# CITY OF CHESTER

## FINANCIAL STATEMENTS

## AND

## INDEPENDENT AUDITOR'S REPORT

## For the Year Ended December 31, 2019

MILLIGAN & COMPANY, LLC
Consultants and Certified Public Accountants
Meeting the Toughest Challenges.
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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, 2019, 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 component units, which include the Chester Economic Development Authority and the Chester Redevelopment Authority ("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 component units' financial statements, is based solely on the reports of another auditor.

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**

| Opinion Unit | Type of Opinion |
|---|---|
| Primary government | Qualified |
| Governmental funds | Qualified |
| Proprietary funds | Unmodified |
| Fiduciary funds | Qualified |

**Basis for Qualified Opinions**

We were unable to obtain sufficient appropriate audit evidence for certain balances or transactions included in the financial statements. These balances and transactions include certain cash accounts, wire transfers, tax abatements, and expense accounts.

**Qualified Opinions**

In our opinion, except for the effects of the matters described in the "Basis for Qualified 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, 2019, 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 a going concern. The entity has experienced substantial recurring expenses in excess of revenue and a net unrestricted deficit of $416,653,221 at December 31, 2019. The City has limited funding available to meet its financial obligations without additional funding sources or a reduction of expenses. As of December 31, 2019, the City had not made contributions to one of its pension plans for the past five years and had accrued contributions and interest payable to the plan of $28,081,833. It is estimated that without these contributions, the Plan's available assets may be depleted in the near future. Furthermore, on April 13, 2020, the Governor of the Commonwealth of Pennsylvania declared a fiscal emergency for the City due to the ongoing fiscal challenges and the enhanced fiscal distress caused by the COVID-19 pandemic. In June 2020, the Commonwealth appointed a legal Receiver for the City. The Receiver has many of the rights and authority to manage the City's operations that are normally reserved for elected officials. In November 2022, the Receiver filed a Bankruptcy petition and the bankruptcy was approved by the U.S. Bankruptcy Court on March 14, 2023. See Note 19.

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.

**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 66-70 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.

Milliron + Company, LLC

Philadelphia, Pennsylvania

March 27, 2023

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, 2019. 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 2019 was a steady year for the City of Chester. Despite obstacles the City stayed balanced. Like prior years, the City worked hard to make Chester more marketable for businesses and visitors. The City continues to focus on making major improvements to the downtown district to attract new visitors and residents, as well as development.

Though a financially distressed Act 47 city, we were able to work very diligently to overcome the many financial obstacles. City Council continues to follow the 2018 adopted state approved financial exit plan. This plan, prepared by the state appointed Recovery Coordinator, outlines the many accomplishments of the City and key recommendations to ensure that we successfully exit Act 47 within the next few years. 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 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 maintains thirty-eight 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 ("CEDA"), which are considered to be major funds. Information relative to the other thirty-seven 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 of the City of Chester ("CRA") 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 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 decreases in reimbursements for health insurance, workers' compensation and the Storm Water Authority of Chester, as spending was less than budgeted and decreases in earned income tax revenues that were less than budgeted. Total General Fund expenditures were more than budgeted mostly due to higher than expected pension, salary and wages, and professional service expenses.

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 2018 to 2019. Table 4 shows changes in outstanding bond and other long-term debt from 2018 to 2019.

**Table 1**

| | Net Position December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Other assets | $ 16,359,569 | $ 14,611,408 |
| Capital assets, net | 24,216,690 | 26,052,520 |
| Total assets | 40,576,259 | 40,663,928 |
| Deferred outflows | 25,755,456 | 14,075,762 |
| Total assets and deferred outflow | 66,331,715 | 54,739,690 |
| Other liabilities | 39,998,081 | 30,472,791 |
| Long-term liabilities | 389,398,489 | 399,277,404 |
| Total liabilities | 429,396,570 | 429,750,195 |
| Deferred inflows | 38,101,853 | 4,500,061 |
| Total liabilities and deferred inflow | 467,498,423 | 434,250,256 |
| Net position (deficit): | | |
| Net investment in capital assets | 13,681,607 | 15,431,292 |
| Restricted for: | | |
| Debt service | 695,000 | 669,595 |
| Special revenue | 1,109,906 | 2,195,338 |
| Unrestricted | (416,653,221) | (397,806,791) |
| Total net position (deficit) | $ (401,166,708) | $ (379,510,566) |

During the current fiscal year, the reported net deficit increased for governmental activities from the prior fiscal year by $21,656,142. The increase is significantly due to pension obligation accruals. The City has undertaken efforts to identify opportunities to decrease the pension liabilities.

**Table 2**

**Statement of Activities**
**For the years ended December 31,**

| | 2019 | 2018 |
|---|---|---|
| Program Revenues: | | |
| Charges for services | $ 3,241,401 | $ 3,033,865 |
| Operating grants and contributions | 4,629,118 | 5,151,204 |
| Total program revenues | 7,870,519 | 8,185,069 |
| General revenues | 45,258,769 | 42,233,714 |
| Total revenues | 53,129,288 | 50,418,783 |
| Program expenses: | | |
| Primary government activities | 74,553,367 | 82,447,768 |
| Business-type activities | 232,063 | 221,168 |
| | 74,785,430 | 82,668,936 |
| Net change in net deficit | (21,656,142) | (32,250,153) |
| Net deficit - beginning, previously reported | (379,510,566) | (213,484,661) |
| GASB 75/Accounting error adjustment | - | (127,106,053) |
| Restatement- Accounting error | - | (6,669,699) |
| Net deficit - beginning, restated | (379,510,566) | (347,260,413) |
| Net deficit - end of year | $ (401,166,708) | $ (379,510,566) |

During the current fiscal year, revenue increased by $2,710,505 mostly due to the increase of the local enabling tax rate to support the distressed pension plans. Expenses decreased by $7,883,506 mostly due to lower than expected public safety expenses.

**Governmental Funds**

The focus of the City'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's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At December 31, 2019 and 2018 the City's governmental funds reported a fund balance deficit of $25,651,955 and $17,209,869, respectively, which consists of the following:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | | % of Total | | % of Total |
| Nonspendable | $ 44,133 | -0.2% | $ 96,779 | -0.6% |
| Restricted | 2,816,895 | -11.0% | 2,812,578 | -16.3% |
| Committed | 1,382,477 | -5.4% | 1,407,676 | -8.2% |
| Assigned | 355,831 | -1.4% | 305,685 | -1.8% |
| Unassigned | (30,251,291) | 117.9% | (21,832,587) | 126.9% |
| Total fund balance | $ (25,651,955) | | $ (17,209,869) | |

The unassigned funds deficit increased mostly related to pension obligations.

**TABLE 3**

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

| Capital Assets | 2019 | 2018 | $ Inc/Dec |
|---|---|---|---|
| Capital assets, not being depreciated: | | | |
| Land | $ 2,172,213 | $ 2,172,213 | $ - |
| Capital assets, being depreciated: | | | |
| Buildings and improvements | 19,564,732 | 19,367,434 | 197,298 |
| Machinery and equipment | 17,056,305 | 16,890,510 | 165,795 |
| Infrastructure | 15,331,374 | 17,789,514 | (2,458,140) |
| Total Capital Assets | 54,124,624 | 56,219,671 | (2,095,047) |
| Less: Accumulated depreciation | 33,694,158 | 33,965,178 | (271,020) |
| Net capital asset value* | $ 20,430,466 | $ 22,254,493 | $ (1,824,027) |

*Excluding component units.

During 2019, we significantly decreased our assets by selling the City's inlets to the Chester Storm Water Authority. These decreases were offset by the investments in infrastructure improvements and equipment purchases.

**TABLE 4**

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

| SERIES | 2019 | 2018 | $ Inc/Dec |
|---|---|---|---|
| 2010 Series A | $ - | $ 709,000 | $ (709,000) |
| 2010 Series B | 1,793,000 | 2,064,000 | (271,000) |
| 2017 Series A | 10,485,000 | 11,305,000 | (820,000) |
| 2017 Series B | 7,210,000 | 7,210,000 | - |
| DCED | 1,450,000 | 1,650,000 | (200,000) |
| Total Debt | $ 20,938,000 | $ 22,938,000 | $ (2,000,000) |

In a prior year, the County of Delaware ("County") 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 $ 440,757 for the year ended December 31, 2019. The balance outstanding was $8,748,324 as of December 31, 2019. 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.

The City is not aware of any facts, decisions, or condition that may affect financial position or future results of operations.

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 CEDA and the CRA.

