

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

**CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA
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To the Mayor and City Council
of the City of Washington
Washington County, Pennsylvania

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the City of Washington, Washington County, Pennsylvania, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note C; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Washington, Washington County, Pennsylvania, as of December 31, 2017, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note C.

To the Mayor and City Council
of the City of Washington
Washington County, Pennsylvania

Basis of Accounting

We draw attention to Note C of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Washington, Washington County, Pennsylvania's basic financial statements. The management's discussion and analysis and budgetary comparison information on pages iii-ix and 9, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Palermo/Kissinger & Associates, P.C.
Washington, Pennsylvania

October 1, 2018

**CITY OF WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Our discussion and analysis of the City of Washington's (City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2017. Please read in conjunction with the financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The assets of the City of Washington exceeded its liabilities at the close of the fiscal year ended December 31, 2017 by \$24,406,039 (Net Position) on a modified cash basis.
- During the year ended December 31, 2017, the City of Washington's net position increased by \$783,140; however, the City of Washington held approximately \$900,000 in Act 205 earned income tax collections received in 2017 that were contributed to the pension plan during January 2018. While the overall net position of the City increased during the year ended December 31, 2017, the increases have occurred for restricted purposes such as road projects, capital improvements, and pension contributions. For the year ended December 31, 2017, the City's unrestricted and undesignated net position decreased by approximately \$300,000.
- As of the year ended December 31, 2017, the City of Washington's governmental funds reported combined ending fund balances of \$4,575,524.
- The City of Washington's fiduciary funds reported an ending fund balance of \$52,153,854.
- Total long-term debt increased by \$533,994 during the year. The outstanding long-term debt at December 31, 2017 was \$12,475,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 5. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than government-wide statements by providing information about the City's most significant funds. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the City's activities as a whole. These statements include all assets and liabilities using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

Net position may serve as a useful indicator of financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads and other development projects, to assess the overall health of the City.

Governmental activities of the City are reported in the Statement of Net Position – Modified Cash Basis and the Statement of Activities – Modified Cash Basis. Governmental Activities include the police, fire, public works, cultural and recreation activities, community development, and general administration. Property taxes, earned income taxes, franchise fees, and state and federal grants finance most of these activities.

- **Business-Type Activities** – Business-type activities are those activities in which the City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City does not have any business-type activities.
- **Reporting the City's Most Significant Funds** – Fund financial statements provide detailed information about the most significant funds. Non-major funds are grouped together. The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. A fund is used to maintain control over resources that have been segregated for specific activities or objectives. The various funds of the City report information regarding governmental activities.
- **Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.
- **Fiduciary Funds** – Fiduciary funds are used to account for assets held by the City in a trustee capacity for the policemen, firemen, officers, and administrative employees for pension benefits.

**CITY OF WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The funds of the City are categorized as follows: General, Major Fund Types and Other Governmental Funds. Information is presented separately in the Governmental Fund Combined Balance Sheet – Cash Basis and in the Governmental Fund Combined Statement of Revenues, Expenditures, and Changes in Fund Balance – Cash Basis for these fund types. The Other Governmental Funds are combined into a single, aggregated presentation in the governmental funds financial statements.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceed liabilities by \$24,406,039 as of December 31, 2017. The City's combined net position reflects its investment in capital assets, less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. The following focuses in the net position of the City's governmental activities for the year ended December 31, 2017 with comparative totals for the year ended December 31, 2016.

City of Washington's Net Position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current Assets	\$ 4,736,580	\$ 1,962,279
Capital Assets	<u>32,305,515</u>	<u>33,715,082</u>
Total Assets	<u>\$ 37,042,095</u>	<u>\$35,677,361</u>
Current Liabilities	\$ 1,661,056	\$ 1,689,072
Long-Term Liabilities	<u>10,975,000</u>	<u>10,365,390</u>
Total Liabilities	<u>\$ 12,636,056</u>	<u>\$ 12,054,462</u>
Net Position		
Restricted for:		
Road Projects	\$ 200,390	\$ 74,250
Capital Projects	594,859	575,525
Transit Operations	144,074	156,201
Public Safety	50,086	70,559
Pension Obligations	934,987	13,158
Unrestricted:		
Invested in Capital Assets, net of related debt	25,085,515	25,029,076
Undesignated (deficit)	<u>(2,603,872)</u>	<u>(2,295,870)</u>
Total Net Position	<u>\$ 24,406,039</u>	<u>\$ 23,622,899</u>

**CITY OF WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

The governmental activities' current assets increased by \$2,774,301, primarily due to the issuance of approximately \$2,000,000 of long-term debt set aside for future stormwater sewer infrastructure projects as well as an increase of approximately \$900,000 restricted for pension contributions that were paid during January 2018. The governmental activities' current liabilities decreased by \$28,016. Overall, the City's governmental activities had an increase in net position of \$783,140. This increase is primarily the result of approximately \$900,000 of collections restricted for pension contributions not made until January 2018.

The following table provides a summary of the City's operations for the year ended December 31, 2017 with comparative totals for the year ended December 31, 2016.

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues		
Fees, Fines and Charges for		
Services	\$ 2,347,383	\$ 2,317,544
Operating Grants and Contributions	2,276,026	2,086,988
Capital Grants and Contributions	160,843	904,274
General Revenues:		
Taxes	11,332,418	11,082,744
Special Assessments	40,858	49,360
Licenses and Permits	324,784	326,169
Payments in Lieu of Taxes	91,452	84,320
Investment Earnings	31,524	16,168
Miscellaneous	<u>73,267</u>	<u>57,567</u>
Total Revenues	<u>16,678,555</u>	<u>16,925,134</u>
 Program Expenses:		
General Government and Administration	953,263	1,030,826
Public Safety	4,210,665	3,958,720
Public Works-Sanitation	854,586	857,709
Public Works-Highways/Roads/Streets	873,538	1,286,313
Public Works-Other	478,460	423,815
Culture-Recreation	328,112	482,203
Community Development	393,467	208,587
Debt Service	452,615	343,303
Employee Benefits	5,892,087	6,478,695
Depreciation	1,409,567	1,420,369
Miscellaneous	<u>49,055</u>	<u>47,552</u>
Total Expenses	<u>15,895,415</u>	<u>16,538,092</u>
 Increase in Net Position	 <u>\$ 783,140</u>	 <u>\$ 387,042</u>

**CITY OF WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds - The focus of the City's governmental funds is to provide information on short term inflows, outflows, and balances of spendable resources. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Such information is useful in assessing the City's financing requirements.

For the year ended December 31, 2017, the City's combined governmental funds ending fund balance totaled \$4,575,524. The total combined fund balance increased \$2,726,701.

