's distress status must terminate within five years of the effective date of the most recent recovery plan or amendment enacted under Act 47, which was in effect at the time Act 199 of 2014 was enacted. Chester's most recent plan or amendment was effective beginning in May 2013, which means that under Act 199, the City must exit Act 47 by May 2018.

On August 16, 2016, the City adopted an amended recovery plan to address the enacted Act 199. The recovery plan also has a host of recommendations that will help to overcome the current financial burden. The recovery plan, which was completed by a state appointed financial advisory, can be found on the City's website and listed the various recommendations to accomplish the goal of reducing the structural deficit that the City currently faces.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 18 SUBSEQUENT EVENTS, (Continued)

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, 2015

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes and assessments			
Real estate	\$ 10,647,646	\$ 8,613,740	\$ (2,033,906)
Rubbish fees	1,359,500	1,172,122	(187,378)
Local enabling act taxes	12,060,000	9,688,668	(2,371,332)
Licenses - permits	722,350	845,913	123,563
Cable television	410,000	437,723	27,723
Fines, forfeits	265,000	205,694	(59,306)
Rent	95,700	110,909	15,209
Public utility realty tax	25,000	21,773	(3,227)
Grants intergovernmental revenue	711,885	530,664	(181,221)
Departmental earnings	495,450	267,008	(228,442)
Commonwealth of Pennsylvania pension aid	1,560,000	1,497,759	(62,241)
Waste facilities fees	5,302,902	5,650,021	347,119
Payments in lieu of taxes	400,000	393,380	(6,620)
Casino host community fees	11,950,000	11,524,529	(425,471)
Reimbursements	1,670,000	937,943	(732,057)
Other income	3,120,915	4,147,837	1,026,922
Total revenues	<u>50,796,348</u>	<u>46,045,683</u>	<u>(4,750,665)</u>
EXPENDITURES			
General government	10,902,044	15,778,508	4,876,464
Public safety	28,559,365	29,096,072	536,707
Health and sanitation	627,879	557,228	(70,651)
Highways and streets	2,989,973	2,947,958	(42,015)
Recreation	2,422,251	748,258	(1,673,993)
Grants and special programs	169,443	670,859	501,416
Debt service	3,659,747	441,864	(3,217,883)
Total expenditures	<u>49,330,702</u>	<u>50,240,747</u>	<u>910,045</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	<u>1,465,646</u>	<u>(4,195,064)</u>	<u>(5,660,710)</u>
OTHER FINANCING SOURCES (USES) OF FUNDS			
Operating transfer in	-	686,600	686,600
Operating transfer out	(1,465,646)	(4,470,869)	(3,005,223)
Total other financing sources (uses) of funds, net	<u>(1,465,646)</u>	<u>(3,784,269)</u>	<u>(2,318,623)</u>
EXCESS OF REVENUES AND OTHER FINANCING			
USES OVER EXPENDITURES			
AND USES OF FUNDS	<u>\$ -</u>	<u>\$ (7,979,333)</u>	<u>\$ (7,979,333)</u>
FUND BALANCE - BEGINNING			
		(6,826,320)	
FUND BALANCE - ENDING			
		<u>\$ (14,805,653)</u>	

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

CITY OF CHESTER
REQUIRED SUPPLEMENTARY INFORMATION
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
1/1/2011	\$ -	\$ 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%
1/1/2014	\$ -	\$ 209,682,830	\$ 209,682,830	\$ -	\$ 20,056,412	1045.5%
1/1/2015	\$ -	\$ 218,494,504	\$ 218,494,504	\$ -	\$ 20,335,244	1074.5%

CITY OF CHESTER
SCHEDULE OF NET PENSION LIABILITY AND RELATED RATIOS - POLICE PENSION PLAN,
PAID FIREMEN'S PENSION FUND AND OFFICERS AND EMPLOYEES FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>	<u>2014</u>
City's net pension liability	\$ 70,107,900	\$ 49,819,397
Covered-employee payroll	\$ 16,400,000	\$ 20,476,598
Net pension liability as a percentage of covered-employee payroll	427.5%	243.3%
Plan fiduciary net position as a percentage of the total pension liability	42.0%	*

* Information not available.

CITY OF CHESTER
SCHEDULE OF CONTRIBUTIONS - POLICE PENSION PLAN,
PAID FIREMEN'S PENSION FUND AND OFFICERS AND EMPLOYEES FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$ 6,054,485	\$ 4,741,361
Contributions made	<u>(111,792)</u>	<u>1,560,690</u>
Contribution deficiency (excess)	<u>\$ 5,942,693</u>	<u>\$ 3,180,671</u>
Covered-employee payroll	\$ 16,400,000	\$ 20,476,598
Contributions as a percentage of covered-employee payroll	37%	23%

City of Chester
Notes to Schedule of Required Supplementary Information
For the Year Ended December 31, 2015

Changes in benefit terms:

Average compensation was changed from a five year average to final salary and the service increment maximum was increased from \$100 to \$500.

Changes in assumptions:

The mortality assumption was changed from the Blue Collar RP-2000 Table to the Blue Collar RP-2000 Table projected to 2015 using Scale AA.

Method and assumptions used in calculations of actuarially determined contributions:

The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Investment rate of return	7.50%
Salary increases	5.00%
Multiple decrement tables	Mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.