**CITY OF CHESTER**
**STATEMENT OF NET POSITION**
**DECEMBER 31, 2019**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 5,562,943 | $ 291,275 | $ 5,854,218 |
| Receivables (net of allowance for uncollectibles) | 7,328,218 | 6,205 | 7,334,423 |
| Prepaid assets | 44,133 | - | 44,133 |
| Due from other funds and governments | 3,126,795 | - | 3,126,795 |
| Capital assets not being depreciated: | | | |
| Land | 2,511,234 | - | 2,511,234 |
| Property held for resale | - | 3,418,794 | 3,418,794 |
| Capital assets, net of accumulated depreciation: | | | |
| Buildings and improvements | 9,529,182 | 28,409 | 9,557,591 |
| Machinery and equipment | 2,935,096 | - | 2,935,096 |
| Infrastructure | 5,793,975 | - | 5,793,975 |
| Total assets | 36,831,576 | 3,744,683 | 40,576,259 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Pension | 22,327,599 | - | 22,327,599 |
| Other postemployment benefits | 3,427,857 | - | 3,427,857 |
| | 25,755,456 | - | 25,755,456 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 62,587,032 | 3,744,683 | 66,331,715 |
| **LIABILITIES** | | | |
| Accounts payable and accrued expenditures | 35,785,223 | 12,029 | 35,797,252 |
| Due to other governments and entities | 2,819,531 | 45,774 | 2,865,305 |
| Escrow liability | 1,310,859 | 24,665 | 1,335,524 |
| Long-term liabilities: | | | |
| Due within one year: | | | |
| Compensated absences | 115,251 | - | 115,251 |
| Contribution agreement | 440,758 | - | 440,758 |
| Long-term debt | 3,628,000 | 175,000 | 3,803,000 |
| Obligation under capital lease | 281,542 | - | 281,542 |
| Due in more than one year: | | | |
| Compensated absences | 2,271,460 | - | 2,271,460 |
| Contribution agreement | 8,307,566 | - | 8,307,566 |
| Long-term debt | 17,310,000 | 200,000 | 17,510,000 |
| Section 108 loan payable | - | 550,000 | 550,000 |
| Obligation under capital lease | 188,377 | - | 188,377 |
| Net other postemployment benefits liability | 210,112,432 | - | 210,112,432 |
| Net pension liability | 145,818,103 | - | 145,818,103 |
| Total liabilities | 428,389,102 | 1,007,468 | 429,396,570 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Pension | 11,255,311 | - | 11,255,311 |
| Other postemployment benefits | 25,220,827 | | 25,220,827 |
| Unearned revenue | 1,625,715 | - | 1,625,715 |
| Total deferred inflows of resources | 38,101,853 | - | 38,101,853 |
| **TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | 466,490,955 | 1,007,468 | 467,498,423 |
| **NET POSITION (DEFICIT)** | | | |
| Net investment in capital assets | 13,653,198 | 28,409 | 13,681,607 |
| Restricted for: | | | |
| Debt service | 695,000 | - | 695,000 |
| Special revenue | 1,109,906 | - | 1,109,906 |
| Unrestricted | (419,362,027) | 2,708,806 | (416,653,221) |
| Total net position (deficit) | $ (403,903,923) | $ 2,737,215 | $ (401,166,708) |

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, 2019**

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expenses) Revenues and Changes in Net Position: Primary Government: Governmental Activities | Net (Expenses) Revenues and Changes in Net Position: Primary Government: Business-type Activities | Net (Expenses) Revenues and Changes in Net Position: Primary Government: Total |
|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | |
| General government | $ (26,716,524) | $ 245,866 | $ 1,980,413 | $ (24,490,245) | $ - | $ (24,490,245) |
| Public safety | (36,833,686) | 1,678,401 | - | (35,155,285) | - | (35,155,285) |
| Highways and streets | (4,231,254) | 1,317,134 | 941,618 | (1,972,502) | - | (1,972,502) |
| Health and sanitation | (866,289) | - | - | (866,289) | - | (866,289) |
| Community development | (797,896) | - | 1,235,824 | 437,928 | - | 437,928 |
| Recreation | (1,100,101) | - | - | (1,100,101) | - | (1,100,101) |
| Grants and special programs | (948,100) | - | - | (948,100) | - | (948,100) |
| Depreciation, net of disposals | (1,835,632) | - | - | (1,835,632) | - | (1,835,632) |
| Interest on long-term debt | (1,223,885) | - | - | (1,223,885) | - | (1,223,885) |
| Total government activities | (74,553,367) | 3,241,401 | 4,157,855 | (67,154,111) | - | (67,154,111) |
| Business-type activities: | | | | | | |
| Redevelopment activities | (232,063) | - | 471,263 | - | 239,200 | 239,200 |
| Total business-type activities | (232,063) | - | 471,263 | - | 239,200 | 239,200 |
| Total primary government | $ (74,785,430) | $ 3,241,401 | $ 4,629,118 | $ (67,154,111) | 239,200 | (66,914,911) |
| General revenues: | | | | | | |
| Real estate taxes | | | | 9,114,892 | - | 9,114,892 |
| Local enabling taxes | | | | 16,361,221 | - | 16,361,221 |
| Contributions and fees | | | | 1,247,608 | - | 1,247,608 |
| Cable television | | | | 398,645 | - | 398,645 |
| Host community fees | | | | 11,737,227 | - | 11,737,227 |
| Waste facilities fees | | | | 4,905,883 | - | 4,905,883 |
| Payments in lieu of taxes | | | | 373,685 | - | 373,685 |
| Investment earnings | | | | 94,067 | 562 | 94,629 |
| Reimbursements and others | | | | 676,105 | 233,693 | 909,798 |
| Rent | | | | 115,181 | - | 115,181 |
| Total general revenues | | | | 45,024,514 | 234,255 | 45,258,769 |
| Change in net position | | | | (22,129,597) | 473,455 | (21,656,142) |
| Net position (deficit) - beginning | | | | (381,774,326) | 2,263,760 | (379,510,566) |
| Net position (deficit) - ending | | | | $ (403,903,923) | $ 2,737,215 | $ (401,166,708) |

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

**CITY OF CHESTER**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**December 31, 2019**

| | General Fund | Chester Economic Development Authority | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 1,458,780 | $ 677,170 | $ 2,197,993 | $ 4,333,943 |
| Investments | - | 1,229,000 | - | 1,229,000 |
| Prepaids | 44,133 | - | - | 44,133 |
| Property tax receivable (net of allowance for uncollectibles) | 1,647,575 | - | - | 1,647,575 |
| Trash assessments receivable (net of allowance for uncollectibles) | 179,852 | - | - | 179,852 |
| Loan receivable | - | 200,000 | - | 200,000 |
| Other receivables (net of allowance for uncollectibles) | 3,512,654 | 1,637,636 | 150,501 | 5,300,791 |
| Due from other funds and governments | 2,566,410 | 292,991 | 267,394 | 3,126,795 |
| TOTAL ASSETS | $ 9,409,404 | $ 4,036,797 | $ 2,615,888 | $ 16,062,089 |
| **LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenditures | $ 3,362,010 | $ 176,279 | $ 655,562 | $ 4,193,851 |
| Accrued payroll and related costs | 31,317,808 | - | - | 31,317,808 |
| Due to other governments and entities | 64,289 | - | 29,782 | 94,071 |
| Due to other funds | - | 292,991 | 2,739,733 | 3,032,724 |
| Escrow | 648,928 | 2,333 | 659,598 | 1,310,859 |
| Total liabilities | 35,393,035 | 471,603 | 4,084,675 | 39,949,313 |
| DEFERRED INFLOWS OF RESOURCES-UNEARNED REVENUES | 1,764,731 | - | - | 1,764,731 |
| Fund balance (deficit): | | | | |
| Nonspendable | 44,133 | - | - | 44,133 |
| Restricted | - | 2,816,895 | - | 2,816,895 |
| Committed | - | - | 1,382,477 | 1,382,477 |
| Assigned | - | 355,831 | - | 355,831 |
| Unassigned | (27,792,495) | 392,468 | (2,851,264) | (30,251,291) |
| Total fund balance (deficit) | (27,748,362) | 3,565,194 | (1,468,787) | (25,651,955) |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | $ 9,409,404 | $ 4,036,797 | $ 2,615,888 | $ 16,062,089 |

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, 2019**

| | | |
|---|---|---|
| **Total fund balances - governmental funds** | | $ (25,651,955) |
| 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 | 2,511,234 | |
| Buildings and improvements | 9,529,182 | |
| Machinery and equipment | 2,935,096 | |
| Infrastructure | 5,793,975 | |
| Total capital assets, net | | 20,769,487 |
| 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 pension and other postemployment benefits | 25,755,456 | |
| Deferred inflows of resources related to pensions and other postemployment benefits | (36,476,138) | |
| | | (10,720,682) |
| 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 | | 139,016 |
| Long-term debt | | (20,938,000) |
| Accrued self insurance - medical and prescription costs | | 33,700 |
| Compensated absences | | (2,386,711) |
| Contribution agreement | | (8,748,324) |
| Obligations under capital lease | | (469,919) |
| Other postemployment benefits | | (210,112,432) |
| Pension | | (145,818,103) |
| **Net deficit of governmental activities** | | $ (403,903,923) |