Fiduciary Funds – Fiduciary funds consist of assets held in a trustee capacity by the City of Washington for pension benefits. As of December 31, 2017, the fund balance of the fiduciary funds was \$52,153,854. The fund balance increased by \$7,152,828 during 2017 due primarily contributions made by the City of Washington as well as investment earnings and increases in market value.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the original City budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts that were estimated at the time the original budget was prepared). The second category includes changes that the Council made to increase appropriations in its budget to prevent budget overruns.

The actual charges to appropriations were \$1,852,030 below the final budgeted amounts, primarily due to projects not completed due to a lack of grant funding as well as conservative spending practices. Resources available for appropriation were \$66,089 above budgeted amounts, primarily due to actual tax revenues higher than anticipated that was partially offset by grant proceeds budgeted but not received during the year ended December 31, 2017.

As a result, the City reported a favorable variance of \$1,918,119 under budget. Please see the statement of revenues, expenditures and changes in fund balance budget versus actual on page 9 for further detail.

**CITY OF WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

CAPITAL ASSETS

The City's investment in capital assets for its governmental activities as of December 31, 2017 amounts to \$32,305,515, net of accumulated depreciation. Depreciation amounted to \$1,409,567 for the year ended December 31, 2017. As a result, the City's total capital assets decreased by approximately four percent (4%) from December 31, 2016.

Capital Assets at Year End

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Infrastructure	\$ 7,414,122	\$ 7,414,122
Buildings and improvement	27,820,862	27,820,862
Vehicles and equipment	<u>15,957,857</u>	<u>15,957,857</u>
Total	51,192,841	51,192,841
Accumulated depreciation	<u>(18,887,326)</u>	<u>(17,477,759)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 32,305,515</u>	<u>\$ 33,715,082</u>

DEBT ADMINISTRATION

The City's long-term debt at December 31, 2017 totaled \$12,475,000. During the year, the City issued a new General Obligation Bond totaling \$4,865,000. Proceeds from this bond were used to refund approximately \$2,765,000 of the General Obligation Bonds, Series 2012B as well as securing approximately \$2,000,000 in additional proceeds set aside to provide for future stormwater improvement projects. In addition to the refunded portion of the General Obligation Bonds, Series 201B, the City also paid approximately \$1,566,000 towards other long-term debt. Overall, the total long-term debt increased by \$533,994. Total interest expense paid on long-term debt in 2017 was \$343,843.

CONTINGENCIES

During 2006, the City became a guarantor on a loan acquired by the Washington Parking Authority (Parking Authority) for construction of a parking garage in the amount of \$3,535,000. The Parking Authority is responsible for the repayment of this debt from parking revenue. However, in the event the Parking Authority defaults on the loan, the City assumes this debt. The amount the City may potentially need to provide for this debt in future periods is unable to be estimated. During the year ended December 31, 2017, the City was required to pay \$38,746 towards this debt.

**CITY OF WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

CONTINGENCIES - *Continued*

At December 31, 2017, the City of Washington owed the Washington County Tax Claim office approximately \$80,000. This amount represents the accumulation of commissions on delinquent tax property sales over a 10 year period. As of July 13, 2018, the City of Washington had repaid the commissions.

During 2017, an apartment building partially collapsed requiring the City of Washington to obtain an "Emergency Motion for Demolition" Court Order. The Court Order imposes a lien on the property for the costs of the demolition. A third-party was contracted to perform the demolition services. Costs associated with the demolition totaling approximately \$800,000 were paid by the property owner's insurance company. The additional costs billed by the third-party is currently in litigation to determine the amount, if any, the City of Washington will have to pay the third-party contractor.

The City of Washington contracted with a third-party to perform services as part of an economic development project at the park. During 2017, the City of Washington and the company entered into litigation to determine the amount due for the services provided. As a result, the City of Washington is required to pay the company \$144,714 for the services provided. Payment for these services are anticipated to occur during 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, including the economy and inflation. The City anticipates revenues for 2018 to remain relatively consistent with 2018. Increases in salaries and wages, pension contributions, and stormwater improvement projects are the largest expected increased expenses.

During 2018, the City decided to participate in an Early Intervention Program (EIP). This program is designed to evaluate the City's current financial position and develop a sound five-year financial plan. Currently, City Council is in the beginning stages of the EIP study. As a result of the EIP study, recommendations will be provided to City Council for review and possible implementation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, contact the Department of Finance at 55 West Maiden Street, Washington, Pennsylvania.

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2017

		<u>Governmental Activities</u>
ASSETS		
Current assets:		
Cash and cash equivalents		\$ 4,736,580
Capital assets, net of depreciation		<u>32,305,515</u>
TOTAL ASSETS		<u>\$ 37,042,095</u>
LIABILITIES		
Current liabilities:		
Long-term debt - portion due within one year		\$ 1,500,000
Other current liabilities		<u>161,056</u>
Total current liabilities		1,661,056
Long-term liabilities:		
Long-term debt - less portion due within one year		<u>10,975,000</u>
TOTAL LIABILITIES		<u>12,636,056</u>
NET POSITION		
Restricted for:		
Road projects		200,390
Capital projects		594,859
Transit operations		144,074
Public safety		50,086
Pension obligations		934,987
Unrestricted:		
Invested in capital assets, net of related debt	\$ 25,085,515	
Undesignated (deficit)	<u>(2,603,872)</u>	<u>22,481,643</u>
TOTAL NET POSITION		<u>24,406,039</u>
TOTAL LIABILITIES AND NET POSITION		<u>\$ 37,042,095</u>

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION - MODIFIED CASH BASIS

DECEMBER 31, 2017

Total Combined Governmental Fund Balances (Page 5)	\$	4,575,524
Differences in amounts reported for governmental activities in the statement of net assets:		
Fixed assets used in governmental activities are not current resources and are not reported on the governmental funds balance sheet		32,305,515
Debt principal payments are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet		
Due within one year		(1,500,000)
Due in more than one year		<u>(10,975,000)</u>
Total Net Position- Governmental Activities (Page 1)	\$	<u><u>24,406,039</u></u>

