

CITY OF CHESTER

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2017



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, 2017, 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 proprietary fund. 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 proprietary fund's 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	Qualified
Governmental funds	Qualified
Proprietary funds	Qualified
Fiduciary funds	Qualified

Basis for Qualified Opinions

We were unable to obtain sufficient appropriate audit evidence for an escrow account included in cash and cash equivalents, unused sick leave, and for revenue related to gaming. Additionally, the proprietary fund's financial statements exclude the activity of the Parking Authority of the City of Chester (CPA), a component unit, since the CPA's audited financials were not provided.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Modified Opinions" 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, as of December 31, 2017, 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 Matters

Regarding Going Concern

The financial statements of the City were prepared assuming the entity will continue as going concern. The entity has experienced substantial recurring expenses in excess of revenue and a net unrestricted deficit of \$234,475,569 at December 31, 2017. The City has limited funding available to meet its financial obligations without additional funding sources or a reduction of expenses. As of December 31, 2017 the City continued to be delinquent in certain required pension payments. Furthermore, as a subsequent event, on April 13, 2020, the Governor of the Commonwealth of Pennsylvania declared a fiscal emergency for the City, stating that the City is projected to be insolvent within 180 days due to the ongoing fiscal challenges and the enhanced fiscal distress caused by the COVID-19 pandemic. On June 15, 2020, the Commonwealth filed a petition with the Commonwealth Court to appoint a legal Receiver for the City. The Court has 60 days to make a decision. The Receiver shall have many of the rights and authority to manage the City's operations that are normally reserved for elected officials.



These concerns raise substantial doubt about the entities' ability to continue as a going concern. 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 these matters.

Delinquent Pension Contributions

As of December 31, 2017, the City had not made contributions to one of its pension plans for the past four years and had accrued contributions and interest payable to the plan of \$17,634,376. It is estimated that without these contributions the Plan's available assets will be depleted during 2020.

Restatement

As discussed in Note 19, the City and CEDA (a component unit) restated the beginning net position for governmental activities and the beginning fund balance to correct errors. The opinion is not modified with respect to these matters.

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 4-10 and 62-66 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
June 25, 2020



The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2017

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, 2017. 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 2017 was a steady year for the City of Chester. Like the prior years, the City worked hard to make Chester more marketable for businesses and visitors. The opening of Chester Charter Scholars Academy created jobs within the city. In addition it has increased the City's tax base. Council and management renegotiated all three collective bargaining agreements, which expired on December 31, 2016. Prior to this happening, officers used accumulated time before making their final decision to retire from the City, which caused the City to pay additional overtime to cover vacant shifts. Effective February 1, 2017, officers will no longer have post-employment benefits, all DROP payments will be returned to the pension fund and short term benefits are eliminated.

Though a financially distressed Act 47 city, we were able to work very diligently to overcome the many financial obstacles. Efforts of the City, not necessarily reflected in the financial statements are bringing new industries to the community, as well as helping to expand existing business, and educational facilities within the community, thus bringing future fiscal stability and improvement.

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

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2017

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, deferred outflows, liabilities, and deferred inflows; with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

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

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

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.

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 of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2017

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 is presented as a proprietary fund.

Proprietary 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.

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.

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 tax collections, lower casino host community fees, and less than expected grants intergovernmental revenue. Total General Fund expenditures were less than budgeted mostly due to the retirement of senior level police officers.

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 2016 to 2017. Table 4 shows changes in outstanding bonded and other debt from 2016 to 2017.

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2017

Table 1

	Net Position December 31,	
	2017	2016
Other assets	\$ 22,363,653	\$ 15,976,298
Capital assets, net	26,566,164	28,092,151
Total assets	48,929,817	44,068,449
Deferred outflow - pension	43,566,250	55,473,036
Total assets and deferred outflow	92,496,067	99,541,485
Other liabilities	25,317,264	35,245,404
Long-term liabilities	276,005,610	236,135,650
Total liabilities	301,322,874	271,381,054
Deferred inflow	4,657,854	1,560,372
Total liabilities and deferred inflow	305,980,728	272,941,426
Net position (deficit):		
Net investment in capital assets	15,953,925	16,498,884
Restricted for:		
Debt service	660,344	-
Special revenue	4,376,639	1,002,596
Unrestricted	(234,475,569)	(190,901,421)
Total net position (deficit)	\$ (213,484,661) *	\$ (173,399,941)

*Note that the previously reported net deficit at December 31, 2016 of \$173,399,941 (includes PY CPA balances) was restated to \$166,523,101 to correct accounting errors at the City and CEDA.

During the current fiscal year, the reported net deficit increased for governmental activities from the prior fiscal year by \$46,961,560. The increase is mainly due to a decrease in our delinquent tax collection, 2017 series issuance cost, and interest to pay off our 2015 long term debt.

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2017

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

	<u>2017</u>		<u>2016</u>
Program Revenues:			
Charges for Services	\$ 4,310,721		\$ 5,120,216
Operating grants and contributions	<u>3,391,808</u>		<u>4,438,737</u>
Total program revenues	<u>7,702,529</u>		<u>9,558,953</u>
General revenues	<u>45,006,579</u>		<u>43,874,770</u>
Total revenues	<u>52,709,108</u>		<u>53,433,723</u>
Program expenses:			
Primary government activities	99,660,905		93,428,243
Business-type activities	<u>9,763</u>		<u>206,432</u>
	<u>99,670,668</u>		<u>93,634,675</u>
Net change in net deficit	(46,961,560)		(40,200,952)
Net deficit - beginning, previously reported	(173,647,764)	**	(131,773,989)
Accounting error adjustment	<u>7,124,663</u>		<u>(1,425,000)</u>
Net deficit - beginning, restated	<u>(166,523,101)</u>		<u>(133,198,989)</u>
Net deficit - end of year	<u>\$ (213,484,661)</u>		<u>\$ (173,399,941)</u>

** The beginning balance in 2017 excludes the CPA balances, since audited financials were not provided.

During the current fiscal year, revenue decreased slightly by \$724,615 mostly due to a decrease in operating grants, which was offset by a increase in local real estate tax due to new properties being taxed and an increase in some properties due to reassessment. Expenses increased by \$6,035,993 mostly due to interest and other cost to payoff the 2015 debt and cost incurred to acquire the 2017 debt, as well as increases in pension, OPEB and health insurance cost.

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

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2017

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, 2017 the City's governmental funds reported a fund balance deficit of \$4,493,786, which consists of the following:

	<u>2017</u>		<u>2016</u>	
		<u>% of</u>		<u>% of</u>
		<u>Total</u>		<u>Total</u>
Nonspendable	\$ 6,675,575	-148.6%	\$ -	0.0%
Restricted	2,818,130	-62.7%	2,702,404	-12.9%
Committed	1,346,106	-30.0%	1,097,550	-5.2%
Assigned	98,905	-2.2%	369,334	-1.8%
Unassigned	<u>(15,432,502)</u>	343.4%	<u>(25,166,607)</u>	119.9%
Total fund balance	\$ <u>(4,493,786)</u>		\$ <u>(20,997,319)</u>	

Nonspendable increase is due to CEDA's classification of its revenue note 2015 series. Committed increased due to reserves for the 2017 series, while the assigned decrease was due to capital improvement expenditures in 2017. The unassigned funds deficit decrease was mostly due to a decline in police expenses and payroll.

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

<u>CAPITAL ASSETS</u>	<u>2017</u>	<u>2016</u>	<u>\$ Inc/Dec</u>
Capital assets, not being depreciated:			
Land	\$ 1,928,261	\$ 1,928,261	\$ -
Capital assets, being depreciated:			
Buildings and improvements	19,000,562	18,635,064	365,498
Machinery and equipment	16,315,308	16,013,110	302,198
Infrastructure and related improvements	<u>17,629,500</u>	<u>17,457,453</u>	<u>172,047</u>
Total Capital Assets	54,873,631	54,033,888	839,743
Less: Accumulated Depreciation	<u>32,122,914</u>	<u>30,691,769</u>	<u>1,431,145</u>
Net Capital Asset Value*	<u>\$ 22,750,717</u>	<u>\$ 23,342,119</u>	<u>\$ (591,402)</u>

*Excluding component units.