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, 2019**

| | General Fund | Chester Economic Development Authority | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| REVENUES | | | | |
| Taxes and assessments: | | | | |
| Real estate | $ 8,975,876 | $ - | $ - | $ 8,975,876 |
| Rubbish fees | 1,317,134 | - | - | 1,317,134 |
| Local enabling act taxes | 16,361,221 | - | - | 16,361,221 |
| Licenses - permits | 1,248,665 | - | - | 1,248,665 |
| Cable television | 398,645 | - | - | 398,645 |
| Fines, forfeits | 245,866 | - | - | 245,866 |
| Rent | 115,181 | - | - | 115,181 |
| Investment earnings | 18,440 | 39,235 | 36,392 | 94,067 |
| Public utility realty tax | 18,173 | - | - | 18,173 |
| Grants, intergovernmental revenue | 419,793 | 721,363 | 1,036,286 | 2,177,442 |
| Departmental earnings | 411,563 | - | - | 411,563 |
| Commonwealth of Pennsylvania pension aid | 1,980,413 | - | - | 1,980,413 |
| Waste facilities fees | 4,905,883 | - | - | 4,905,883 |
| Payments in lieu of taxes | 373,685 | - | - | 373,685 |
| Casino host community fees | 11,592,989 | - | 144,238 | 11,737,227 |
| Reimbursements | 676,105 | - | - | 676,105 |
| Other revenue | 625,430 | 578,847 | 43,331 | 1,247,608 |
| Total revenues | 49,685,062 | 1,339,445 | 1,260,247 | 52,284,754 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 23,019,181 | 737,567 | 3,162 | 23,759,910 |
| Public safety | 25,883,331 | - | - | 25,883,331 |
| Highways and streets | 2,622,554 | - | 788,291 | 3,410,845 |
| Health and sanitation | 504,470 | - | - | 504,470 |
| Community development | - | 545,141 | 252,755 | 797,896 |
| Recreation | 687,876 | - | 50,999 | 738,875 |
| Grants and special programs | 714,913 | - | 2,323 | 717,236 |
| Debt service: | | | | |
| Principal | 866,526 | - | 2,368,625 | 3,235,151 |
| Interest | - | - | 877,097 | 877,097 |
| Capital outlay: | | | | |
| Recreation | 9,798 | - | 54,325 | 64,123 |
| Public safety and general government | 572,521 | - | 165,385 | 737,906 |
| Total expenditures | 54,881,170 | 1,282,708 | 4,562,962 | 60,726,840 |
| Deficiency of revenues over expenditures | (5,196,108) | 56,737 | (3,302,715) | (8,442,086) |
| Other financing sources (uses) of funds | | | | |
| Transfers in | 10,748,555 | - | 12,342,289 | 23,090,844 |
| Transfers out | (12,342,220) | - | (10,748,624) | (23,090,844) |
| Total other financing sources (uses) of funds | (1,593,665) | - | 1,593,665 | - |
| Net change in fund (deficit) | (6,789,773) | 56,737 | (1,709,050) | (8,442,086) |
| Fund balances (deficit) - beginning | (20,958,589) | 3,508,457 | 240,263 | (17,209,869) |
| Fund balances (deficit) - ending | $ (27,748,362) | $ 3,565,194 | $ (1,468,787) | $ (25,651,955) |

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, 2019**

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds** | | $ (8,442,086) |
| 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 | 802,029 | |
| Transfer from other government | 215,141 | |
| Depreciation expense, net of disposal | (1,835,632) | (818,462) |
| 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: | | 2,000,000 |
| Decrease in compensated absences | | 168,335 |
| Decrease in contribution agreement | | 440,758 |
| Decrease in obligations under capital lease | | 289,929 |
| Decrease in other postemployment benefits | | 1,002,785 |
| Increase in pension costs | | (16,178,491) |
| Increase in self insurance - medical/prescription | | (296,385) |
| Decrease in accrued interest | | 37,163 |
| 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. | | (139,016) |
| Other differences | | (194,127) |
| **Change in net deficit of governmental activities** | | $ (22,129,597) |

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

**CITY OF CHESTER**
**STATEMENT OF NET POSITION - PROPRIETARY FUND**
**DECEMBER 31, 2019**

| Assets | CRA |
|---|---|
| Current assets: | |
| Cash and cash equivalents | $ 291,275 |
| Due from other governments | 6,205 |
| Total current assets | 297,480 |
| Noncurrent assets: | |
| Capital asset held for resale | 3,418,794 |
| Leasehold improvements and equipment, net | 28,409 |
| Total noncurrent assets | 3,447,203 |
| Total assets | $ 3,744,683 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable and accrued expenses | $ 12,029 |
| Escrow and escheat liabilities | 24,665 |
| Due to other governments | 45,774 |
| Section 108 loan payable | 175,000 |
| Land purchase deposit | - |
| Total current liabilities | 257,468 |
| Noncurrent liabilities: | |
| Loan payable to Chester Economic Development Authority | 200,000 |
| Section 108 loan payable | 550,000 |
| Total noncurrent liabilities | 750,000 |
| Total liabilities | 1,007,468 |
| Net position | |
| Net investment in capital assets | 28,409 |
| Unrestricted | 2,708,806 |
| Total net position | $ 2,737,215 |

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, 2019**

| | CRA |
|---|---|
| Operating revenues: | |
| Gain on the disposal of assets held for sale | $ 471,263 |
| Other revenue | 37,938 |
| Total operating revenues | 509,201 |
| Operating expenses: | |
| Professional services | 90,256 |
| Administrative expenses | 92,345 |
| Legal services | 27,710 |
| Depreciation | 2,368 |
| Total operating expenses | 212,679 |
| Operating income | 296,522 |
| Nonoperating revenues and (expenses): | |
| Nonoperating grants | 195,755 |
| Investment income | 562 |
| Interest expense | (19,384) |
| Total nonoperating revenues | 176,933 |
| Change in net position | 473,455 |
| Net position - beginning of year | 2,263,760 |
| Net position - end of year | $ 2,737,215 |

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

**CITY OF CHESTER**
**STATEMENT OF CASH FLOW - PROPRIETARY FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2019**

| | CRA |
|---|---|
| Cash flows from operating activities: | |
| Cash received from other revenue | $ 37,938 |
| Proceeds received from the sale of assets held for sale | 453,448 |
| Cash paid for assets held for sale | (23,814) |
| Cash paid to suppliers for goods and services | (275,993) |
| Net cash provided by operating activities | 191,579 |
| Cash flows from capital and related financing activities: | |
| Nonoperating grants received | 195,755 |
| Repayment of long-term debt | (225,000) |
| Interest paid on long-term debt | (20,755) |
| Net cash used in capital and related activities | (50,000) |
| Cash flows from investing activities: | |
| Investment income received | 562 |
| Net cash provided by investing activities | 562 |
| Net increase in cash and cash equivalents | 142,141 |
| Cash and cash equivalents - beginning of year | 149,134 |
| Cash and cash equivalents - end of year | $ 291,275 |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | |
| Operating income | 296,522 |
| Adjustments to reconcile operating income(loss) to net cash utilized by operating activities: | |
| Depreciation | 2,368 |
| Net change in assets held for sale | (7,565) |
| Changes in assets and liabilities: | |
| Increase in accounts payables and accrued liabilities | 991 |
| Decrease in land purchase deposit | (34,064) |
| Decrease in due to other governments | (66,673) |
| Net cash provided by operating activities | $ 191,579 |

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, 2019**

| | Pension Trust Funds |
|---|---|
| **ASSETS** | |
| Investments, at fair value | $ 38,121,558 |
| Accounts receivable, net | 28,975,378 |
| Total assets | 67,096,936 |
| **LIABILITIES** | |
| DROP account balances | 1,839,345 |
| Refund of member contributions | 1,575 |
| Total liabilities | 1,840,920 |
| **NET POSITION** | |
| Total net position | $ 65,256,016 |

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, 2019**

| | Pension Trust Funds |
|---|---|
| Additions: | |
| Contributions: | |
| Employee | $ 1,008,018 |
| City | 7,342,100 |
| State | 1,976,513 |
| Other revenue | 46,092 |
| Investment net gain | 9,271,640 |
| Total additions | 19,644,363 |
| Deductions: | |
| Benefit payments | 9,395,291 |
| Administrative expenses and refunds | 249,272 |
| Total deductions | 9,644,563 |
| Change in net position | 9,999,800 |
| Net position - beginning | 55,256,216 |
| Net position - ending | $ 65,256,016 |

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

## 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 a 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:

In January 2017, GASB issued Statement No. 84, "*Fiduciary Activities,*" which was originally effective for periods beginning after December 15, 2018 and subsequently delayed for one year by GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance." The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria for reporting generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City is evaluating the impact of this statement on future financial statements.