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

FOR THE YEAR ENDED DECEMBER 31, 2017

FUNCTIONS/PROGRAM	Expenses	Program Revenues				Total Program Revenue	Net (Expenses) and Revenues - Total Governmental Activities
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:							
General government and administration	\$ 953,263	\$ 227,658	\$ 27,455	\$ 23,431	\$ 278,544	\$ (674,719)	
Public Safety	4,210,665	506,155	2,150	70,961	579,266	(3,631,399)	
Public Works-Sanitation	854,586	1,075,167	9,314	-	1,084,481	229,895	
Public Works-Highways/Roads/Streets	873,538	-	1,051,561	-	1,051,561	178,023	
Public Works-Other	478,460	433,414	-	-	433,414	(45,046)	
Culture/Recreation	328,112	104,989	-	-	104,989	(223,123)	
Community development	393,467	-	88,957	66,451	155,408	(238,059)	
Debt service	452,615	-	504,704	-	504,704	52,089	
Municipal pension contributions	3,553,847	-	591,885	-	591,885	(2,961,962)	
Other employee benefits	2,338,240	-	-	-	-	(2,338,240)	
Depreciation	1,409,567	-	-	-	-	(1,409,567)	
Miscellaneous	49,055	-	-	-	-	(49,055)	
Total Governmental Activities	15,895,415	2,347,383	2,276,026	160,843	4,784,252	(11,111,163)	
General Revenues:							
Taxes						11,332,418	
Special Assessments						40,858	
Licenses and permits						324,784	
Payments in lieu of taxes						91,452	
Investment earnings						31,524	
Miscellaneous						73,267	
Total General Revenues						11,894,303	
CHANGE IN NET POSITION						783,140	
NET POSITION - beginning of the year						23,622,899	
NET POSITION - end of the year						\$ 24,406,039	

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA

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

DECEMBER 31, 2017

Net change in fund balances-total governmental funds (Page 6)	\$ 2,726,701
Differences in amounts reported for governmental activities on the statement of activities:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	-
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in fund balance, but does not require the use of current funds. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.	(1,409,567)
The issuance of long-term debt provides current resources of governmental funds, while the repayment of debt consumes the current financial resources of governmental funds.	
Issuance of long-term debt	(4,865,000)
Repayment of long-term debt	<u>4,331,006</u>
Change in fund balance of governmental activities (Page 3)	<u>\$ 783,140</u>

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA

COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS - CASH BASIS

DECEMBER 31, 2017

ACT 205

	GENERAL FUND	GENERAL RESERVE FUND	DISTRESSED PENSION FUND	STORMWATER IMPROVEMENT FUND	CAPITAL IMPROVEMENTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL (MEMORANDUM ONLY)
ASSETS								
Cash & cash equivalents	\$ 364,345	\$ 66,601	\$ 934,987	\$ 1,834,512	\$ 326,477	\$ -	\$ 1,209,658	\$ 4,736,580
TOTAL ASSETS	\$ 364,345	\$ 66,601	\$ 934,987	\$ 1,834,512	\$ 326,477	\$ -	\$ 1,209,658	\$ 4,736,580
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Payroll withholdings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,050	\$ 21,050
Other liabilities	115,992	-	-	-	-	-	24,014	140,006
TOTAL LIABILITIES	115,992	-	-	-	-	-	45,064	161,056
FUND BALANCES:								
Fund balance	248,353	66,601	934,987	1,834,512	326,477	-	1,164,594	4,575,524
TOTAL LIABILITIES & FUND BALANCES	\$ 364,345	\$ 66,601	\$ 934,987	\$ 1,834,512	\$ 326,477	\$ -	\$ 1,209,658	\$ 4,736,580

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	GENERAL FUND	GENERAL RESERVE FUND	ACT 205 DISTRESSED PENSION FUND	STORMWATER IMPROVEMENT FUND	CAPITAL IMPROVEMENTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL (MEMORANDUM ONLY)
REVENUES								
Taxes	\$ 5,164,617	\$ -	\$ 3,530,320	\$ -	\$ -	\$ 1,332,562	\$ 1,304,919	\$ 11,332,418
Special assessments	-	-	-	-	-	-	40,858	40,858
Licenses and permits	324,784	-	-	-	-	-	-	324,784
Fines and forfeits	170,728	-	-	-	-	-	-	170,728
Interest, rents & royalties	8,164	1,492	5,476	7,644	1,093	-	7,655	31,524
Grants	518,198	267,656	-	-	51,623	-	1,569,787	2,407,264
Intergovernmental revenues	106,907	-	-	-	-	-	106,907	106,907
Contributions and donations	12,000	-	-	-	-	-	2,150	14,150
Charges for services	2,152,947	-	-	-	-	-	23,708	2,176,655
Miscellaneous revenues	38,301	-	-	-	1,433	-	33,533	73,267
Proceeds from short term debt	800,000	-	-	-	-	-	-	800,000
Proceeds from long term debt	-	4,865,000	-	-	-	-	-	4,865,000
TOTAL REVENUES	9,296,646	5,134,148	3,535,796	7,644	54,149	1,332,562	2,982,610	22,343,555
EXPENDITURES								
General government	909,678	-	-	-	28,568	-	15,017	953,263
Public safety	4,110,764	-	-	-	45,109	-	54,792	4,210,665
Public works-sanitation	844,191	-	-	-	-	-	10,395	854,586
Public works-highways/roads/streets	507,278	-	-	-	5,023	-	361,237	873,538
Public works-other	186,204	-	-	23,727	-	-	268,529	478,460
Culture/recreation	298,120	-	-	-	10,279	-	19,713	328,112
Community development	-	258,333	-	-	-	-	135,134	393,467
Debt service - principal	1,596,238	2,734,768	-	-	-	-	-	4,331,006
Debt service - interest and fiscal agent fees	330,814	121,801	-	-	-	-	-	452,615
Debt service - short term debt repayment	800,000	-	-	-	-	-	-	800,000
Municipal pension contributions	939,891	-	2,613,956	-	-	-	-	3,553,847
Other employee benefits	2,281,705	-	-	-	-	-	56,535	2,338,240
Miscellaneous	22,748	25,000	-	-	-	-	1,307	49,055
TOTAL EXPENDITURES	12,827,631	3,139,902	2,613,956	23,727	88,979	-	922,659	19,616,854
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(3,530,985)	1,994,246	921,840	(16,083)	(34,830)	1,332,562	2,059,951	2,726,701
OTHER FINANCING SOURCES (USES)								
Interfund transfers in	3,538,170	-	-	2,008,430	10,000	-	92,062	5,648,662
Interfund transfers out	(18,098)	(2,013,930)	-	(157,935)	(17,000)	(1,332,562)	(2,109,237)	(5,648,662)
TOTAL OTHER FINANCING SOURCES (USES)	3,520,072	(2,013,930)	-	1,850,595	(7,000)	(1,332,562)	(2,017,175)	-
NET CHANGE IN FUND BALANCE	(10,913)	(19,684)	921,840	1,834,512	(41,830)	-	42,776	2,726,701
FUND EQUITY - beginning of the year	259,266	86,285	13,147	-	368,307	-	1,121,818	1,848,823
FUND EQUITY - end of the year	\$ 248,353	\$ 66,601	\$ 934,987	\$ 1,834,512	\$ 326,477	\$ -	\$ 1,164,594	\$ 4,575,524

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA
STATEMENT OF NET POSITION - CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2017