The City of Chester
Management's Discussion and Analysis
For the Year Ended December 31, 2017

During 2017, we increased our assets by purchasing a new firetruck and equipment for the fire department as well as improvements to our parks.

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

SERIES	2017	2016	\$ Inc/Dec
2010 Series A	\$ 1,403,000	\$ 2,084,000	\$ (681,000)
2010 Series B	2,328,000	2,585,000	\$ (257,000)
2017 Series A	12,000,000	-	\$ 12,000,000
2017 Series B	7,210,000	-	\$ 7,210,000
DCED	2,000,000	-	\$ 2,000,000
2015 Series A	-	7,540,000	\$ (7,540,000)
2015 Series B	-	603,778	\$ (603,778)
Total Debt	<u>\$ 24,941,000</u>	<u>\$ 12,812,778</u>	<u>\$ 12,128,222</u>

During 2017, The City initiated the 2017 Series bonds and the DCED no interest loan.

In a prior year, 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 \$440,958 for the year ended December 31, 2017. The balance outstanding was \$9,630,015 as of December 31, 2017. The liability related to this agreement has been recorded in the City's governmental activities Statement of Net Position with current year payments serving to reduce the balance owed on the liability.

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

Complete financial statements for the individual component units can be obtained from their administrative offices at Chester Economic Development Authority and the Redevelopment Authority of the City of Chester.

CITY OF CHESTER
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,393,409	\$ 171,254	\$ 5,564,663
Receivables (net of allowance for uncollectibles)	15,499,374	6,205	15,505,579
Due from other funds and governments	1,293,411	-	1,293,411
Capital assets not being depreciated:			
Land	2,302,222	-	2,302,222
Property held for resale	-	3,408,341	3,408,341
Capital assets, net of accumulated depreciation:			
Buildings and improvements	10,298,795	33,145	10,331,940
Machinery and equipment	3,760,966	-	3,760,966
Infrastructure	6,762,695	-	6,762,695
Total assets	<u>45,310,872</u>	<u>3,618,945</u>	<u>48,929,817</u>
DEFERRED OUTFLOWS OF RESOURCES - PENSION	<u>43,566,250</u>	<u>-</u>	<u>43,566,250</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>88,877,122</u>	<u>3,618,945</u>	<u>92,496,067</u>
LIABILITIES			
Accounts payable and accrued expenditures	22,972,543	13,399	22,985,942
Due to other governments and entities	1,293,411	8,918	1,302,329
Escrow liability	1,004,328	24,665	1,028,993
Long-term liabilities:			
Due within one year:			
Compensated absences	113,678	-	113,678
Contribution agreement	440,933	-	440,933
Long-term debt	4,776,000	175,000	4,951,000
Other postemployment benefits	4,020,190	-	4,020,190
Obligation under capital lease	210,555	-	210,555
Due in more than one year:			
Compensated absences	2,347,034	-	2,347,034
Contribution agreement	9,189,082	-	9,189,082
Long-term debt	20,165,000	250,000	20,415,000
Section 108 loan payable	-	900,000	900,000
Other postemployment benefits	95,927,948	-	95,927,948
Obligation under capital lease	399,774	-	399,774
Net pension liability	137,090,416	-	137,090,416
Total liabilities	<u>299,950,892</u>	<u>1,371,982</u>	<u>301,322,874</u>
DEFERRED INFLOWS OF RESOURCES - PENSION	<u>4,657,854</u>	<u>-</u>	<u>4,657,854</u>
Total deferred inflows of resources	<u>4,657,854</u>	<u>-</u>	<u>4,657,854</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>304,608,746</u>	<u>1,371,982</u>	<u>305,980,728</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	15,920,780	33,145	15,953,925
Restricted for:			
Debt service	660,344	-	660,344
Special revenue	4,376,639	-	4,376,639
Unrestricted	(236,689,387)	2,213,818	(234,475,569)
Total net position (deficit)	<u>\$ (215,731,624)</u>	<u>\$ 2,246,963</u>	<u>\$ (213,484,661)</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, 2017

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 27,475,951	\$ 319,713	\$ 1,778,524	\$ (25,377,714)	\$ -	\$ (25,377,714)
Public safety	54,281,248	1,404,225	645,634	(52,231,389)	-	(52,231,389)
Highways and streets	5,520,785	1,236,711	888,589	(3,395,485)	-	(3,395,485)
Health and sanitation	1,855,825	-	-	(1,855,825)	-	(1,855,825)
Community development	1,700,005	1,350,072	53,281	(296,652)	-	(296,652)
Recreation	1,340,698	-	25,780	(1,314,918)	-	(1,314,918)
Grants and special programs	1,056,734	-	-	(1,056,734)	-	(1,056,734)
Depreciation, net of disposals	1,431,145	-	-	(1,431,145)	-	(1,431,145)
Interest on long-term debt	4,998,514	-	-	(4,998,514)	-	(4,998,514)
Total governmental activities	99,660,905	4,310,721	3,391,808	(91,958,376)	-	(91,958,376)
Business-type activities:						
Redevelopment activities	9,763	-	-	-	(9,763)	(9,763)
Total business-type activities	9,763	-	-	-	(9,763)	(9,763)
Total primary government	\$ 99,670,668	\$ 4,310,721	\$ 3,391,808	(91,958,376)	(9,763)	(91,968,139)
General revenues:						
Real estate taxes				9,725,116	-	9,725,116
Local enabling taxes				12,112,888	-	12,112,888
Contributions and fees				2,894,676	-	2,894,676
Cable television				459,540	-	459,540
Host community fees				11,775,785	-	11,775,785
Waste facilities fees				5,632,056	-	5,632,056
Payments in lieu of taxes				382,701	-	382,701
Investment earnings				265,687	241	265,928
Reimbursements and others				1,415,190	234,610	1,649,800
Rent				108,089	-	108,089
Total general revenues				44,771,728	234,851	45,006,579
Change in net position				(47,186,648)	225,088	(46,961,560)
Net position (deficit) - beginning, previously reported				(175,669,639)	** 2,021,875	(173,647,764)
Restatement - accounting error (Note 19)				7,124,663	-	7,124,663
Net position (deficit) - beginning, restated				(168,544,976)	2,021,875	(166,523,101)
Net position (deficit) - ending				\$ (215,731,624)	\$ 2,246,963	\$ (213,484,661)

** Excludes beginning balance of Chester Parking Authority; see "Basis for Qualification" paragraph in Independent Auditor's report