GASB Statement No. 87, *"Leases"* was issued in June 2017, with an original effective date for reporting periods beginning after December 15, 2019. Statement No. 95, delayed the implementation date of this Statement by 18 months. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

use an underlying asset. The City's management is evaluating the impact of this statement on future financial statements.

GASB Statement No. 88, *"Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements"* was issued in April 2018, with an original effective date for reporting periods beginning after June 15, 2018, delayed for one year per Statement No. 95. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. It requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The City's management is evaluating the impact of this statement on future 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 two 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Presentation, Continued

**Fund Financial Statements**

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

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

The City reports the following major governmental funds:

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

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units. These funds include the accounts of the Police Pension Fund; Paid Firemen's Pension Fund; and Officers & 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Reporting Entity, 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, 2019. 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, 2019. 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.

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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Measurement Focus and Basis of Accounting, Continued

Governmental funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on the balance sheet. 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.

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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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:

| Assets | Estimated Useful Lives |
|---|---|
| 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.

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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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, 2019.

b. *Restricted* - resources with constraints placed on its 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Net Position and Fund Balance Classifications, Continued

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).

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 $698,700 as of December 31, 2019.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Prepaids

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

Program Revenues

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

Property Taxes

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

Deferred Outflow/Inflow of Resources

Under the modified accrual basis of accounting, financial resources should be recognized in the accounting period in which they become both measurable and available. The City reports items, which arise under the modified accrual basis of accounting, that qualify for reporting in this category. Deferred outflows of resources represent a consumption of net position that applies to a future period and 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 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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 funds that a statute or the 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 2019, no additional money was set aside or released from the reserve account. The reserve account's balance at December 31, 2019 was $15,742, which is less than the balance required by the resolution.

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.

Note 2 BUDGETARY INFORMATION, (Continued)

The Director of Accounts and Finance (representative 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, 2019, the General Fund's expenditures exceeded appropriations by $5,196,108. 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 banks have pledged collateral over the City's funds.

As of December 31, 2019, the City's aggregate bank balance of deposits (excluding component units) included in cash and cash equivalents was $3,729,943 of which $750,000 was insured by the FDIC. Assets have been pledged to cover $1,467,181 held by two institutions.

Investments

As of December 31, 2019, 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 | $ 4,156,689 | 6-10 | N/A |
| Corporate Bonds | 6,068,086 | 6-10 | BBB |
| Domestic Equity Funds | 26,701,146 | N/A | N/A |
| Short-term investments | 1,195,637 | N/A | N/A |
| Total fair value | $ 38,121,558 | | |

Note 3 DEPOSITS AND INVESTMENTS, (Continued)

Investments, Continued

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 $699,783 as of June 30, 2019, 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 $301,723 as of December 31, 2019, of which $250,000 was FDIC insured.

Note 4 RECEIVABLES

Property Taxes

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

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, 2019. In addition, a deferral of $1,455,891 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 | $ | 7,155,578 |
| Less: allowance for uncollectible taxes | | (5,508,003) |
| Net total property taxes receivable | $ | 1,647,575 |

Note 4 RECEIVABLES, (Continued)

Property Taxes, Continued

| | Assessed Valuation | Total Tax Levy |
|---|---|---|
| Tax rate in mills | | $ 29,792 |
| Net tax duplicate | $ 310,278,639 | 9,243,821 |
| Deduct: taxes collected (net of and including adjustments) | | 7,049,903 |
| 2019 taxes receivable | | $ 2,193,918 |

| Fiscal Year | General Operation | Debt Service | Total |
|---|---|---|---|
| 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 |
| 2018 | 27.400 | 2.392 | 29.792 |
| 2019 | 27.400 | 2.392 | 29.792 |

The following schedule presents property taxes levied and collected through 2019 and a ten year summary showing the relationship between amounts levied and actually collected.

Note 4 RECEIVABLES, (Continued)

Property Taxes, Continued

LAST TEN FISCAL YEARS

| Fiscal Year | | Net Total Tax Levy | Amount of Current Taxes Collected | Percent of Current Taxes Collected |
|---|---|---|---|---|
| 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% |
| 2018 | | 9,279,895 | 7,662,168 | 82.57% |
| 2019 | | 9,243,821 | 7,049,903 | 76.27% |

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

| Trash Assessments Receivable | 2019 |
|---|---|
| Gross trash assessments receivable | $ 3,926,642 |
| Less: allowance for uncollectible accounts | (3,746,790) |
| | $ 179,852 |

A deferral of $169,824 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 | | $ 2,062,188 |
| Covanta host fees | | 1,005,940 |
| Chester Upland School District | ** | 49,833 |
| Cable TV fees | | 170,373 |
| Other receivables | | 224,320 |
| | | $ 3,512,654 |

** The Chester Upland School District balance is net of an allowance for uncollectible accounts of $458,949. An agreement was finalized with them, which establish a payment plan requiring payments that began in 2019.

## 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, 2019, are as follows:

| | Interfund Receivables | Interfund Payables |
|---|---|---|
| General Fund | $ 2,566,410 | $ 64,289 |
| CEDA | 292,991 | 292,991 |
| Other Nonmajor Funds | 267,394 | 2,769,515 |
| | $ 3,126,795 | $ 3,126,795 |

### 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, 2019 are as follows:

| | Transfer In | Transfer Out |
|---|---|---|
| General Fund | $ 10,748,555 | $ 12,342,220 |
| Other Nonmajor Funds | 12,342,289 | 10,748,624 |
| | $ 23,090,844 | $ 23,090,844 |

## 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, 2019:

| | |
|---|---|
| Regular rehabilitation | $ 44,762 |
| Homestead rehabilitation | 15,697 |
| Low income assistance | 1,928 |
| Commercial loans/small business | 1,286,901 |
| | 1,349,288 |
| Less: allowance for doubtful accounts | (212,360) |
| | $ 1,136,928 |

Additionally, CEDA has an outstanding loan with CRA in the amount of $200,000.

## 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 1/1/2019 | | Additions | Deletions | Balance at 12/31/19 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land and land improvements | $ 2,172,213 | * | $ - | $ - | $ 2,172,213 |
| Total capital assets, not being depreciated | 2,172,213 | | - | - | 2,172,213 |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 19,367,434 | | 197,298 | - | 19,564,732 |
| Machinery and equipment | 16,890,510 | | 165,795 | - | 17,056,305 |
| Infrastructure | 17,789,514 | | 654,077 | (3,112,217) | 15,331,374 |
| Total capital assets, being depreciated | 54,047,458 | | 1,017,170 | (3,112,217) | 51,952,411 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 9,363,153 | | 672,397 | - | 10,035,550 |
| Machinery and equipment | 13,332,952 | | 788,257 | - | 14,121,209 |
| Infrastructure | 11,269,073 | | 374,978 | (2,106,652) | 9,537,399 |
| Total accumulated depreciation | 33,965,178 | | 1,835,632 | (2,106,652) | 33,694,158 |
| Total capital assets being depreciated, net | 20,082,280 | | (818,462) | (1,005,565) | 18,258,253 |
| Net capital asset value | $ 22,254,493 | | $ (818,462) | $ (1,005,565) | $ 20,430,466 |

* The balance includes a transfer of assets from Chester Parking Authority.

Additions include $215,141 in transfers from CEDA. The City has assets under capital lease of $1,339,768.

Depreciation expense was charged to governmental activities as follows:

| | |
|---|---|
| General government | $ 516,507 |
| Public safety | 380,094 |
| Highway and streets | 690,792 |
| Recreation | 248,239 |
| | $ 1,835,632 |

Note 7 CHANGES IN CAPITAL ASSETS, (Continued)

CEDA

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

| | Balance at 7/1/2018 | Additions | Deletions | Balance at 6/30/2019 |
|---|---|---|---|---|
| Land | $ 356,021 | $ - | $ (17,000) | $ 339,021 |
| Furniture and equipment | 3,677 | - | - | 3,677 |
| Total | 359,698 | - | (17,000) | 342,698 |
| Less accumulated depreciation for: | | | | |
| Furniture and equipment | 3,677 | - | - | 3,677 |
| Total accumulated depreciation | 3,677 | - | - | 3,677 |
| Capital assets, net | $ 356,021 | $ - | $ (17,000) | $ 339,021 |

CRA

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

| | Balance at 1/1/2019 | Additions | Deletions | Balance at 12/31/2019 | |
|---|---|---|---|---|---|
| Land | $ 3,411,229 | $ 7,565 | $ - | $ 3,418,794 | ** |
| Equipment | - | - | - | - | |
| Leasehold improvements | 71,027 | - | - | 71,027 | |
| Total | 3,482,256 | 7,565 | - | 3,489,821 | |
| Less accumulated depreciation | 40,250 | 2,368 | - | 42,618 | |
| Capital assets, net | $ 3,442,006 | $ 5,197 | $ - | $ 3,447,203 | |

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

## Note 8 SHORT-TERM DEBT

In January 2019, 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 $5,000,000 with an annual interest rate of 5%. The note matured on August 21, 2019. The proceeds were used to provide cashflow for operations.