	<u>PENSION FUNDS</u>
<u>ASSETS</u>	
Investments	<u>52,153,854</u>
TOTAL ASSETS	<u><u>\$ 52,153,854</u></u>
<u>LIABILITIES AND FUND BALANCES</u>	
LIABILITIES:	
Payroll withholdings	<u>\$ -</u>
TOTAL LIABILITIES	<u>-</u>
FUND BALANCES:	
Restricted for pension benefits	52,153,854
Unrestricted	<u>-</u>
TOTAL LIABILITIES & FUND BALANCES	<u><u>\$ 52,153,854</u></u>

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA
STATEMENT OF CHANGES IN NET POSITION - CASH BASIS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

		<u>PENSION FUNDS</u>
<u>ADDITIONS</u>		
Contributions:		
Employee members	\$ 333,411	
Employer	<u>3,553,847</u>	\$ 3,887,258
Investment income:		
Interest and dividends	\$ 1,171,745	
Net appreciation in investment fair market value	<u>4,637,686</u>	<u>5,809,431</u>
TOTAL ADDITIONS		<u>9,696,689</u>
<u>DEDUCTIONS</u>		
Pension benefits paid		2,337,198
Administrative expenses		<u>206,663</u>
TOTAL DEDUCTIONS		<u>2,543,861</u>
INCREASE IN NET ASSETS		7,152,828
NET ASSETS - beginning of the year		<u>45,001,026</u>
NET ASSETS - end of the year		<u><u>\$ 52,153,854</u></u>

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

CITY OF WASHINGTON
WASHINGTON COUNTY, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET VERSUS ACTUAL - COMBINED GOVERNMENTAL FUNDS - CASH BASIS

FOR THE YEAR ENDED DECEMBER 31, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
BUDGETARY FUND BALANCE, JANUARY 1, 2017	\$ 1,848,823	\$ 1,848,823	\$ 1,848,823	\$ -
RESOURCES (inflows):				
Taxes	\$ 10,830,925	\$ 10,830,925	\$ 11,332,418	\$ 501,493
Special assessments	35,000	35,000	40,858	5,858
Licenses and permits	332,800	332,800	324,784	(8,016)
Fines and forfeits	141,000	141,000	170,728	29,728
Interest, rents & royalties	17,650	17,650	31,524	13,874
Grants	2,776,271	2,776,271	2,407,264	(369,007)
Intergovernmental revenues	112,855	112,855	106,907	(5,948)
Contributions and donations	1,600	1,600	14,150	12,550
Charges for services	2,347,365	2,347,365	2,176,655	(170,710)
Miscellaneous revenues	17,000	17,000	73,267	56,267
Proceeds from short term debt	800,000	800,000	800,000	-
Proceeds from long term debt	-	4,865,000	4,865,000	-
TOTAL RESOURCES (inflows)	17,412,466	22,277,466	22,343,555	66,089
AMOUNT AVAILABLE FOR APPROPRIATION	19,261,289	24,126,289	24,192,378	66,089
CHARGES TO APPROPRIATIONS (outflows):				
General government	1,287,599	1,345,679	953,263	392,416
Public safety	4,366,370	4,266,847	4,210,665	56,182
Public works-sanitation	675,063	713,063	854,586	(141,523)
Public works-highways/roads/streets	1,453,325	1,360,102	873,538	486,564
Public works-other	1,002,379	1,022,618	478,460	544,158
Culture/recreation	607,781	607,781	328,112	279,669
Community development	301,000	309,645	393,467	(83,822)
Debt service - principal	1,593,468	4,358,468	4,331,006	27,462
Debt service - interest and fiscal agent fees	324,501	424,501	452,615	(28,114)
Debt service - short term debt repayment	800,000	800,000	800,000	-
Municipal pension contributions	4,200,717	4,180,717	3,553,847	626,870
Other employee benefits	1,993,000	1,993,000	2,338,240	(345,240)
Miscellaneous	100,745	86,463	49,055	37,408
TOTAL CHARGES TO APPROPRIATIONS (outflows)	18,705,948	21,468,884	19,616,854	1,852,030
BUDGETARY FUND BALANCE, DECEMBER 31, 2017	\$ 555,341	\$ 2,657,405	\$ 4,575,524	\$ 1,918,119

SEE AUDITOR'S REPORT AND THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Washington (City) is a Third Class City organized and operated under the laws of the Commonwealth of Pennsylvania and Washington County. The City is governed by a Mayor and a four-member Council elected by the residents of the City of Washington. The City provides such services as are authorized by its charter to advance the welfare, comfort, safety, and convenience of the City and its inhabitants.

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units with the exception of the Basis of Presentation as described in "C" below. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial reporting entity includes organizations, functions and activities over which elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. There are no component units as defined in the Governmental Accounting Standards Board (GASB) Statement No. 14 which are included in the City's reporting entity. Furthermore, the City is not includable as a component unit in any other primary government.

B. Summary of Significant Accounting Policies

As discussed further below, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

C. Basis of Presentation

The City's basic modified cash basis financial statements include both government-wide (reporting the City as a whole) and fund (reporting the City's major funds) financial statements. All activities of the City are classified as governmental in both the government-wide and fund financial statements.

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis by column and are reported on a modified cash basis, which recognizes capital assets as well as long-term debt. The modified cash basis of accounting does not recognize the recording of amounts owed to and by the City, deferred expenses and revenues, and other assets and liabilities normally recorded using the accrual basis of accounting as required by generally accepted accounting principles. The City's net assets are reported in three parts, a) invested in capital assets, net of related debt; b) restricted net assets; and c) unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants. The net costs (by function) are normally covered by general revenue (property taxes, earned income taxes, intergovernmental revenues, interest income, etc). This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. The City presently has fiduciary-type funds which are presented separately on the modified cash basis of accounting. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- (a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- (b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The various funds are grouped, in the financial report, into two generic fund types and categories as follows:

GOVERNMENTAL FUNDS

General Fund – The General Fund is the operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Other Major Funds –Funds are maintained to account for revenues derived from special sources. Such revenues are restricted to expenditures for specified purposes. The Other Major Funds presented are made up of the following self-balancing funds maintained by the City:

- A) General Reserve Fund
- B) Act 205 Distressed Pension Fund
- C) Stormwater Improvement Fund
- D) Capital Improvements Fund
- E) Debt Service Fund
- F) Other Governmental Funds
 - Fire Damage Escrow Fund
 - Police Evidence Fund
 - Purchase of Buses and Equipment Fund
 - Payroll Fund
 - Liquid Fuels Fund
 - U.S. Justice Capital Equipment Fund
 - Park Development Fund
 - TIF Revenue Fund
 - Fire Capital Purchase Fund
 - Municipal Pension State Aid Fund
 - Elm Street Grant Fund
 - Insurance Claims Fund
 - Forfeited Property Fund
 - State Forfeited Property Fund
 - Rental Registration Fund
 - DNCR Multi-Municipal Recreation Plan Fund
 - Catfish Creek Project Fund
 - PDC Safety Initiative Fund
 - DCED Multi-Municipal Zoning Fund
 - North Central Highway Safety Fund
 - Marcellus Shale Impact Fund
 - Recycling Performance Grant Fund
 - Police Department Purchase Fund
 - Mass Transit Fund
 - Park Renovations Fund
 - PEMA Fire Fund
 - Growing Greener Fund
 - Recycling Drop Off Grant Fund
 - Downtown Revitalization Fund
 - Local Shares Assessment Fund

CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

FIDUCIARY FUNDS

The fiduciary fund is comprised of the following pension funds:

Police Pension Fund – The Police Pension Fund is used to account for assets held by the City in a trustee capacity for the policemen of the City.