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

**CITY OF CHESTER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General Fund	Chester Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 427,768	\$ 439,084	\$ 2,330,557	\$ 3,197,409
Investments	-	2,196,000	-	2,196,000
Property tax receivable (net of allowance for uncollectibles)	1,785,148	-	-	1,785,148
Trash assessments receivable (net of allowance for uncollectibles)	244,157	-	-	244,157
Loan receivable	-	6,597,500	-	6,597,500
Other receivables (net of allowance for uncollectibles)	5,646,765	1,026,571	199,233	6,872,569
Due from other funds and governments	1,030,127	101,375	161,909	1,293,411
TOTAL ASSETS	<u><u>\$ 9,133,965</u></u>	<u><u>\$ 10,360,530</u></u>	<u><u>\$ 2,691,699</u></u>	<u><u>\$ 22,186,194</u></u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenditures	\$ 2,602,526	\$ 263,054	\$ 134,679	\$ 3,000,259
Accrued payroll and related costs	19,747,805	-	-	19,747,805
Due to other governments and entities	118,132	-	25,712	143,844
Due to other funds	-	101,375	1,048,192	1,149,567
Escrow	375,913	2,800	625,615	1,004,328
Total liabilities	<u>22,844,376</u>	<u>367,229</u>	<u>1,834,198</u>	<u>25,045,803</u>
DEFERRED INFLOWS OF RESOURCES-UNEARNED REVENUES	<u>1,634,177</u>	<u>-</u>	<u>-</u>	<u>1,634,177</u>
Fund balance (deficit):				
Nonspendable	-	6,675,575	-	6,675,575
Restricted	-	2,818,130	-	2,818,130
Committed	-	-	1,346,106	1,346,106
Assigned	-	276,988	(178,083)	98,905
Unassigned	(15,344,588)	222,608	(310,522)	(15,432,502)
Total fund balance (deficit)	<u>(15,344,588)</u>	<u>9,993,301</u>	<u>857,501</u>	<u>(4,493,786)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 9,133,965</u></u>	<u><u>\$ 10,360,530</u></u>	<u><u>\$ 2,691,699</u></u>	<u><u>\$ 22,186,194</u></u>

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, 2017

Total fund balances - governmental funds \$ (4,493,786)

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	2,302,222	
Buildings and improvements	10,298,795	
Machinery and equipment	3,760,966	
Infrastructure	6,762,695	
Total capital assets, net		23,124,678

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	43,566,250	
Deferred inflows of resources related to pensions	(4,657,854)	
		38,908,396

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	1,634,177	
Long-term debt	(24,941,000)	
Accrued self insurance - medical and prescription costs	(224,479)	
Compensated absences	(2,460,712)	
Contribution agreement	(9,630,015)	
Obligations under capital lease	(610,329)	
Other postemployment benefits	(99,948,138)	
Pension	(137,090,416)	
		(259,004,089)

Net deficit of governmental activities **\$ (215,731,624)**

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, 2017

	General Fund	Chester Economic Development Authority	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes and assessments:				
Real estate	\$ 9,784,504	\$ -	\$ -	\$ 9,784,504
Rubbish fees	1,236,711	-	-	1,236,711
Local enabling act taxes	12,112,888	-	-	12,112,888
Licenses - permits	1,051,140	-	-	1,051,140
Cable television	459,540	-	-	459,540
Fines, forfeits	319,713	-	-	319,713
Rent	108,089	-	-	108,089
Investment earnings	4,932	256,979	3,776	265,687
Public utility realty tax	18,488	-	-	18,488
Grants, intergovernmental revenue	105,463	1,441,417	1,416,476	2,963,356
Departmental earnings	334,597	-	-	334,597
Commonwealth of Pennsylvania pension aid	1,778,524	-	-	1,778,524
Waste facilities fees	5,632,056	-	-	5,632,056
Payments in lieu of taxes	382,701	-	-	382,701
Casino host community fees	11,140,131	-	635,654	11,775,785
Reimbursements	1,039,591	-	404,434	1,444,025
Other revenue	2,201,480	481,487	211,712	2,894,679
Total revenues	<u>47,710,548</u>	<u>2,179,883</u>	<u>2,672,052</u>	<u>52,562,483</u>
EXPENDITURES				
Current:				
General government	20,793,389	491,398	582,685	21,867,472
Public safety	21,700,318	-	-	21,700,318
Highways and streets	2,683,738	-	830,715	3,514,453
Health and sanitation	591,631	-	-	591,631
Community development	-	1,283,363	416,642	1,700,005
Recreation	484,208	-	25,780	509,988
Grants and special programs	594,562	-	156,650	751,212
Debt service:				
Principal	351,825	942,500	9,081,777	10,376,102
Interest	440,958	247,538	991,770	1,680,266
Capital outlay:				
Community development	-	-	287,205	287,205
Highways and streets	-	-	237,210	237,210
Recreation	49,482	-	-	49,482
Health and sanitation	-	-	20,826	20,826
Total expenditures	<u>47,690,111</u>	<u>2,964,799</u>	<u>12,631,260</u>	<u>63,286,170</u>
Deficiency of revenues over expenditures	<u>20,437</u>	<u>(784,916)</u>	<u>(9,959,208)</u>	<u>(10,723,687)</u>
Other financing sources (uses) of funds				
Transfers in	15,342,316	-	7,733,637	23,075,953
Transfers out	(7,660,033)	-	(15,415,920)	(23,075,953)
Debt refinancing	-	-	19,200,000	19,200,000
Bad debt	-	(28,838)	-	(28,838)
Total other financing sources (uses) of funds	<u>7,682,283</u>	<u>(28,838)</u>	<u>11,517,717</u>	<u>19,171,162</u>
Net change in fund (deficit)	7,702,720	(813,754)	1,558,509	8,447,475
Fund balances - beginning as previously reported	(23,047,308)	3,267,055	(1,217,066)	(20,997,319)
Restatement - accounting error (Note 19)	-	7,540,000	516,058	8,056,058
Fund balances - beginning restated	<u>(23,047,308)</u>	<u>10,807,055</u>	<u>(701,008)</u>	<u>(12,941,261)</u>
Fund balances (deficit) - ending	<u>\$ (15,344,588)</u>	<u>\$ 9,993,301</u>	<u>\$ 857,501</u>	<u>\$ (4,493,786)</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, 2017

Net change in fund balances - total governmental funds **\$ 8,447,475**

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	560,258	
Transfer from other government	245,020	
Depreciation expense, net of disposal	<u>(1,431,145)</u>	(625,867)

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: (12,128,222)

Decrease in compensated absences 90,315

Decrease in contribution agreement 440,958

Decrease in obligations under capital lease 210,555

Increase in other postemployment benefits (20,812,615)

Increase in pension costs (22,851,217)

Increase in self insurance - medical/prescription (224,479)

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 inflows of resources in the balance sheet. (59,388)

Other liabilities differences 325,837

Change in net deficit of governmental activities **\$ (47,186,648)**

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

CITY OF CHESTER
STATEMENT OF NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2017

Assets	<u>CRA</u>
Current assets:	
Cash and cash equivalents	\$ 171,254
Due from other governments	<u>6,205</u>
Total current assets	<u>177,459</u>
Noncurrent assets:	
Capital asset held for resale	3,408,341
Leasehold improvements and equipment, net	<u>33,145</u>
Total noncurrent assets	<u>3,441,486</u>
Total assets	<u>3,618,945</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	13,399
Escrow and escheat liabilities	24,665
Due to other governments	8,918
Section 108 loan payable	<u>175,000</u>
Total current liabilities	221,982
Noncurrent liabilities:	
Loan payable	250,000
Section 108 loan payable	<u>900,000</u>
Total noncurrent liabilities	<u>1,150,000</u>
Total liabilities	<u>1,371,982</u>
Net position	
Net investment in capital assets	33,145
Unrestricted	<u>2,213,818</u>
Total net position	<u><u>\$ 2,246,963</u></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 FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>CRA</u>
Operating revenues:	
Other revenue and reimbursements	\$ 34,900
Total operating revenues	<u>34,900</u>
Operating expenses:	
Professional services	14,842
Administrative expenses	52,752
Legal services	20,465
Depreciation	2,367
Total operating expenses	<u>90,426</u>
Operating (loss) income	<u>(55,526)</u>
Nonoperating revenues and (expenses):	
Gain on sale of assets held for resale	104,695
Nonoperating grants	199,710
Investment income	241
Interest expense	(24,032)
Total nonoperating revenues	<u>280,614</u>
Change in net position	<u>225,088</u>
Net position - beginning of year	<u>2,021,875</u>
Net position - end of year	<u><u>\$ 2,246,963</u></u>