Changes in the City's short-term debt during the year ended December 31, 2019 is as follows:

| Balance 1/1/2019 | Additions | Deletions | Balance 12/31/2019 |
|---|---|---|---|
| $ - | $ 5,000,000 | $ (5,000,000) | $ - |

## Note 9 LONG-TERM DEBT

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

The following is a summary of notes outstanding as of December 31, 2019 (excluding component units):

| Description | Date of Issue | Final Maturity Date | Interest Rate % | Original Amount | Notes Outstanding 1/1/2019 | Principal Paid | Notes Outstanding 12/31/2019 | Amounts Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| C | 11/29/2010 | 6/25/2019 | 1.935 | $ 5,895,000 | $ 709,000 | $ 709,000 | $ - | $ - |
| C | 11/29/2010 | 6/25/2025 | 2.605 | 3,985,000 | 2,064,000 | 271,000 | 1,793,000 | 1,793,000 |
| A | 8/1/2017 | 8/15/2027 | 7.500 | 12,000,000 | 11,305,000 | 820,000 | 10,485,000 | 950,000 |
| A | 8/1/2017 | 8/15/2027 | 7.500 | 7,210,000 | 7,210,000 | - | 7,210,000 | 685,000 |
| B | 1/13/2017 | 6/1/2027 | 0.000 | 2,000,000 | 1,650,000 | 200,000 | 1,450,000 | 200,000 |
| | | | | $ 31,090,000 | $ 22,938,000 | $ 2,000,000 | $ 20,938,000 | $ 3,628,000 |

A - Revenue Notes- Preston Hollow Capital
B - General Obligation Note-DCED
C – General Obligation Notes – Delaware Valley Regional Finance Authority

Note 9 LONG-TERM DEBT, (Continued)

Debt service requirements as of December 31, 2019 were as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2020 | $ 3,628,000 | $ 1,470,830 | $ 5,098,830 |
| 2021 | 1,955,000 | 1,204,500 | 3,159,500 |
| 2022 | 2,185,000 | 1,072,875 | 3,257,875 |
| 2023 | 2,290,000 | 924,000 | 3,214,000 |
| 2024 | 2,410,000 | 767,250 | 3,177,250 |
| 2025-2027 | 8,470,000 | 1,249,517 | 9,719,517 |
| | $ 20,938,000 | $ 6,688,972 | $ 27,626,972 |

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).

The $5,895,000 note was paid off in 2019. The remaining 2010 general obligation note, 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 balance is classified as current as of December 31, 2019.

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 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. A portion of 2017B series was used to redeem the 2015A series.

Note 9 LONG-TERM DEBT, (Continued)

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

**Interest Rate Management**

The remaining Series 2010 note is due to the Delaware Valley Regional Finance Authority ("DVRFA") as described below. The DVRFA has issued a bond to provide funds for the loan and has entered into an interest rate swap agreement 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 swap 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 agreement 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 its loan 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 swap only when their fair values are positive. At December 31, 2019, the swap 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, 2019 are currently A1 and A+ by Moody's Investors Service ("Moody's") and Standards & Poor's, respectively.

Note 9 LONG-TERM DEBT, (Continued)

**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.

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 B Note | Fixed | 2.605% | $1,793,000 | June 25, 2025 | $(56,050) | $260,925 |

The estimated termination payment (i.e., the market value) for the DVRFA Swap Agreements allocable to the City debt as of December 31, 2019, 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.

Note 9 LONG-TERM DEBT, (Continued)

**Market Access Risk**

The City does not have market access risk relating to the note.

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, 2019, the balance of the loan was $725,000.

Required future interest and principal payments as of December 31, 2019 follow:

| | Interest | Principal |
|---|---|---|
| 2020 | $ 17,465 | $ 175,000 |
| 2021 | 14,000 | 175,000 |
| 2022 | 9,888 | 175,000 |
| 2023 | 5,600 | 200,000 |
| | $ 46,953 | $ 725,000 |

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 redevelopers. This loan bore no interest and was paid off during 2019.

## 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 additional City consideration.

*General Obligation Note 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 note – 2010 Series A originally issued in the amounts of $3,985,000:

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 note is payable through 2025, 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 the note is $1,793,000. For the current year, principal payments and current pledged revenues were $980,000, and $11,592,989, 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 2019, the City paid DCCC on behalf of the District, $252,755.

*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 $8,748,324. For the current year, principal payments and current pledged revenues were $440,758 and $144,238, 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 intended to 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 had made progress toward recovery and outlined 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.

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 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. The Receiver remains in place as of the date of the report and has 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 $440,758 for the year ended December 31, 2019.

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:

| Year Ending December 31, | | |
|---|---|---|
| 2020 | $ | 440,758 |
| 2021 | | 439,633 |
| 2022 | | 439,483 |
| 2023 | | 440,258 |
| 2024 | | 439,458 |
| 2025-2029 | | 2,193,023 |
| 2030-2034 | | 2,184,205 |
| 2035-2039 | | 2,171,507 |
| | $ | 8,748,325 |

## 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 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 salary plus $1 per month. Officers and Employees, hired before January 1, 1988, pay 6% of their compensation, depending on their coverage status, 1% of compensation if hired after December 31, 1987, and 3.5% of compensation if hired after March 1, 2016.

Note 13 PENSION PLANS, (Continued)

Plan Description, Continued

As of December 31, 2019, participants in the plans were as follows:

| | Police Pension Fund | Paid Firemen's Pension Fund | Officers & Employees Retirement System |
|---|---|---|---|
| Participants | | | |
| Active Employees | 81 | 46 | 124 |
| Retirees, disabled and beneficiaries currently receiving benefits | 137 | 69 | 50 |
| | 218 | 115 | 174 |

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 $1/40^{th}$ of such pension per year of service over 20 years but not occurring after age 65. The maximum service increment is $500 per month if hired before February 1, 2017 and $100 per month if hired after that date. There are early retirement and disability provisions in eligible circumstances.

Firemen

All full-time paid firemen join the Plan upon employment. Members are eligible for normal retirement after completion of 20 years of service, 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 $1/40^{th}$ 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

Note 13 PENSION PLANS (Continued)

Firemen, Continued

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 police and firemen members who have met the eligibility for normal retirement. Effective January 1, 2018, DROP was amended to be in compliance with Act 44.

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 of sale. Net appreciation or depreciation 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.

Note 13 PENSION PLANS (Continued)

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 2019, 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 $591,617, the Paid Firemen contributed $215,354, and the Officers and Employees contributed $201,047.

Further, the City was required to contribute State aid along with City funds necessary to meet the 2019 MMO of each of the respective funds as follows:

| | | |
|---|---|---|
| Police Pension Fund | $ | 7,554,343 |
| Paid Firemen Pension Fund | $ | 953,353 |
| Officers & Employees Retirement System | $ | 810,917 |

The City received a total of $1,976,513 in its State allocation during this period. Funds were remitted to the Plans with the exception of $726,513 for the Police Pension fund, which was deposited into the Plan in early 2021. As of December 31, 2019, the City did not remit their required contributions and accrued interest for 2019 and past years totaling $28,081,833, 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, 2019, the City reported a net pension liability of $145,818,103 for all Plans. The total pension liability was determined as part of an actuarial valuation at January 1, 2019 rolled forward to December 31, 2019. The Plans total pension liability, fiduciary net position, and changes thereto are presented below:

Note 13 PENSION PLANS, (Continued)

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

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---|---|---|---|
| Balances at 12/31/2018 | $ 185,033,418 | $ 55,256,216 | $ 129,777,202 |
| Changes for the year: | | | |
| Service cost | 5,405,420 | - | 5,405,420 |
| Interest | 7,242,273 | - | 7,242,273 |
| Changes in benefit terms | - | - | - |
| Differences between expected and actual experience | (4,467,162) | - | (4,467,162) |
| Changes of Assumptions | 27,427,858 | - | 27,427,858 |
| Contributions - employer | - | 7,342,100 | (7,342,100) |
| Contributions - state aid | - | 1,976,513 | (1,976,513) |
| Contributions - member | - | 1,008,018 | (1,008,018) |
| Net Investment income | - | 9,317,731 | (9,317,731) |
| Benefit payments | (9,567,687) | (9,567,687) | - |
| Administrative expense | - | (76,874) | 76,874 |
| Net changes | 26,040,702 | 9,999,801 | 16,040,901 |
| Balances at 12/31/2019 | $ 211,074,120 | $ 65,256,017 | $ 145,818,103 |