Firemen Pension Fund–The Firemen Pension Fund is used to account for assets held by the City in a trustee capacity for the firemen of the City.

Officers and Administration Pension Fund – The Officers and Administration Pension Fund is used to account for assets held by the City in a trustee capacity for the officer and administrative employees of the City.

D. Budget and Budgetary Accounting

Formal budgetary integration is employed as a management control device for all governmental fund types. Once the budget is approved, it can be amended at the function and fund level only by a vote of the majority of members of Council and the Mayor. A formal budget was adopted for the General Fund, each of the Special Revenue Funds, and each of the Capital Projects Funds.

E. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

F. Capital Assets

Capital assets purchased or acquired are reported at historical costs or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expenses as incurred. Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more. Infrastructure assets capitalized have an original cost of \$100,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Depreciation expense for the year ended December 31, 2017 was \$1,409,567. Estimated useful lives are as follows:

Buildings	20-50 years
Infrastructure	20-50 years
Improvements	10-20 years
Vehicles and Equipment	5-10 years

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

G. Subsequent Events

In accordance with Accounting Standards Codification (ASC) 855-10, *Subsequent Events*, the Township has evaluated subsequent events through October 1, 2018, the date financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

The City of Washington considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

At December 31, 2017, the carrying amount of the City's governmental fund deposits was \$4,736,580. The bank balance was \$4,710,705. The City maintains checking and money market accounts with Washington Financial Bank.

Deposits with financial institutions are insured by FDIC insurance for the first \$250,000 of deposits.

The City's governmental fund deposits are categorized to give an indication of the level of risk assumed by the City at year end. The categories are described as follows:

- Category 1 - Insured or collateralized with securities held by the City or its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Uncollateralized or which are collateralized with securities held by the pledging financial institution or by its trust department but not in the City's name.

Governmental fund deposits, categorized by level of risk, are:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
General Fund	\$ 250,000	\$ -	\$ 114,345	\$ 324,146	\$ 364,345	\$ 364,345
Special Revenue Funds	-	-	3,833,222	3,847,546	3,833,222	3,833,222
Capital Projects Funds	-	-	<u>539,013</u>	<u>653,139</u>	<u>539,013</u>	<u>539,013</u>
Total Deposits	<u>\$250,000</u>	<u>\$ -</u>	<u>\$4,486,580</u>	<u>\$4,824,831</u>	<u>\$4,736,580</u>	<u>\$4,736,580</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 – PROPERTY TAXES

The City's property tax is levied on March 1 on the assessed value of all real property located in the City. The assessed value of the roll for 2017 was \$571,214,100. The City's tax rate for 2017 was 32.71 mills on land and 2.08 mills on buildings for a total levy of \$5,572,546 and was payable as follows:

- At discount of 2% until March 31, 2017
- At face until May 31, 2017
- At penalty of 10% after May 31, 2017
- Unpaid property taxes for 2017 were liened on January 15, 2018.

The total tax rates assessed for the year ended December 31, 2017 were as follows:

	<u>Land</u>	<u>Buildings</u>
General Purposes	16.69 mills	1.02 mills
Debt Services	5.89	0.40
Pension Systems	8.50	0.52
All Other Purposes	<u>1.63</u>	<u>0.14</u>
Total Tax Rate	<u>32.71</u> mills	<u>2.08</u> mills

NOTE 4 – GRANT REVENUE

The City of Washington received the following grants during the year ended December 31, 2017:

A) Federal Grants:

The following amounts represent grants provided by federal funds during the year ended December 31, 2017.

Federal Transit Assistance	\$ 31,169
Law Enforcement	11,600
U.S. Environmental Protection Agency	<u>66,451</u>
Total federal grants received during the year ended December 31, 2017	\$ 109,220

B) State Grants:

The following amounts represent grants provided by the Commonwealth of Pennsylvania during the year ended December 31, 2017.

Pennsylvania Ad Hoc Retirement	\$ 8,723
General Municipal Pension System State Aid	591,885
Municipal Liquid Fuels	410,406
Local Share Assessments	161,630
North Central Highway Safety	88,957
Marcellus Shale Impact	183,442

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 – GRANT REVENUE – (Continued)

B) State Grants – (Continued):

Law Enforcement	51,623
Public Safety	267,656
Fire Department Equipment	14,932
Highway Safety	4,772
Recycling Performance	<u>9,314</u>

Total state grants received during the year ended December 31, 2017	1,793,340
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A) County Grants:

Debt Service payments made by the Redevelopment Authority of Washington County	<u>\$ 504,704</u>
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Total grant revenue received during the year ended December 31, 2017	<u>\$2,407,264</u>
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NOTE 5 – PENSION PLANS

The City of Washington maintains the following pension plans for its employees:

- A) Police Pension Plan
- B) Firemen Pension Plan
- C) Officers and Employees Retirement System

Plan Administration: The City of Washington Comprehensive Municipal Pension Trust Fund (the Trust) was established by Ordinance No. 1371, effective April 9, 1987, as a result of the City's eligibility for, and election to participate in, the supplemental state assistance program provision of Act 205 of 1984 for distressed municipalities. This provision required the City to aggregate the municipal pension assets into a single pension trust fund pursuant to Section 607(b) of Act 205. The City of Washington entered at that time under Level II of the recovery program.

The Trust retains the assets and acts as a common investment and administrative agent of the City's police, firemen's and non-uniformed pension plans. The Trust is governed by the City of Washington Comprehensive Municipal Pension Trust Fund Board of Trustees, which has delegated the authority to management certain fund assets to PNC Institutional Investments.