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

CITY OF CHESTER
STATEMENT OF CASH FLOW - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>CRA</u>
Cash flows from operating activities:	
Cash received from other revenue	\$ 41,480
Cash paid to suppliers for goods and services	<u>(176,200)</u>
Net cash used in operating activities	<u>(134,720)</u>
Cash flows from capital and related financing activities:	
Nonoperating grants received	199,710
Repayment of long-term debt	(175,000)
Interest paid on long-term debt	(24,032)
Proceeds from the sale of assets held for sale	151,945
Net cash provided by capital and related activities	<u>152,623</u>
Cash flows from investing activities:	
Investment income received	<u>241</u>
Net cash provided by investing activities	<u>241</u>
Net increase in cash and cash equivalents	18,144
Cash and cash equivalents - beginning of year	153,110
Cash and cash equivalents - end of year	<u><u>\$ 171,254</u></u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:	
Operating loss	\$ (55,526)
Adjustments to reconcile operating income(loss) to net cash utilized by operating activities:	
Depreciation	2,367
Changes in assets and liabilities:	
Decrease in due from other governments	6,580
Decrease in accounts payable and accrued liabilities	(5,728)
Decrease in due to other governments	(82,413)
Net cash used in operating activities	<u><u>\$ (134,720)</u></u>

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

CITY OF CHESTER
STATEMENT OF FIDUCIARY NET POSITION - PENSION TRUST
DECEMBER 31, 2017

	Pension Trust Funds
ASSETS	
Investments, at fair value	\$ 43,080,411
Accounts receivable, net	<u>17,665,153</u>
 Total assets	 <u>60,745,564</u>
LIABILITIES	
DROP account balances	<u>2,846,465</u>
 Total liabilities	 <u>2,846,465</u>
NET POSITION	
Total net position	<u><u>\$ 57,899,099</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, 2017

	Pension Trust Funds
Additions:	
Contributions:	
Employee	\$ 800,929
City	4,785,029
State	1,766,478
Other revenue	53,692
Investment appreciation	7,535,068
Total additions	<u>14,941,196</u>
Deductions:	
Benefit payments	9,368,443
Administrative expenses and refunds	178,915
Total deductions	<u>9,547,358</u>
Change in net position	5,393,838
Net position - beginning	<u>52,505,261</u>
Net position - ending	<u><u>\$ 57,899,099</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, 2017

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 April 1995, the City was designated as a “Distressed Municipality” under the Commonwealth of Pennsylvania Municipalities Financial Recovery Act (Note 11), and maintained that status through 2019. In early 2020, the City began experiencing significant negative financial impact from the COVID-19 Pandemic and on April 13, 2020, the Governor of the Commonwealth declared a fiscal emergency for the City. 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 applicable effective and upcoming GASB pronouncements:

GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*” was issued in June 2015, with an effective date of fiscal years beginning after June 15, 2017. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and establishes new accounting and financial reporting requirements for OPEB plans. The City is evaluating the impact of this statement on the 2018 financial statements.

GASB Statement No. 82, “*Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*” was issued in April 2016. This statement is effective for periods beginning after June 15, 2016, and addresses the presentation of payroll-related measures in required supplementary information; the selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purpose; and the classification of payments made by employers to satisfy plan member contribution requirements. The City’s adoption of this statement in 2017 had no significant impact on the financial statements.

In January 2016, the GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units*.” This statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

was effective for periods beginning after June 15, 2016. The City's adoption of this statement in 2017 had no significant impact on the financial statements.

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information on all of the non-fiduciary activities of the primary government and its 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 has 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 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 OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Presentation, Continued

Fund Financial Statements, Continued

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 the ability to exercise influence over their daily operations, approve spending plans or provide funding.

Chester Housing Authority (“CHA”)

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

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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 for the City’s benefit. CEDA has a June 30 year-end and the financial information presented is for the fiscal year ended June 30, 2017. 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 for the City’s benefit. CRA has a December 31 year-end. The financial information presented is for the year ended December 31, 2017. 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.

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.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Measurement Focus and Basis of Accounting, Continued

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 they are 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 *economic resource focus* and the *accrual basis of accounting*. These funds account for operations that are financed primarily by user charges. 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, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Use of Estimates

The preparation of financial statements in conformity with 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 Fund 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 agreements, accrued compensated absences, obligations under capital lease, pension, and other post employment benefit liabilities.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 are 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. CEDA has nonspendable resources as of December 31, 2017.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 Sinking and 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 31 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, 2017

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 increased by approximately \$1,036,000 as of December 31, 2017. 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. There were no prepaid expenses as of December 31, 2017.

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 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, 2017

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").

The resolution provided that 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 were 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 years 2017 and 2016, no additional money was set aside or released from the reserve account. The reserve account's balance at December 31, 2017 and 2016 was \$15,742, which is less than the balance required by the resolution.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 (rep from City Council who is over the Finance department) 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, 2017, the General Fund's appropriations exceeded expenditures by \$2,764,135. 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; two bank have pledged collateral over the City's funds.

As of December 31, 2017, the City's aggregate bank balance of deposits (excluding component units) included in cash and cash equivalents was \$2,625,456 of which \$750,000 was insured by the FDIC. Assets have been pledged to cover \$672,104 held by two institutions.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 3 DEPOSITS AND INVESTMENTS, (Continued)

Investments

As of December 31, 2017, the City's Pension Trust Funds had the following investments:

Investment Type	Fair Value	Investment Maturity (Years)	Quality
Exchange Traded Funds:			
US Government Bond Fund	5,435,988	6-10	N/A
Corporate Bonds	5,656,580	6-10	BBB
Domestic Equity Funds	30,250,336	N/A	N/A
Short-term investments	1,737,507	N/A	N/A
Total fair value	<u>\$ 43,080,411</u>		

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

Component Units

The aggregate bank balance of deposits included in cash and cash equivalents for the CEDA, a blended component unit, was \$448,703 as of June 30, 2017, of which \$250,000 was insured by FDIC. The balance of total deposits was additionally fully collateralized with securities pledged and held by the financial institutions in accordance with Pennsylvania statutes.

CEDA has an investment in a nonnegotiable certificate of deposit (CD), recorded at cost, which approximates fair value. A nonnegotiable CD is an example of a nonparticipating interest earning investment contract that is exempt from the fair value measurement and disclosure requirements of GASB 72.

The bank balance for the CRA, a blended component unit, was \$171,264 which was all 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, 2017

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, 2017. In addition, a deferral of \$1,468,198 has been established, shown on the General Fund financial statements as a part of “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	\$ 6,476,183
Less: allowance for uncollectible taxes	<u>(4,691,035)</u>
Net total property taxes receivable	<u><u>\$ 1,785,148</u></u>

Schedule of Real Estate Taxes - 2017 Duplicate
For the year ended December 31, 2017

	<u>Assessed Valuation</u>	<u>Total Tax Levy</u>
Tax rate in mills		<u>\$ 29.792</u>
Net tax duplicate	<u>\$ 309,779,229</u>	9,228,943
Deduct: taxes collected (net of and including adjustments)		<u>7,752,348</u>
2017 taxes receivable		<u><u>\$ 1,476,595</u></u>

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 4 RECEIVABLES, (Continued)

Property Taxes, (Continued)

TAX RATES			
Fiscal Year	General Operation	Debt Service	Total
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
2016	27.400	2.392	29.792
2017	27.400	2.392	29.792

The following schedule presents property taxes levied and collected through 2017 and a ten year summary showing the relationship between amounts levied and actually collected.