For the year ended December 31, 2019, the City recognized total pension expense for the Plans of $16,178,491. At December 31, 2019, 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 | $ 1,233,724 | $ 5,048,958 |
| Changes in assumptions | 21,093,875 | - |
| Net differences between projected and actual earnings on pension plan investments | - | 6,206,353 |
| | $ 22,327,599 | $ 11,255,311 |

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

| Year ending December 31, | Amount |
|---|---|
| 2020 | $ 1,833,000 |
| 2021 | 1,833,000 |
| 2022 | 1,833,000 |
| 2023 | 1,833,000 |
| 2024 | 1,833,000 |
| Thereafter | 1,907,288 |
| | $ 11,072,288 |

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 | 1/1/2019 | 1/1/2019 | 1/1/2019 |
| 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 | 11 years | 17 years | 9 years |
| Actuarial assumptions: | | | |
| Inflation | 2.25% | 2.25% | 2.25% |
| Investment rate of return | 7.50% | 7.50% | 7.50% |
| Projected salary increases | 5.00% | 5.00% | 5.00% |
| Retirement Age: | | | |
| Normal | 20 years of service, 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. |

Note 13 PENSION PLANS, (Continued)

Actuarial Assumptions, Continued

Mortality rates were based on the RP-2000 Table projected to 2017 using Scale AA.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through January 1, 2017.

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:

| Asset Class | Target | Long Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equities | 52.5% | 5.1% |
| International Equity | 17.5% | 6.8% |
| Fixed Income | 27.0% | 1.0% |
| Cash | 3.0% | -0.3% |
| Net Blended Return | | 4.11% |
| Inflation | | 2.50% |
| Total Long-term Expected Rate of Return | | 6.61% |

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 2019 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, 2019 are listed in the table above.

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 3.26%. This represents a blended rate of the long term expected return on assets 6.61% through 2020 where assets are sufficient to cover benefit payments and the 20-year AA municipal bond rate 3.26% after 2020, where assets are projected not to cover benefit payments.

*Paid Firemen's Pension Plan*-The discount rate used to measure the total pension liability was 3.93%. This represents a blended rate of the long term expected return on assets 6.61% through 2039 where assets are sufficient to cover benefit payments and the 20-year AA municipal bond rate 3.26% after 2039, where assets are projected not to cover benefit payments.

*Officers & Employees Pension Plans*- The discount rate used to measure the total pension liability was 3.52%. This represents a blended rate of the long term expected return on assets 6.61% through 2031 where assets are sufficient to cover benefit payments and the 20-year AA municipal bond rate 3.64% after 2031, where assets are projected not to cover benefit payments.

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.

| Net Pension Liability | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| | 2.26% | 3.26% | 4.26% |
| **Police Pension Plan** | $ 127,806,034 | $ 107,249,283 | $ 90,631,068 |
| | 2.93% | 3.93% | 4.93% |
| **Paid Firemen's Pension Plan** | 39,301,148 | 29,697,103 | 21,961,033 |
| | 2.52% | 3.52% | 4.52% |
| **Officers & Employees Pension Plan** | 10,420,500 | 8,871,717 | 7,562,333 |
| Total | $ 177,527,682 | $ 145,818,103 | $ 120,154,434 |

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 to 6%.

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,** | | | |
|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** |
| Employer Contribution | $ 14,923 | $ 14,505 | $ 15,835 | $ 19,220 |
| Employee Contribution | $ 26,123 | $ 23,458 | $ 22,866 | $ 21,985 |

## 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, 2019 are as follows (there were no Level 2 or 3 investments requiring inclusion in the following table):

| | Fair Value Measurement at Reporting Date Using: |
|---|---|
| | Observable Inputs (Level 1) |
| Exchange traded funds: | |
| Fixed income | $ 10,224,775 |
| Equities | 26,701,146 |
| Short-term investments | 1,195,637 |
| Investments at fair value | $ 38,121,558 |

There have been no changes in the valuation methodologies used as of December 31, 2019. 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.

## Note 15 CHESTER CASINO AND RACETRACK

In 2007, Harrah's Casino and Racetrack (the Casino) 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. The Casino 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 $11,737,227 in 2019 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. The Casino reopened from June to December 2020 and opened again in January 2021. 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 three City of Chester Police, Firefighters, Officers and Employees Health and Welfare Plans (collectively the OPEB Plans), a single employer defined benefit plan. Police are eligible to participate after 20 years of service, no minimum age requirement, if hired prior to December 31, 2016. If hired between December 31, 2016 and January 31, 2017, a minimum of 25 years of service and age 50 is required. If hired after February 1, 2017, no retiree health coverage is provided to police. Firefighters are eligible to participate after 20 years of service, no minimum age requirement, if hired prior to January 1, 2017. If hired on or after January 1, 2017, a minimum of 25 years of service and age 50 is required. For both police and firefighters, if they should be on permanent disability, the City will continue to pay medical coverage. Non-uniform employees are eligible if they retire at 60 years of age with 20 years of service, if hired prior to January 1, 1988. If hired on or after January 1, 1988, they must be 65 years of age and have 25 years of service.

In 2017, the City became self-funded for all medical and prescription drug costs. The OPEB Plans are authorized and under the control, maintenance and operation of City Council and collectively bargained agreements/Memorandum of Understandings. The financial responsibility of the City is based on a pay-as-you-go financing requirement. City Council has the authority within contractual limitations to amend the OPEB Plans including changing the obligation of Plan members and the City. For all three OPEB Plans, beginning January 1, 2017, retirees contribute 5% of the cost of medical and prescription drug coverage in effect at the time of retirement based on marital status. The retiree will contribute until they become eligible for the Medicare Supplement plan. The City's OPEB Plan is not a Trust.

The OPEB participants consisted of the following at December 31, 2019:

Note 16 OTHER POST EMPLOYMENT BENEFITS, (Continued)

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

| | Police Health & Welfare Plan | Firefighters Health & Welfare Plan | Officers & Employees Health & Welfare Plan |
|---|---|---|---|
| Participants | | | |
| Active Employees | - | 2 | 4 |
| Other Active Employees not Fully Eligible | 72 | 55 | 113 |
| Retirees and beneficiaries currently receiving benefits | 134 | 61 | 31 |
| | 206 | 118 | 148 |

At December 31, 2019, the City reported an OPEB liability of $210,112,462 for all Plans. The total OPEB liability was determined as part of an actuarial valuation at January 1, 2019 rolled forward to December 31, 2019. The total net OPEB liability and changes thereto are presented below:

| | Net OPEB Liability |
|---|---|
| Balances at 12/31/2018 | $ 232,908,217 |
| Changes for the year: | |
| Service cost | 3,915,672 |
| Interest | 6,717,255 |
| Changes in benefit terms | - |
| Differences beteween expected and acutal experience | (31,049,580) |
| Changes of Assumptions | 4,199,969 |
| Contributions - employer | (6,579,101) |
| Benefit payments | - |
| Administrative expense | - |
| Net changes | (22,795,785) |
| Balances at 12/31/2019 | $ 210,112,432 |

For the year ended December 31, 2019, the City recognized total expense (benefit) for the OPEB Plans of $(1,002,785).

Note 16 OTHER POST EMPLOYMENT BENEFITS, (Continued)

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plans as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ 25,220,827 |
| Changes in assumptions | 3,427,857 | - |
| Net differences between projected and actual earnings on pension plan investments | - | - |
| | $ 3,427,857 | $ 25,220,827 |

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

| Year ending December 31, | Amount |
|---|---|
| 2020 | $ (3,633,000) |
| 2021 | (3,633,000) |
| 2022 | (3,633,000) |
| 2023 | (3,633,000) |
| 2024 | (3,633,000) |
| Thereafter | (3,627,970) |
| | $ (21,792,970) |

Actuarial Assumptions

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

| | Police | Firefighters | Officers & Employees |
|---|---|---|---|
| Actuarial valuation date | 1/1/2019 | 1/1/2019 | 1/1/2019 |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Actuarial assumptions: | | | |
| Discount rate | 3.25% | 3.25% | 3.25% |
| Projected salary increases | 5.00% | 5.00% | 5.00% |
| Retirement Age: | | | |
| Assumed | Age 55, minimum of 23 years of service | Age 55, minimum of 23 years of service | Age 60, 20 years of service hired before 1/1/88 and age 65, 25 years of service if hired after 1/1/88 |
| Initial medical trend rate | 7.75% | 7.75% | 7.75% |
| Ultimate medical trend rate | 5% | 5% | 5% |

Note 16 OTHER POST EMPLOYMENT BENEFITS, (Continued)

Mortality rates were based on the Blue Collar RP-2000 Table projected 17 years using Scale AA.

The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through January 1, 2017.

***Discount Rate***

For all OPEB Plans, the discount rate is 3.25% and is based on the S&P 20 year AA municipal bond rate. Since there are no invested assets, there is no long-term expected rate of return.