Act 205 Section 607(b), requires that each pension plan subject to the aggregation shall have an undivided participation in the assets of the Trust. For accounting purposes, the value of the participation by each plan shall be calculated annually. The value for each plan and its share of the investment earnings are shown in the statement of the undivided participation in the assets of the comprehensive municipal pension trust fund, which appear in the separately issued City of Washington Police, Firemen's and Officers and Employees Pension Plan audit reports.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS – (Continued)

Investments: The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Plan's target asset allocation is as follows:

<u>Asset Class</u>	<u>Target Percentage</u>	<u>Range</u>
Equities	55%	45% – 65%
Fixed Income	40%	30% – 50%
Real Estate	5%	0% - 10%

Credit Risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Information concerning credit risk was not available as of December 31, 2017. The credit ratings of the plan's investments (excluding obligations explicitly guaranteed by the U.S. government) as of December 31, 2016 are indicated on the table below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Money Market Funds	\$ 2,101,681	Not rated
Mortgage-Backed Securities	151,242	Not rated
Corporate Debt	3,660,195	A
Corporate Debt	4,069,787	Baa
Corporate Debt	248,415	Ba
Corporate Debt	1,415	Not Rated
Total	<u>\$ 10,232,735</u>	

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At December 31, 2016, the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

Interest Rate Risk for investments is the risk that a change in interest rates will adversely affect the fair value of an investment. The plan has no investment policy for interest rate risk other than the 50 percent limit on fixed income securities. Information concerning interest rate risk was not available as of December 31, 2017. The maturities of the plan's debt investment as of December 31, 2016 are listed on the table below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5.99</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Treasuries	\$2,538,224	\$ 749,492	\$1,144,921	\$ 643,811	\$ -
U.S. Agency Debt	4,956,167	2,355	30,865	-	4,922,947
Corporate Debt	7,979,812	763,490	5,870,867	1,345,455	-
Mortgage-Backed Securities	151,242	-	-	-	151,242
Total	<u>\$15,625,445</u>	<u>\$1,515,337</u>	<u>\$7,046,653</u>	<u>\$1,989,266</u>	<u>\$5,074,189</u>

CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 – PENSION PLANS – (Continued)

INVESTMENTS

The Plan's is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Plan's investments are uninsured and unregistered investments for which the securities are held by a counterparty or by its trust department or agent but not in the Plan's name. The assets of the three pension plans are consolidated by PNC Institutional Investments. Asset information as of December 31, 2017 was furnished by PNC Institutional Investments.

The Market Value of assets is summarized below by type:

	<u>Market Value</u>
A. Cash and Cash Equivalents	\$ 922,467
B. U.S. Government and Agency Securities	9,760,552
C. Corporate Debt	8,643,348
D. Real Estate	135,783
E. Mutual Funds – Equity	21,813,777
F. Equities	<u>10,877,927</u>
Total	<u>\$52,153,854</u>

The activity of each plan is presented in the fund financial statements under the Fiduciary Fund. The details and activity of each pension fund is as follows:

A. Police Pension Plan

1. Plan Description

Plan Administration: The City of Washington's Police Pension Plan is a single-employer defined benefit pension plan. The Plan was established by Ordinance No. 324, effective February 19, 1936 and was most recently amended and restated effective January 1, 2003. The Plan is governed by the City Council of the City of Washington which may amend plan provisions, and which is responsible for the management of Plan assets. The City Council has delegated the authority to manage certain Plan assets to Morrison Fiduciary Advisors, Inc. The Plan is required to file Form PC-201C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2017.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS – (Continued)

1. Plan Description – Continued

Plan Membership: The plan provides pensions for full-time police officers of the City. As of December 31, 2016, pension plan membership consists of:

• Active employees	31
• Retirees and beneficiaries currently receiving benefits	36
• Terminated employees entitled to benefits but not yet receiving them	<u>0</u>
Total	<u>67</u>

2. Benefit Provisions

Pension plan benefit provisions are as follows:

Eligibility Requirements

Normal Retirement: For participants hired before January 1, 1994, age 50 and 20 years of continuous service. For participants hired after December 31, 1993, age 53 and 20 years of continuous service.

Normal Benefit

A monthly benefit equal to the greater of 50 percent of the monthly salary or 50 percent of the final monthly average salary plus service increment, if any.

Death Benefit

Before Retirement Eligibility: Refund of contributions without interest.

After Retirement Eligibility, disability, or if killed in service: A monthly benefit equal to 100 percent of the pension the participant was receiving or entitled to receive on the day of the participant's death payable to participant's spouse.

Payment of Survivor Benefits: Monthly survivor benefits are payable to the participant's spouse for life, or if the spouse later dies, the benefit will be paid to the participant's dependent children, if any, until age 18.

CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 – PENSION PLANS – (Continued)

2. Benefit Provisions – Continued

Disability Benefit

Service Related: Total and permanent disablement which occurs while performing the duties of a police officer for the City.

Non-Service Related: Total and permanent disablement following the completion of 10 years of continuous service.

Amount of Benefit: A monthly benefit equal to 50 percent of the participant's base salary at disablement/retirement. If the non-service related disability occurs prior to the completion of 10 years of service, the benefit is equal to 25 percent of the base salary at disablement.

Member Contributions

Amount or Rate: 7.5 percent of compensation, plus \$4 per month. Employees who have reached age 65 will not be required to contribute the \$4 per month.

Refund: Accumulated contributions without interest.

3. Summary of Significant Accounting Policies

Basis of Accounting: These statements have been prepared on the accrual basis of accounting. Contributions and pension payments are recognized in the period that they are due.

Valuation of Investments: Plan investments are listed at fair value as reported by PNC Institutional Asset Management and are allocated to the Police Pension Plan based on the conventions of the Aggregate Trust. The Aggregate Trust was established as a requirement of Act 205 of 1984 for Level II Distressed Plans.

Contributions: Act 205 of 1984 (as amended) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plan's most recent biennial actuarial valuation. The MMO includes the normal costs, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to ten percent (10%) of the excess, if any, of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state and member contributions must be funded by the employer.

CITY OF WASHINGTON
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 5 – PENSION PLANS (Continued)

3. Summary of Significant Accounting Policies—Continued

Contributions (continued): Employees are required to contribute seven and one-half percent (7.5%) of covered payroll to the Plan plus \$4 per month. This contribution is governed by the Plan's governing ordinances.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or plan earnings.

4. Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 535,062	\$ 509,583
Interest	1,543,447	1,470,814
Differences between expected and actual experience	-	(398,358)
Changes of assumptions	-	1,113,538
Benefit payments, including refunds of employee contributions	<u>(990,647)</u>	<u>(1,082,566)</u>
Net change in total pension liability	1,087,862	1,613,011
Total pension liability-beginning	<u>20,530,600</u>	<u>18,917,589</u>
Total pension liability-ending	<u>21,618,462</u>	<u>20,530,600</u>
Plan fiduciary net position		
Contributions-employer	\$ 1,958,948	\$ 1,826,222
Contributions-employee	180,078	150,853
Net investment income	1,480,756	110,052
Benefit payments, including refunds of employee contributions	<u>(990,647)</u>	<u>(1,082,566)</u>
Administrative expense	<u>(76,600)</u>	<u>(95,597)</u>
Net change in plan fiduciary net position	2,552,535	908,964
Plan fiduciary net position-beginning	<u>17,734,444</u>	<u>16,825,480</u>
Plan fiduciary net position-ending	<u>20,286,979</u>	<u>17,734,444</u>
Net pension liability	<u>\$ 1,331,483</u>	<u>\$ 2,796,156</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

4. Schedule of Changes in Net Pension Liability and Related Ratios – Continued

Plan fiduciary net position as a percentage of the total pension liability	93.8%	86.4%
Covered employee payroll	\$ 2,118,794	\$ 1,935,541
Net pension liability as a percentage of covered employee payroll	62.8%	144.5%

The schedule of changes in net pension liability and related ratios shown above is presented using the accrual basis of accounting. The City's financial statements, including the statements of net position and changes in net position for the fiduciary funds presented on pages 7 and 8 of the financial statements, are prepared using the modified cash basis, which does not recognize the recording of amounts owed to and by the Plan, deferred expenses and revenues, and other assets and liabilities normally recorded using the accrual basis of accounting as required by generally accepted accounting principles.