LAST TEN FISCAL YEARS			
Fiscal Year	Net Total Tax Levy	Amount of Current Taxes Collected	Percent of Current Taxes Collected
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%
2016	8,785,400	6,979,402	79.44%
2017	9,228,943	7,752,348	84.00%

*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, 2017

Note 4 RECEIVABLES, (Continued)

<u>Trash Assessments Receivable</u>	<u>2017</u>
Gross trash assessments receivable	\$ 3,652,730
Less: allowance for uncollectible accounts	<u>(3,408,573)</u>
	<u>\$ 244,157</u>

A deferral of \$147,979 has been established, shown on the General Fund financial statements as a part of "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	\$ 3,837,155
Covanta host fees	1,199,272
Chester Upland School District	759,777
Cable TV fees	179,222
Other receivables	<u>280,288</u>
	6,255,714
Less: allowance for uncollectible accounts	** <u>(608,949)</u>
	<u>\$ 5,646,765</u>

** The allowance for uncollectable accounts relates to the Chester Upland School District; all other receivables are fully collectible as of December 31, 2017.

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, 2017, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,030,127	\$ 118,132
CEDA	101,375	101,375
Other Nonmajor Funds	<u>161,909</u>	<u>1,073,904</u>
	<u>\$ 1,293,411</u>	<u>\$ 1,293,411</u>

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017 are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 15,342,316	\$ 7,660,033
Other Nonmajor Funds	<u>7,733,637</u>	<u>15,415,920</u>
	<u>\$ 23,075,953</u>	<u>\$ 23,075,953</u>

Note 6 LOANS RECEIVABLE

CEDA, a blended component unit, makes funds available to qualifying individuals and businesses under various programs. Loan 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, 2017:

Regular rehabilitation	\$ 51,000
Homestead rehabilitation	21,275
Low income homeless	4,159
Commercial loans/small business	<u>306,569</u>
	383,003
Less: allowance for doubtful accounts	<u>(194,781)</u>
	<u>\$ 188,222</u>

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 1/1/2017	Additions	Deletions	Balance at 12/31/17
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,928,261	\$ -	\$ -	\$ 1,928,261
Total capital assets, not being depreciated	1,928,261	-	-	1,928,261
Capital assets, being depreciated:				
Buildings and improvements	18,635,064	365,498	-	19,000,562
Machinery and equipment	16,013,110	1,226,582	(924,384)	16,315,308
Infrastructure	17,457,453	172,047	-	17,629,500
Total capital assets, being depreciated	52,105,627	1,764,127	(924,384)	52,945,370
Less accumulated depreciation for:				
Buildings and improvements	8,059,908	641,859	-	8,701,767
Machinery and equipment	12,268,665	460,283	(174,606)	12,554,342
Infrastructure	10,363,196	503,609	-	10,866,805
Total accumulated depreciation	30,691,769	1,605,751	(174,606)	32,122,914
Total capital assets being depreciated, net	21,413,858	158,376	(749,778)	20,822,456
Net capital asset value	\$ 23,342,119	\$ 158,376	\$ (749,778)	\$ 22,750,717

Additions include \$1,169,404 in transfers from CEDA. The City has assets under capital lease of \$979,654, the related depreciation expense of \$195,936 is included in the table above. See Note 17.

Depreciation expense was charged to governmental activities as follows:

General government	\$ 521,642
Public safety	269,614
Highway and streets	596,712
Recreation	217,783
	<u>\$ 1,605,751</u>

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 7 CHANGES IN CAPITAL ASSETS, (Continued)

CEDA

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

	7/1/2016 *	Additions	Deletions	6/30/2017
Land	\$ 373,961	\$ -	\$ -	\$ 373,961
Furniture and equipment	90,990	-	-	90,990
Total	464,951	-	-	464,951
Less accumulated depreciation for:				
Furniture and equipment	90,990	-	-	90,990
Total accumulated depreciation	90,990	-	-	90,990
Capital assets, net	\$ 373,961	\$ -	\$ -	\$ 373,961

* Beginning balance has been restated.

CRA

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

	Balance at 1/1/2017	Additions	Deletions	Balance at 12/31/2017
Land	\$ 3,445,591	\$ -	\$ (37,250)	\$ 3,408,341 **
Equipment	-	-	-	-
Leasehold improvements	71,027	-	-	71,027
Total	3,516,618	-	(37,250)	3,479,368
Less accumulated depreciation	35,515	2,367	-	37,882
Capital assets, net	\$ 3,481,103	\$ (2,367)	\$ (37,250)	\$ 3,441,486

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

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 8 SHORT-TERM DEBT

In February 2017, the City of Chester issued a Tax and Revenue Anticipation Note under and pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, to a financial institution in the amount of \$5,300,000 with an annual interest rate of 7.25%. The note matured on December 15, 2017. A portion of the proceeds were used to pay off the outstanding balance (which was in default) of the 2016 Tax and Revenue Anticipation Note of \$2,000,000 and the accrued interest. The note was issued to help with the City's cash flow shortfall and provide funds for operations. Short-term debt was paid off with proceeds from the emergency DCED loan and with the advancement of the fourth quarter State gaming proceeds.

Changes in the City's short-term debt during the year ended December 31, 2017 is as follows:

Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2,000,000	5,300,000	7,300,000	-

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, 2017 (excluding component units):

Description	Date of Issue	Final Maturity Date	Interest Rate %	Original Amount	01/01/17	12/31/17	Principal Paid
C	11/29/2010	6/25/2019	1.935	\$ 5,895,000	\$ 2,084,000	\$ 1,403,000	\$ 681,000
C	11/29/2010	6/25/2025	2.605	3,985,000	2,585,000	2,328,000	257,000
D	6/30/2015	3/1/2024	3.283	8,140,000	7,540,000	-	7,540,000
D	6/30/2015	10/1/2017	2.682	1,600,000	603,778	-	603,778
A	8/1/2017	8/15/2027	7.500	12,000,000	-	12,000,000	-
A	8/1/2017	8/15/2027	7.500	7,210,000	-	7,210,000	-
B	1/13/2017	6/1/2027	0.000	2,000,000	-	2,000,000	-
				\$ 40,830,000	\$ 12,812,778	\$ 24,941,000	\$ 9,081,778

A - Revenue Notes- Preston Hollow Capital

B - General Obligation Note-DCED

C - General Obligation Note - Delaware Valley Regional Finance Authority

D - Revenue Note - PNC Bank

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 9 LONG-TERM DEBT, (Continued)

Debt service requirements as of December 31, 2017 were as follows:

	Principal	Interest	Total
2018	\$ 4,776,000	\$ 1,458,358	\$ 6,234,358
2019	2,000,000	1,445,722	3,445,722
2020	2,114,000	1,370,199	3,484,199
2021	2,242,000	1,243,940	3,485,940
2022	2,480,000	1,100,996	3,580,996
Thereafter	11,329,000	2,973,434	14,302,434
	<u>\$ 24,941,000</u>	<u>\$ 9,592,649</u>	<u>\$ 34,533,649</u>

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).

For its 2010 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.

For its 2010 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, 2017.

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. A portion of the Series 2015A, \$6,531,532, was redeemed with the issuance of the 2017B Guaranteed Revenue Bonds on August 31, 2017, as explained below.

In 2017, the City issued Guaranteed Revenue Bonds Series 2017A in the amount of \$12,000,000 to finance certain accumulated unfunded debts of the City and fund any required reserve funds. In addition, the City issued Guaranteed Revenue Bonds Series 2017B in the amount of \$7,210,000 to finance the acquisition of certain property currently leased by the City, “the Capital Project” and to fund required reserve funds. As mentioned above, a portion of 2017B series was used to redeem the 2015A series.

In 2017, the City initiated a loan with the Commonwealth of Pennsylvania, Department of Community and Economic Development for \$2,000,000, bearing 0% interest and due in June 2027.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 9 LONG-TERM DEBT, (Continued)

Interest Rate Management

The Series 2010 notes are due to the 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, Citibank, N.A. PNC Bank, National Association and Toronto-Dominion Bank (the "Counterparties").

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 DVRFA 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, 2017, 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, 2017 are currently A1 and A+ by Moody's Investors Service ("Moody's") and Standards & Poor's, respectively.