***Net OPEB Liability Sensitivity***

The following is a sensitivity analysis of the net OPEB liability to changes in the discount rate. The table below presents the net OPEB liability calculated using the current discount rate as well as what the net OPEB 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.

| Net OPEB Liability | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| | 2.25% | 3.25% | 4.25% |
| **Police** | $ 141,263,961 | $ 122,399,231 | $ 107,191,947 |
| **Firefighters** | 69,761,311 | 59,156,297 | 50,717,992 |
| **Officers & Employees** | 32,934,890 | 28,556,934 | 24,948,209 |
| Total | $ 243,960,162 | $ 210,112,462 | $ 182,858,148 |

***Net OPEB Liability Sensitivity-Healthcare Trend***

The following is a sensitivity analysis of the net OPEB liability to changes in the healthcare trend rate. The table below presents the net OPEB liability calculated using the current trend rate as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1 percentage point lower or 1 percentage point higher than expected.

Note 16 OTHER POST EMPLOYMENT BENEFITS, (Continued)

| Net OPEB Liability | 1% Decrease | Current Trend Rates | 1% Increase |
|---|---|---|---|
| **Police** | $ 105,815,415 | $ 122,399,231 | $ 143,086,588 |
| **Firefighters** | 49,822,280 | 59,156,297 | 71,073,239 |
| **Officers & Employees** | 24,417,531 | 28,556,934 | 33,762,356 |
| Total | $ 180,055,226 | $ 210,112,462 | $ 247,922,183 |

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, 2019.

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, 2019.

Note 17 COMMITMENTS AND CONTINGENCIES, (Continued)

Capital Leases

The City entered into three lease agreements with two financial institutions to lease trucks and vehicles for periods of three to five years. The leases qualify as capital leases and as a result, the assets are classified as capital leases of $1,339,768 (present value of payments) and the related obligation is recorded in the Statement of Net Position at December 31, 2019.

Minimum future lease payments required under the leases as of December 31, 2019 are as follows:

| | |
|---|---|
| 2020 | $ 299,232 |
| 2021 | 99,387 |
| 2022 | 67,847 |
| 2023 | 33,962 |
| | 500,428 |
| Less: imputed interest | 30,469 |
| Present value of minimum lease payment | 469,959 |
| Less: current portion | 281,582 |
| Long-term portion | $ 188,377 |

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, may be estimated using actual claims paid in the first three to six months of the following year (incurred but not reported (IBNR) as of December 31, 2019) 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 | $ 642,487 |
| Current year claims and IBNR | 9,239,471 |
| Claims payments | (9,114,299) |
| Claims liability at end of year | $ 767,659 |

## 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.

## Note 19 SUBSEQUENT EVENTS

The City evaluated its December 31, 2019, financial statements for subsequent events through March 27, 2023, the date the financial statements were available to be issued.

The COVID-19 outbreak in the United States caused business disruption through business closures and travel restrictions. While the disruption has eased in recent months, there is still uncertainty around the duration of certain restrictions. Although the related financial impact and duration cannot be reasonably estimated at this time, it has had significant effects on the City.

The Governor of the Commonwealth of Pennsylvania declared a fiscal emergency for the City on April 13, 2020, due to ongoing fiscal challenges and the enhanced fiscal distress caused by the COVID-19 pandemic. On June 22, 2020, the Commonwealth approved the appointment of a legal Receiver for the City.

In November 2022, the Receiver filed for Bankruptcy under Chapter 9 of the Bankruptcy code, and on March 14, 2023, the bankruptcy was approved by the Federal Court.

**a.** Liquidity Risk

Liquidity risk is the risk of not having sufficient liquid financial resources to meet obligations when they fall due. The City is projected to be insolvent in 2023, as the General Fund liabilities are expected to exceed its assets and cash and investments on hand will be insufficient to meet obligations due. As of December 31, 2021, the City did not make the minimum mandatory payments of $39.7 million (due from the General Fund) of pension contributions due to the Police Retirement Plan ($35.2 million), Fireman Retirement Plan ($2.3 million) and O & E Retirement Plan ($2.2 million). Thus, the City is projected to remain insolvent during 2023, as the City has been for many years, unable to pay its obligations as they come due.

For many decades, the City has been experiencing economic difficulties and over the past few decades, facing challenges, including, (i) a decreasing population, (ii) declining revenues, and (iii) high municipal expenditures. These economic and social challenges have eroded the tax base and job opportunities, perpetuating the economic difficulties and reducing funding available for essential infrastructure, developments, and services.

Note 19 SUBSEQUENT EVENTS, (Continued)

In 1995, Chester became subject to financial oversight by the Commonwealth of Pennsylvania (the "Commonwealth") under the Municipalities Financial Recovery Act of 1987 ("Act 47"). Between 1996 and 2006 the City's financial state continued to decline, and the City needed to borrow money to meet payroll and deliver basic services. After 2006, the City's fiscal situation improved slightly with the development and opening of the Philadelphia Casino and Racetrack in 2008. The improvement was only temporary as the gaming host community revenues unfortunately declined. Subaru Park opened in June 2010 but failed to provide a catalyst for economic development in the City. As a result, the City continued to build on unpaid liabilities and use debt to meet immediate cash flow needs.

In April 2020, former Governor Tom Wolf declared a "fiscal emergency" in Chester, and in June 2020, Governor Wolf placed the city under a Receivership in accordance with Act 47. Michael Doweary was appointed as the Receiver. The Receiver is responsible for, among other things, working with city officials and stakeholders to develop a plan for the fiscal recovery of the City and to ensure that the City is able to provide vital and necessary services to its residents. Pursuant to Act 47, the Receiver has the exclusive authority to file a bankruptcy action. In January 2022, the Receiver requested authorization to commence a chapter 9 case on behalf of the City from the Secretary of the Pennsylvania Department of Community and Economic Development and was granted the authority to do so in February 2022 (the "Bankruptcy Authorization").

On November 10, 2022, the Receiver issued an executive order authorizing the filing of a case under chapter 9 of the Bankruptcy Code and related actions pursuant to the Bankruptcy Authorization and Act 47. The Receiver stated: "After receiving the Bankruptcy Authorization, my professionals and I continued to try to avoid a bankruptcy filing. However, the City's financial condition continued to deteriorate, and the City's good faith negotiations failed to result in the concessions necessary to address the City's dire financial situation."

The voluntary petition was submitted under chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court in the Eastern District of Pennsylvania (the "Bankruptcy Court"), which case is captioned *In re City of Chester, Pennsylvania*, Case No. 22-13032-amc (the "Bankruptcy Case"). On November 10, 2022, Bankruptcy Judge Ashely Chan was appointed to preside over the Bankruptcy Case by the Chief Judge of the United States Court of Appeals for the Third Circuit.

The following factors are included among the reasons for the filing of the Bankruptcy case. The City of Chester, Pennsylvania has been in some form of financial oversight by the Commonwealth for over 27 years, and unlike other cities who have rehabilitated and exited oversight, Chester's financial situation has only worsened. Although the City's economic hardship was exacerbated by COVID-19, the City's problems existed long before the pandemic and will persist into the foreseeable future absent radical action. Even prior to the pandemic, the City's general fund operated at seven- or eight-figure deficits in all but one year since 2013 for which the City has completed audits. And it is getting worse. Because of the City's consistently underfunded pension obligations, if no reorganization is undertaken, the City is projected to realize a $46.5 million deficit

Note 19 SUBSEQUENT EVENTS, (Continued)

in 2023, a $3.6 million deficit in 2024, and a $12.4 million deficit in 2025, with steadily increasing deficits each subsequent year corresponding to increased costs."

With respect to the City's fiscal situation, the Receiver concluded that: "The City has not been, and currently is not, paying its debts as they come due, and the City's inability to do so will reach a tipping point in 2023 when the various and creative measures the City has taken to date to barely keep the lights on will no longer prevent it from running out of cash. Simply put, the City is insolvent. It is unable to pay its debts as they come due. And, it is in desperate need of a restructuring in bankruptcy that can put the City on sound financial footing and allow it to focus on reversing the long-standing trends that have harmed its residents and led to decades of financial supervision."

The City's underfunded pension plans would require at least $127.2 million as of January 1, 2022, according to analysis performed by an actuary retained by the Receiver. The City's total OPEB obligations (primarily related to medical & prescription drug coverage for retired employees) are estimated to be $232.9 million as of the end of 2018. In addition, the City has approximately $23 million as of December 31, 2022, in other long-term debt obligations.