At December 31, 2016, the Plan reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 258,584
Changes of assumptions	722,822	-
Net difference between projected and actual earnings on pension plan investments	<u>700,561</u>	<u>99,849</u>
Total	<u>\$1,423,383</u>	<u>\$358,433</u>

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

<u>Year ended December 31,</u>	
2017	\$ 334,029
2018	334,029
2019	334,030
2020	62,862
Thereafter	<u>-</u>
Total	<u>\$1,064,950</u>

CITY OF WASHINGTON
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 5 – PENSION PLANS (Continued)

5. Reconciliation of Funded Status

Information regarding the funded status of the police pension plan was not available as of December 31, 2017. The following table details the funded status of the police pension plan as of December 31, 2016, the most recent valuation date:

Total pension liability	\$ 21,618,462
Plan fiduciary net position	<u>(20,286,979)</u>
 Net pension liability	 <u>\$ 1,331,483</u>
 Funded ratio	 93.8%

Changes in the investment rate of return affect the measurement of the actuarial accrued liability. Because the investment rate of return does not affect the measurement of assets, the percentage change in the net pension liability can be very significant for a relatively small change in the investment rate of return. The sensitivity of the net pension liability to the investment rate of return with two additional measures, plus and minus one percent from the actuarial assumption is shown below:

<u>Sensitivity Analysis</u>	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Interest Rate	6.5%	7.50%	8.50%
Net pension liability	<u>\$ 4,059,922</u>	<u>\$ 1,331,483</u>	<u>(\$932,834)</u>
 Plan fiduciary net position as a percentage of the Total pension liability	 83.3%	 93.8%	 104.8%

An actuarially determined contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The actuarially determined contribution provided is based upon the Minimum Municipal Obligation as defined in ACT 205 which conforms to these standards. The actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the actuarially determined contribution for calendar year 2016 is based upon the January 1, 2015 actuarial valuation.

The actuarially determined contribution for the year ended December 31, 2017 was \$920,631.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

5. Reconciliation of Funded Status – Continued

The actuarially determined contribution for the prior two years are summarized below:

	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$ 949,015	\$ 956,859
Contributions made	<u>1,826,222</u>	<u>1,901,201</u>
Contribution deficiency/(excess)	<u>(\$ 877,207)</u>	<u>(\$ 944,342)</u>
Contributions as a percentage Of participant payroll	94.4%	94.8%

6. Actuarial Methods and Assumptions

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age
Asset valuation method	4 year smoothing
Amortization method	Level dollar
Aggregate remaining amortization period (years)	10
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.00%
Underlying inflation rate	3.00%

7. Concentrations

As of December 31, 2016, the following individual investments constituted more than 5% of the plan's net assets:

Investments at fair value with PMRS	<u>\$20,243,576</u>
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CITY OF WASHINGTON
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 5 – PENSION PLANS (Continued)

B. Firemen Pension Plan

1. Plan Description

Plan Administration: The City of Washington's Firemen Pension Plan is a single-employer defined benefit pension plan. The Plan was established, effective March 1, 1930 and was most recently amended and restated effective January 1, 2006. The Plan is governed by the City Council of the City of Washington which may amend plan provisions, and which is responsible for the management of Plan assets. The City Council has delegated the authority to manage certain Plan assets to Morrison Fiduciary Advisors, Inc. The plan is required to file Form PC-202C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2017.

Plan Membership: The Plan provides pensions for full-time firefighters of the City. As of December 31, 2016, pension plan membership consists of:

• Active employees	22
• Retirees and beneficiaries currently receiving benefits	32
• Terminated employees entitled to benefits but not yet receiving them	<u>0</u>
Total	<u>54</u>

2. Benefit Provisions

Pension plan benefit provisions are as follows:

Eligibility Requirements

Normal Retirement:	For participants hired before January 1, 1980, 20 years of continuous service. For participants hired after December 31, 1979 and before January 1, 1994, age 50 and 20 years of continuous service. For participants hired after December 31, 1993, age 53 and 20 years of continuous service.
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Normal Benefit

A monthly benefit equal to the greater of 50 percent of the monthly salary or 50 percent of the final monthly average salary plus service increment, if any.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

2. Benefit Provisions (Continued)

Death Benefit

Before Retirement Eligibility: Refund of contributions without interest.

After Retirement Eligibility or if killed in service: A monthly benefit equal to 100 percent of the pension the participant was receiving or entitled to receive on the day of the participant's death payable to participant's spouse.

Payment of Survivor Benefits: Monthly survivor benefits are payable to the participant's spouse for life, or if the spouse later dies, the benefit will be paid to the participant's dependent children, if any, until age 18.

Disability Benefit

Service Related: Total and permanent disablement which occurs while performing the duties of a firemen for the City.

Non-Service Related: None.

Amount of Benefit: A monthly benefit equal to the greater of 50 percent of the monthly salary or 50 percent of the final monthly average salary plus service increment, if any, calculated at date of disablement.

Member Contributions

Amount or Rate: 5 percent of compensation plus \$4 per month for participant hired prior to January 1, 2003. 6.5 percent plus \$4 per month for participants hired on or after January 1, 2003. Employees who have reached age 65 will not be required to contribute the \$4 per month.

Refund: Accumulated contributions without interest.

3. Summary of Significant Accounting Policies

Basis of Accounting: These statements have been prepared on the accrual basis of accounting. Contributions and pension payments are recognized in the period that they are due.

Valuation of Investments: Plan investments are listed at fair value as reported by PNC Institutional Asset Management and are allocated to the Firemen's Pension Plan based on the conventions of the Aggregate Trust. The Aggregate Trust was established as a requirement of Act 205 of 1984 for Level II Distressed Plans.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

3. Summary of Significant Accounting Policies (Continued)

Contributions: The employer follows the funding policy prescribed by Act 205 of 1984 (as amended), which requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the plan's most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to ten percent (10%) of the excess, if any, of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state and member contributions must be funded by the employer.