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, the Counterparties 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, or the Counterparties under the DVRFA Swap Agreement; (iii) the occurrence of events that may precipitate a payment default by DVRFA, or the Counterparties; or (iv) the downgrading of the long-term, unsecured, senior debt ratings of the Counterparties, or DVRFA.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 9 LONG-TERM DEBT, (Continued)

Termination Risk, Continued

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 assess 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%	\$1,403,000	June 25, 2019	\$(1,593)	\$214,739
2010 B Note	Fixed	2.605%	\$2,328,000	June 25, 2025	\$(49,971)	\$356,316

The estimated termination payment (i.e., the market value) for the DVRFA Swap Agreements allocable to the City debt as of December 31, 2017, 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 relating to the notes.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 9 LONG-TERM DEBT, (Continued)

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 pledged its Brownfield Economic Development Initiative (BEDI) grant, to provide security for the Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program and to meet debt service requirements.

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.

In May 2016, CRA refinanced the balance of the note 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 0.28% to 2.8% and a maturity date of August 2023. As of December 31, 2017, the balance of the loan was \$1,075,000.

Interest and principal payments as of December 31, 2017 follow:

	Interest	Principal
2018	\$ 23,083	\$ 175,000
2019	20,755	175,000
2020	17,465	175,000
2021	14,000	175,000
2022	11,944	175,000
2023	9,888	200,000
	\$ 97,135	\$ 1,075,000

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 Program (ISRP) 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.

In April 2014, CRA borrowed \$50,000 from CEDA to be repaid from net proceeds of properties sold to developers. This loan bears no interest. The outstanding balance of this loan at December 31, 2017 was \$50,000.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 10 PLEDGED REVENUES

2017 Series A & B

The City has pledged the following future revenues, which is subordinate to previous outstanding debt of the City that pledged the same revenue sources. The pledged revenues are the Host Community Revenues, the Harrah's Revenues, the Harrah's Table Game Revenues and the Additional City consideration

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,
- b) Host Community Revenues, 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 15).

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 principal remaining to be paid on these notes is \$3,731,000. For the current year, principal payments and current pledged revenues were \$938,000, and \$11,775,785, 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. During 2017, the City paid DCCC on behalf of the District, \$635,654.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 10 PLEDGED REVENUES, (Continued)

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 principal remaining to be paid is \$9,630,015. For the current year, principal payments and current pledged revenues were \$440,958 and \$635,654, respectively.

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 Pennsylvania 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.

On August 16, 2016, the City adopted an amended recovery plan to address the enacted Act 199. The recovery plan also had a host of recommendations that would help to overcome the current financial burden.

On October 24, 2018, the City Council adopted the Act 47 Exit Plan to address Act 199. The exit plan demonstrated that the City has made progress toward recovery and outlines carryover recommendations from the 2016 adopted amended recovery plan. Under Act 199, once a municipality has reached the point of “exit status” it has three years to aggressively implement the financial recommendations set forth. This progress established the City’s willingness to work toward financial stability and reach the goals included.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 11 DISTRESSED MUNICIPALITY, (Continued)

In 2020, the City's financial condition declined substantially, primarily due to the impact of the Corona Virus Pandemic. The Pandemic resulted in the closing of Harrah's Casino which provided significant revenue to the City. It also resulted in the decline of other major revenues, including payroll tax and business tax revenues.

On April 13, 2020, the Governor of the Commonwealth of Pennsylvania declared a fiscal emergency for the City, stating that the City is projected to be insolvent with 180 days due to the ongoing fiscal challenges and enhanced fiscal distress caused by the Pandemic. On June 15, 2020, the Commonwealth filed a petition with the Commonwealth Court to appoint a legal Receiver for the City. As of the report date, the Receiver has not been appointed. The Receiver shall have many of the rights and authority to manage the City's operations that are normally reserved for elected officials.

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 is obligated to contribute its share of funds for the project annually, as summarized below through 2039. Amounts charged to General Fund expenditures under this agreement totaled \$440,958 for the year ended December 31, 2017.

The liability due to the County 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>	
2018	\$ 440,933
2019	440,758
2020	440,758
2021	439,633
2022	439,483
2023-2027	2,195,989
2028-2031	2,188,545
2033-2037	2,177,405
2038-2039	866,511
	<u>\$ 9,630,015</u>

Note 13 PENSION PLANS

Plan Description

The City 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

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS, (Continued)

Plan Description (Continued)

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. City Council adopts City ordinances and plan provisions are established by City ordinance with the authority for City contributions required by Act 205 of the Commonwealth of Pennsylvania (the "Act"). Prior to February 1, 2017, new Police officers contributed 5% of their salary, increased by 1% every subsequent January 1st, until reaching 8%. If hired after February 1, 2017, new Police officers contribute 8% of their salary beginning immediately. Paid Firemen contribute 5% of their salaries plus \$1 per month. Officers and Employees, hired before January 1, 1988, pay 6% of their compensation, depending on their coverage status and 1% of compensation if hired after December 31, 1987.

As of December 31, 2017, 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	89	51	119
Retirees, disabled and beneficiaries currently receiving benefits	138	75	58
Terminated employees entitled to benefits but not yet receiving them	-	-	-
	<u>227</u>	<u>126</u>	<u>177</u>

Police

All full-time members of the police force join the Plan upon employment. Members are eligible for normal retirement after completion of 20 years of service, if hired before February 1, 2017. If hired after February 1, 2017, normal retirement is age 50, with 25 years of service. Prior to February 1, 2017, the normal retirement pension was 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 compensation 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 \$100 per month if hired before February 1, 2017 and \$500 per month if hired after that date. There are early retirement and disability provisions in eligible circumstances.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS, (Continued)

Plan Description (Continued)

Firemen

All full-time paid firemen join the Plan upon employment. Members are eligible for normal retirement after completion of 20 years of service, if hired before December 12, 2011. If hired after December 12, 2011, normal retirement is age 50 and 25 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 \$500 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. For members hired after December 12, 2011, salary is defined as base pay plus longevity. There are late retirement and disability retirement provisions in eligible circumstances.

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

Officers and Employees

All non-uniformed employees are covered by the Plan with the exception of per diem laborers, who are covered at their option. Members hired before January 1, 1988 are eligible for normal retirement after attaining the age of 60 and 20 years of service. For those hired subsequent to that date, members are eligible after attaining age 65 and the completion of 25 years of service. Normal retirement pension is payable in semi-monthly installments for life with payments continuing upon death to the surviving spouse, provided the spouse is not remarried, in an amount equal to 50% of the benefit the member was receiving at the time of death. For those hired before January 1, 1988, monthly pension is equal to 50% of the average monthly compensation. If joint coverage has been elected, the pension is reduced by 40% of primary social security. For those hired subsequent to that date, the amount of monthly pension is equal to 0.75% 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 plans.

Investments of the plans are reported at fair value. The City's pension plan assets are managed by PNC Financial Services Group, Inc. (PNC). 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

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS (Continued)

Plan Description (Continued)

Summary of Significant Accounting Policies (Continued)

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 2017, 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 \$420,331, the Paid Firemen contributed \$197,739, and the Officers and Employees contributed \$182,859.

Further, the City was required to contribute State aid along with City funds necessary to meet the 2017 MMO of each of the respective funds as follows:

Police Pension Fund	\$ 5,235,369
Paid Firemen Pension Fund	\$ 561,281
Officers & Employees Retirement System	\$ 754,857

The City received a total of \$1,766,478 in its State allocation during this period. All funds were remitted to the Plans with the exception of \$47,673 for the police pension fund, which was deposited into the Plan in early 2018. As of December 31, 2017, the City did not remit their required contributions for 2017 and past years totaling \$17,665,153, which is accrued in the statement of net position.