As of the date the bankruptcy case was filed, the principal categories of claims pending against the City included (i) unfunded pension liability in an amount in excess of $127 million, including nearly $40 million of unpaid minimum municipal obligations (MMOs) currently due; (ii) unfunded other post employment benefit obligations (OPEB) owed to retirees of the City in an amount estimated to exceed $230 million; (iii) more than $23 million in funded debt obligations owed to creditors, some of which purport to hold liens on or a security interest in assets of the City (which the City disputes); (iv) more than $16 million in unsecured debt (some of which is disputed); and (v) hundreds of prepetition litigation claims that must be liquidated pursuant to a mechanism to be established under the bankruptcy plan of adjustment. Because a deadline has not yet been established for the filing of proofs of claim in the bankruptcy case, the City anticipates an increase in the number of claims, the types of claims, and the dollar amounts associated therewith (subject to the City's right to object to such claims). None of the foregoing categories of claims have been compromised or adjusted as of the date hereof. See below related to the establishment of mediation procedures as a mechanism to compromise or adjust the City's largest categories of claims.

Because a deadline has not yet been established for the filing of proofs of claim in the bankruptcy case, we cannot estimate the number of contingent liabilities not subject to reasonable estimation. The bankruptcy case provides a mechanism for estimating and/or liquidating claims. Day-to-day operations of the City have continued uninterrupted since the bankruptcy filing and the City continues to provide vital and necessary services to its residents.

The Bankruptcy Court has entered an order establishing mediation procedures, the goal of which is to negotiate a viable plan of adjustment that can be presented to the Bankruptcy Court for approval. There will be at least seven (7) separate mediations between the City and its largest creditor groups. Thus, it will likely take many months before a draft plan is available for review.

Note 19 SUBSEQUENT EVENTS, (Continued)

**b.** Compliance with Finance Related Legal and Contractual Provisions

The City is required by Pennsylvania law to fund its minimally required pension contributions for the fiscal year ended December 31, 2022, prior to said date. Notwithstanding this requirement, the City failed to remit its complete contribution prior to December 31, 2022. Contributions to the O & E Retirement, Fire Retirement, and Police Retirement Systems of $2.2 million, $2.3 million and $35.2 million respectively, due as of December 31, 2021, remain unpaid as of December 31, 2022.

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, 2019**

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|
| **REVENUES** | | | |
| Taxes and assessments: | | | |
| Real estate | $ 9,752,522 | $ 8,975,876 | $ (776,646) |
| Rubbish fees | 1,476,575 | 1,317,134 | (159,441) |
| Local enabling act taxes | 16,842,125 | 16,361,221 | (480,904) |
| Licenses - permits | 1,322,500 | 1,248,665 | (73,835) |
| Cable television | 460,000 | 398,645 | (61,355) |
| Fines, forfeits | 300,000 | 245,866 | (54,134) |
| Rent | 210,164 | 115,181 | (94,983) |
| Investment earnings | - | 18,440 | 18,440 |
| Public utility realty tax | - | 18,173 | 18,173 |
| Grants intergovernmental revenue | 1,352,650 | 419,793 | (932,857) |
| Departmental earnings | 638,000 | 411,563 | (226,437) |
| Commonwealth of Pennsylvania pension aid | 1,865,000 | 1,980,413 | 115,413 |
| Waste facilities fees | 5,030,000 | 4,905,883 | (124,117) |
| Payments in lieu of taxes | 275,000 | 373,685 | 98,685 |
| Casino host community fees | 11,940,000 | 11,592,989 | (347,011) |
| Reimbursements | 2,583,040 | 676,105 | (1,906,935) |
| Other income | 375,000 | 625,430 | 250,430 |
| Total revenues | 54,422,576 | 49,685,062 | (4,737,514) |
| **EXPENDITURES** | | | |
| General government | 20,829,289 | 23,019,181 | 2,189,892 |
| Public safety | 23,822,185 | 25,883,331 | 2,061,146 |
| Health and sanitation | 605,205 | 504,470 | (100,735) |
| Highways and streets | 2,390,233 | 2,622,554 | 232,321 |
| Recreation | 744,669 | 687,876 | (56,793) |
| Grants and special programs | 1,312,749 | 714,913 | (597,836) |
| Debt service | 4,718,246 | 866,526 | (3,851,720) |
| Capital outlay | - | 582,319 | 582,319 |
| Total expenditures | 54,422,576 | 54,881,170 | 458,594 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | - | (5,196,108) | (5,196,108) |
| **OTHER FINANCING SOURCES (USES) OF FUNDS** | | | |
| Operating transfer in | - | 10,748,555 | 10,748,555 |
| Operating transfer out | - | (12,342,220) | (12,342,220) |
| Total other financing sources (uses) of funds, net | - | (1,593,665) | (1,593,665) |
| **EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES AND USES OF FUNDS** | $ - | $ (6,789,773) | $ (6,789,773) |
| **FUND BALANCE (DEFICIT) - BEGINNING** | | (20,958,589) | |
| **FUND BALANCE (DEFICIT) - ENDING** | | $ (27,748,362) | |

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

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

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| City's net pension liability | 145,818,103 | $ 129,777,202 | $ 137,090,416 | $ 129,244,465 | $ 70,107,900 | $ 49,819,397 |
| Covered-employee payroll | 17,049,528 | $ 15,087,076 | $ 17,320,000 | $ 16,181,740 | $ 16,400,000 | $ 20,476,598 |
| Net pension liability as a percentage of covered-employee payroll | 855.3% | 860.2% | 791.5% | 798.7% | 427.5% | 243.3% |
| Plan fiduciary net position as a percentage of the total pension liability | 30.9% | 30.0% | 29.7% | 28.9% | 42.0% | * |

* Information not available.

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

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Actuarially determined contributions | $ 9,318,613 | $ 6,501,761 | $ 6,551,507 | $ 5,888,717 | $ 6,054,485 | $ 4,741,361 |
| Contributions made | (1,250,000) | (1,174,705) | (1,718,805) | (1,146,845) | (111,792) | (1,560,690) |
| Contribution deficiency | $ 8,068,613 | $ 5,327,056 | $ 4,832,702 | $ 4,741,872 | $ 5,942,693 | $ 3,180,671 |
| Covered-employee payroll | $ 17,049,528 | $ 15,087,076 | $ 17,320,000 | $ 16,181,740 | $ 16,400,000 | $ 20,476,598 |
| Contributions as a percentage of covered-employee payroll | 55% | 43% | 38% | 36% | 37% | 23% |

**City of Chester**
**Notes to Pension Schedules of Required Supplementary Information**
**For the Year Ended December 31, 2019**

*Changes in benefit terms:*

None

*Actuarial assumption changes:*

For Fire Pension Plan, the discount rate changed from 6.61% to 3.93% and for Officers & Employees' Pension Plan the discount rate changed from 6.61% to 3.52%. The Police Pension Plan discount rate changed from 3.64% to 3.26%.

*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:

| | |
|---|---|
| Inflation | 2.25% |
| Investment rate of return | 7.50% |
| Salary increases | 5.00% |
| Mortality | Mortality rates were based on the Blue Collar RP-2000 Mortality Table projected to 2017 using Scale AA. |

**CITY OF CHESTER**
**OPEB PLANS REQUIRED SUPPLEMENTARY INFORMATION**
**FOR THE YEAR ENDED DECEMBER 31,**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Schedules of Changes in the Total OPEB Liability and Related Ratios** | | | |
| Total OPEB liability-Beginning | $ 232,908,187 | $ 227,054,191 | $ 223,283,804 |
| Service cost | 3,915,672 | 4,415,406 | 4,205,177 |
| Interest | 6,717,255 | 8,546,831 | 8,365,825 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | (31,049,550) | - | - |
| Changes in assumptions & cost method | 4,199,969 | - | - |
| Benefit payments | (6,579,101) | (7,108,241) | (8,800,615) |
| Net change | (22,795,755) | 5,853,996 | 3,770,387 |
| Total OPEB liability-Ending | $ 210,112,432 | $ 232,908,187 | $ 227,054,191 |
| OPEB covered payroll | $ 18,032,447 | $ 18,874,354 | $ 17,975,574 |
| Total OPEB liability as a percentage of covered-employee payroll | 1165.2% | 1234.0% | 1263.1% |

**Schedule of OPEB Contributions**

Note: This schedule is not applicable since there are no contractually required contributions in a Trust. The OPEB Plans are funded on a pay as you go basis.

**Notes to Schedules of Changes in the Total OPEB Liability and Related Ratios**

| | | | |
|---|---|---|---|
| Methods and Assumptions Used to Determine OPEB Liability: | | | |
| Actuarial cost method | Entry age normal cost | Entry age normal cost | |
| Salary increases | 5% | 5% | * |
| Discount rate | 3.25% | 3.75% | * |
| Initial medical trend rate | 7.75% | PPO -30%/7% | * |
| Ultimate medical trend rate | 5% | 5% | * |
| Mortality | Blue Collar RP-2000 projected 17 years using Scale AA | Blue Collar RP-2000 projected 17 years using Scale AA | * |

* Information not available.