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, 2017, the City reported a net pension liability of \$137,090,416 for all Plans. The total pension liability was determined as part of an actuarial valuation at December 31, 2017. The

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS, (Continued)

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

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 12/31/2016	<u>\$ 181,749,727</u>	<u>\$ 52,505,262</u>	<u>\$ 129,244,465</u>
Changes for the year:			
Service cost	4,113,052	-	4,113,052
Interest	7,887,443	-	7,887,443
Changes in benefit terms	(12,728)	-	(12,728)
Differences between expected and actual experience	-	-	-
Changes of Assumptions	10,713,950	-	10,713,950
Contributions - employer	-	4,785,029	(4,785,029)
Contributions - state aid	-	1,766,478	(1,766,478)
Contributions - member	-	800,929	(800,929)
Net Investment income	-	7,588,760	(7,588,760)
Benefit payments	(9,461,928)	(9,461,928)	-
Administrative expense	-	(85,430)	85,430
Net changes	<u>13,239,789</u>	<u>5,393,838</u>	<u>7,845,951</u>
Balances at 12/31/17	<u>\$ 194,989,516</u>	<u>\$ 57,899,100</u>	<u>\$ 137,090,416</u>

For the year ended December 31, 2017, the City recognized total pension expense for the Plans of \$22,851,217. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the Plans as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,971,740	\$ (1,370,036)
Changes in assumptions	35,594,510	-
Net differences between projected and actual earnings on pension plan investments	-	(3,287,818)
	<u>\$ 43,566,250</u>	<u>\$ (4,657,854)</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
2018	\$ 3,702,000
2019	3,702,000
2020	3,702,000
2021	3,702,000
2022	3,702,000
Thereafter	20,398,396
	<u>\$ 38,908,396</u>

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS, (Continued)

Actuarial Assumptions

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

	Police Pension Plan	Paid Firemen's Pension Plan	Officers & Employees Pension Plan
Actuarial valuation date	12/31/2017	12/31/2017	12/31/2017
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	20 years	17 years	16 years
Actuarial assumptions:			
Inflation	2.25%	2.25%	2.25%
Investment rate of return	3.17% for GASB purposes	5.91% for GASB purposes.	5.91% for GASB purposes.
Projected salary increases	5.00%	5.00%	5.00%
Retirement Age:			
Normal	20 years of service, if hired after 2/1/17 age 50 and 25 years of service	20 years of service, if hired after 12/12/11, age 50 and 25 years of service	Before 1/1/88 age 60 and 20 years of service; after 12/31/87, age 65 and 25 years of service
Early	Age 60	None	Age 60 or 65 and 12 years of service. years of service

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS, (Continued)

Actuarial Assumptions, Continued

Mortality rates were based on the RP-2000 Table projected to 2017 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 Plan's investment policy establishes the following target allocation across asset classes:

<u>Asset Class</u>	<u>Target</u>	Long Term Expected <u>Real Rate of Return</u>
Domestic Equities	52.5%	4.9%
International Equity	17.5%	6.3%
Fixed Income	27.0%	0.5%
Cash	3.0%	-0.5%
Net Blended Return		3.41%
Inflation		<u>2.50%</u>
Total Long-term Expected Rate of Return		<u>5.91%</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 2017 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, 2017 are listed in the table above.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS, (Continued)

Investment Policy Summary, Continued

Discount Rate

Police Pension Plan-The discount rate used to measure the total pension liability was 3.17%. This represents a blended rate of the long term expected return on assets 5.91% through 2019 where assets are sufficient to cover benefit payments and the 20-year AA municipal bond rate 3.16% after 2019, where assets are projected not to cover benefit payments.

Paid Firemen's and Officers & Employees Pension Plans-The discount rate used to measure the total pension liability was 5.91%.

Based upon all of the Plans' current target investment allocation and the associated long-term expected investment returns for its asset classes, the Plans' 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 current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	<u>2.17%</u>	<u>3.17%</u>	<u>4.17%</u>
Police Pension Plan			
Net Pension Liability	\$ 137,295,714	\$ 115,757,549	\$ 98,437,120
	<u>4.91%</u>	<u>5.91%</u>	<u>6.91%</u>
Paid Firemen's Pension Plan			
Net Pension Liability	20,094,162	14,042,639	9,070,828
Officers & Employees Pension Plan			
Net Pension Liability	<u>8,345,373</u>	<u>7,290,228</u>	<u>6,390,004</u>
Total	\$ <u>165,735,249</u>	\$ <u>137,090,416</u>	\$ <u>113,897,952</u>

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 13 PENSION PLANS, (Continued)

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 at least seventeen years old. A participating employee must contribute at least three percent but may contribute up 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 a 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 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. Separate plan financial statements are available at the Authority.

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

	Year Ended June 30,		
	2017	2016	2015
Employer Contribution	\$ 15,835	\$ 19,220	\$ 17,172
Employee Contribution	\$ 22,866	\$ 21,985	\$ 17,172

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 14 FAIR VALUE MEASUREMENTS

The City holds investments in their Pension Trust funds that are measured at fair value on a recurring basis. The City chose a tabular format for disclosing the levels within the fair value hierarchy.

The City categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The valuation inputs are separated in three levels:

- Level 1 – observable inputs, represents assets with unadjusted quoted market prices in active markets for identical securities;
- Level 2 – other significant observable inputs (including yield, quality, coupon rate, maturity, issue type, quoted prices for similar securities, prepayment speeds, trading characteristics, etc.); and
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

The fair values of the investment securities classified by level held at December 31, 2017 are as follows (there were no Level 2 or 3 investments requiring inclusion in the following table):

<u>Fair Value Measurement at Reporting Date Using:</u>	
	<u>Observable Inputs (Level 1)</u>
Exchange traded funds:	
Fixed income	\$ 11,092,568
Equities	30,250,336
Short-term investments	<u>1,737,507</u>
Investments at fair value	<u>\$ 43,080,411</u>

There have been no changes in the valuation methodologies used as of December 31, 2017. The following is a description of the valuation methodologies used to measure assets at fair value:

Exchange traded funds – Stated at quoted prices based on an active market.

Short-term investments – The money market fund is valued using the NAV of units held by the Plan at year-end. The fund is managed to maintain a constant value of \$1 per share.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 15 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 \$11,775,785 in 2017 in total from its share of the gaming revenue and the land lease agreement with Harrah's.

On March 14, 2020, the Casino was required to close due to the Governor of Pennsylvania's executive order relating to the COVID-19 Pandemic. See Note 11.

Note 16 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. In 2017, the City became self-funded for all medical and prescription drug costs.

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, 2016 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*. During 2017, the City did not make any contributions for post employment benefits.

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 22 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:

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 16 OTHER POST EMPLOYMENT BENEFITS, (Continued)

Annual required contribution	\$ 23,192,724
Interest on OPEB obligation	3,043,607
Adjustment to annual required contribution	<u>(5,423,716)</u>
Annual OPEB cost	20,812,615
Contributions made (pay as you go)	<u>-</u>
Increase in net OPEB obligation	20,812,615
 Net OPEB obligation at January 1, 2017	 <u>79,135,523</u>
Net OPEB obligation at December 31, 2017	<u><u>\$ 99,948,138</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 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 18,929,357	27%	\$ 62,887,555
12/31/2016	\$ 20,268,158	20%	\$ 79,135,523
12/31/2017	\$ 23,192,724	0%	\$ 99,948,138

The ARC for the Plan was determined as part of the January 1, 2016 actuarial valuation using the following methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Discount rate	4.00%
Healthcare cost trend rate	Non-Medicare between -4.5% to 15% and Medicare is 5%
Amortization Method and Period	Level dollar, Closed, 22 years

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 16 OTHER POST EMPLOYMENT BENEFITS, (Continued)

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year 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 17 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, 2017.

Tax Assessment Appeals

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

Claims and Other Legal Proceedings

The City and its component units are involved in various claims and lawsuits arising in the normal course of business, including claims for property damage, personal injury and labor matters. In the opinion of management, the unrecorded potential claims against the City, not covered by insurance, resulting from such claims and lawsuits, would not have a material adverse effect on the City's net position as of December 31, 2017.

Capital Leases

The City entered into a lease agreement with a financial institution to lease five trucks for a period of five years. The lease qualified as a capital lease and as a result, the asset is classified as a capital lease of \$979,654 (present value of payments) and the related obligation is recorded in the Statement of Net Position at December 31, 2017.

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 17 COMMITMENTS AND CONTINGENCIES, (Continued)

Minimum future lease payments required under the lease as of December 31, 2017 are as follows:

2018	\$ 210,555
2019	210,555
2020	210,554
	<u>631,664</u>
Less imputed interest	21,335
Present value of minimum lease payment	610,329
Less current portion	210,555
Long-term portion	<u>\$ 399,774</u>

Self-Insurance Medical Coverage

The City is self-insured to provide group medical and prescription coverage to employees. The coverage is administered by a third party for the City.

The liability for unpaid claims, is estimated using actual claims paid in the first three months of the following year (incurred but not reported (IBNR) as of December 31, 2017) and is included in accrued expenditures in the Statement of Net Position. On the fund basis Balance Sheet, estimated claims accrued are based on the 60-day measurement focus. Changes in the governmental activities claims liability are as follows:

Claims liability at beginning of year	\$ -
Current year claims and IBNR	8,377,948
Claims payments	<u>(7,661,576)</u>
Claims liability at end of year	<u>\$ 716,372</u>

Note 18 RISK MANAGEMENT

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

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

THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 19 PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were proposed as of the beginning of 2017:

Government-wide statements prior period adjustment:

City - to adjust unrecorded revenues	\$ 308,193
CEDA - to correct errors in recording capital assests, notes receivable and accrued interest payable	<u>6,816,470</u>
	<u>\$7,124,663</u>

Governmental fund statements prior period adjustment:

City - to adjust unrecorded revenues and misclassified escrow	\$ 516,058
CEDA - to restate debt service fund for error in notes receivable	<u>7,540,000</u>
	<u>\$8,056,058</u>

Note 20 SUBSEQUENT EVENTS

The City evaluated its December 31, 2017 financial statements for subsequent events through June 25, 2020, the date the financial statements were available to be issued.

The COVID-19 outbreak in the United States has caused business disruption through business closures and travel restrictions. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and travel restrictions. Although the related financial impact and duration cannot be reasonably estimated at this time, it is anticipated that the disruption will have significant effects on the City.

The Governor of the Commonwealth of Pennsylvania declared a fiscal emergency for the City on April 13, 2020, projecting that the City will be insolvent within 180 days due to ongoing fiscal challenges and the enhanced fiscal distress caused by the COVID-19 pandemic. On June 15, 2020, the Commonwealth filed a petition with the Commonwealth Court to appoint a legal Receiver for the City. To-date, the Court has not mad a decision.

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
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes and assessments:			
Real estate	\$ 9,984,675	\$ 9,784,504	\$ (200,171)
Rubbish fees	1,489,000	1,236,711	(252,289)
Local enabling act taxes	12,238,813	12,112,888	(125,925)
Licenses - permits	1,320,123	1,051,140	(268,983)
Cable television	451,000	459,540	8,540
Fines, forfeits	800,000	319,713	(480,287)
Rent	106,200	108,089	1,889
Investment earnings	-	4,932	4,932
Public utility realty tax	-	18,488	18,488
Grants intergovernmental revenue	2,019,635	105,463	(1,914,172)
Departmental earnings	653,450	334,597	(318,853)
Commonwealth of Pennsylvania pension aid	1,610,000	1,778,524	168,524
Waste facilities fees	5,900,000	5,632,056	(267,944)
Payments in lieu of taxes	275,000	382,701	107,701
Casino host community fees	12,100,000	11,140,131	(959,869)
Reimbursements	1,567,100	1,039,591	(527,509)
Other income	900,000	2,201,480	1,301,480
Total revenues	<u>51,414,996</u>	<u>47,710,548</u>	<u>(3,704,448)</u>
EXPENDITURES			
General government	10,830,814	20,793,389	9,962,575
Public safety	28,475,426	21,700,318	(6,775,108)
Health and sanitation	601,281	591,631	(9,650)
Highways and streets	2,821,998	2,683,738	(138,260)
Recreation	2,137,550	484,208	(1,653,342)
Grants and special programs	109,623	594,562	484,939
Debt service	5,477,554	792,783	(4,684,771)
Capital outlay	-	49,482	49,482
Total expenditures	<u>50,454,246</u>	<u>47,690,111</u>	<u>(2,764,135)</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	<u>960,750</u>	<u>20,437</u>	<u>(940,313)</u>
OTHER FINANCING SOURCES (USES) OF FUNDS			
Operating transfer in	-	15,342,316	15,342,316
Operating transfer out	(960,750)	(7,660,033)	(6,699,283)
Total other financing sources (uses) of funds, net	<u>(960,750)</u>	<u>7,682,283</u>	<u>8,643,033</u>
EXCESS OF REVENUES AND OTHER FINANCING			
USES OVER EXPENDITURES			
AND USES OF FUNDS	<u>\$ -</u>	<u>\$ 7,702,720</u>	<u>\$ 7,702,720</u>
FUND BALANCE - BEGINNING		(23,047,308)	
FUND BALANCE - ENDING		<u>\$ (15,344,588)</u>	

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

**CITY OF CHESTER
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
1/1/2012	\$ -	\$ 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%
1/1/2016	\$ -	\$ 244,563,336	\$ 244,563,336	\$ -	\$ 20,024,130	1221.3%
1/1/2017	\$ -	\$ 252,858,136	\$ 252,858,136	\$ -	\$ 17,975,574	1406.7%

CITY OF CHESTER
SCHEDULE OF THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's net pension liability	\$ 137,090,416	\$ 129,244,465	\$ 70,107,900	\$ 49,819,397
Covered-employee payroll	\$ 17,320,000	\$ 16,181,740	\$ 16,400,000	\$ 20,476,598
Net pension liability as a percentage of covered-employee payroll	791.5%	798.7%	427.5%	243.3%
Plan fiduciary net position as a percentage of the total pension liability	29.7%	28.9%	42.0%	*

* Information not available.

CITY OF CHESTER
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$ 6,551,507	\$ 5,888,717	\$ 6,054,485	\$ 4,741,361
Contributions made	<u>(1,718,805)</u>	<u>(1,146,845)</u>	<u>(111,792)</u>	<u>(1,560,690)</u>
Contribution deficiency	<u>\$ 4,832,702</u>	<u>\$ 4,741,872</u>	<u>\$ 5,942,693</u>	<u>\$ 3,180,671</u>
 Covered-employee payroll	 \$ 17,320,000	 \$ 16,181,740	 \$ 16,400,000	 \$ 20,476,598
 Contributions as a percentage of covered-employee payroll	 38%	 36%	 37%	 23%

City of Chester
Notes to Pension Schedules of Required Supplementary Information
For the Year Ended December 31, 2017

Changes in benefit terms:

For police, the average compensation was changed from a five year average to final salary, and the service increment maximum increased from \$100 to \$500. Vesting changed from 100% after 20 years to 100% after 12 years. For firemen hired after 12/12/11, retirement eligibility changed from 20 years of service to age 50 and 25 years of service.

Actuarial assumptions:

The mortality assumption is based on the Blue Collar RP-2000 Table projected to 2017 using Scale

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	7.5% For Act 205, 3.17 for Police Pension Plan and 5.91% for the Paid Firemens' and the Officers & Employees' Pension Plans for GASB.
Salary increases	5.00%
Multiple decrement tables	Mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.