Employees are required to contribute five percent (5%) of covered payroll to the Plan plus \$4 per month if hired before January 1, 2003 and six and one-half percent (6.5%) of covered payroll plus \$4 per month if hired on or after January 1, 2003. This contribution is governed by the Plan's governing ordinances and collective bargaining.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or plan earnings.

4. Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service Cost	\$ 297,936	\$ 283,749
Interest	1,291,173	1,257,827
Differences between expected and actual experience	-	(191,305)
Benefit payments, including refunds of employee contributions	<u>(1,093,163)</u>	<u>(1,128,494)</u>
Net change in total pension liability	495,946	221,777
Total pension liability-beginning	<u>17,454,403</u>	<u>17,232,626</u>
Total pension liability-ending	<u>17,950,349</u>	<u>17,454,403</u>
Plan fiduciary net position		
Contributions-employer	\$ 2,279,055	\$ 2,324,574
Contributions-employee	80,926	81,631
Net investment income	1,404,818	102,984
Benefit payments, including refunds of employee contributions	<u>(1,093,163)</u>	<u>(1,128,494)</u>
Administrative expense	<u>(69,949)</u>	<u>(84,554)</u>
Net change in plan fiduciary net position	2,601,687	1,296,141
Plan fiduciary net position-beginning	<u>16,641,347</u>	<u>15,345,206</u>
Plan fiduciary net position-ending	<u>19,243,034</u>	<u>16,641,347</u>
Net pension liability	<u>(\$1,292,685)</u>	<u>\$ 813,056</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

4. Schedule of Changes in Net Pension Liability and Related Ratios – Continued

Plan fiduciary net position as a percentage of the total pension liability	107.2%	95.3%
Covered employee payroll	\$ 1,350,419	\$ 1,388,595
Net pension liability as a percentage of covered employee payroll	(95.7)%	58.6%

The schedule of changes in net pension liability and related ratios shown above is presented using the accrual basis of accounting. The City's financial statements, including the statements of net position and changes in net position for the fiduciary funds presented on pages 7 and 8 of the financial statements, are prepared using the cash basis, which does not recognize the recording of amounts owed to and by the Plan, deferred expenses and revenues, and other assets and liabilities normally recorded using the accrual basis of accounting as required by generally accepted accounting principles.

At December 31, 2016, the Plan reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 116,283
Net difference between projected and actual earnings on pension plan investments	<u>641,396</u>	<u>111,210</u>
Total	<u>\$641,396</u>	<u>\$227,493</u>

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

<u>Year ended December 31,</u>	
2017	\$ 148,486
2018	148,486
2019	148,485
2020	(31,554)
Thereafter	<u>-</u>
Total	<u>\$413,903</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

5. Reconciliation of Funded Status

Information regarding the funded status of the firemen's police pension was not available as of December 31, 2017. The following table details the funded status of the firemen's pension plan as of December 31, 2016, the most recent valuation date:

Total pension liability	\$17,950,349
Plan fiduciary net position	<u>(19,243,034)</u>
Net pension liability	<u>(\$ 1,295,685)</u>
Funded ratio	107.2%

Changes in the investment rate of return affect the measurement of the actuarial accrued liability. Because the investment rate of return does not affect the measurement of assets, the percentage change in the net pension liability can be very significant for a relatively small change in the investment rate of return. The sensitivity of the net pension liability to the investment rate of return with two additional measures, plus and minus one percent from the actuarial assumption is shown below:

<u>Sensitivity Analysis</u>	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Interest Rate	6.5%	7.50%	8.50%
Net pension liability	<u>\$ 816,419</u>	<u>(\$1,292,685)</u>	<u>(\$3,051,700)</u>
Plan fiduciary net position as a percentage of the Total pension liability	95.9%	107.2%	118.8%

An actuarially determined contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The actuarially determined contribution provided is based upon the Minimum Municipal Obligation as defined in ACT 205 which conforms to these standards. The actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the actuarially determined contribution for calendar year 2016 is based upon the January 1, 2015 actuarial valuation.

The actuarially determined contribution for the year ended December 31, 2017 was \$663,511.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

5. Reconciliation of Funded Status – Continued

The actuarially determined contribution for the prior two years are summarized below:

	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$ 1,008,765	\$1,016,657
Contributions made	<u>2,324,574</u>	<u>2,433,170</u>
Contribution deficiency/(excess)	<u>(\$1,315,809)</u>	<u>(\$1,416,513)</u>
Contributions as a percentage Of participant payroll	167.4%	187.8%

6. Actuarial Methods and Assumptions

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age
Asset valuation method	4 year smoothing
Amortization method	Level dollar
Aggregate remaining amortization period (years)	7
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.00%
Underlying inflation rate	3.00%

7. Concentrations

As of December 31, 2016, the following individual investments constituted more than 5% of the plan's net assets:

Investments at fair value with PMRS	<u>\$19,192,290</u>
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C. Officers and Employees Retirement System

1. Plan Description

Plan Administration: The City of Washington's Officers and Employees Pension Plan is a single-employer defined benefit pension plan. The Plan was established by Ordinance No. 566, effective February 1, 1950 and was most recently amended and restated effective January 1, 1993. The Plan is governed by the City Council of the City of Washington which may amend plan provisions, and which is responsible for the management of Plan assets. The City Council has delegated the authority to manage certain Plan assets to Morrison Fiduciary Advisors, Inc. The Plan is required to file Form PC-201C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2017.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

1. Plan Description – Continued

Plan Membership: The plan provides pensions for elected officials or full-time non-uniformed employees of the City. As of December 31, 2016, pension plan membership consists of:

• Active employees	30
• Retirees and beneficiaries currently receiving benefits	23
• Terminated employees entitled to benefits but not yet receiving them	<u>0</u>
Total	<u>53</u>

2. Benefit Provisions

Pension benefits are as follows:

Eligibility Requirements

Normal Retirement: For participants hired before January 1, 1993, age 55 and 20 years of continuous service. For participants hired after December 31, 1992, age 60 and 20 years of continuous service.

Normal Benefit

A monthly benefit equal to the greater of 50 percent of the monthly salary or 50 percent of the final monthly average salary plus service increment, if any, less 40 percent of the Social Security Benefit for participants hired before January 1, 1993.

Social Security Benefit

The Social Security old-age insurance benefit calculated under the provisions of the Federal Social Security Act in effect on the date of termination, using only the compensation earned in employment with the City.

Death Benefit

Before Retirement Eligibility: Refund of contributions without interest.

After Retirement Eligibility or if killed in service: A monthly benefit equal to 50 percent of the pension the participant was receiving or entitled to receive on the day of the participant's death payable to participant's spouse until death or remarriage.

Payment of Survivor Benefits: Monthly survivor benefits are payable to the participant's spouse until death or remarriage.

CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 – PENSION PLANS (Continued)

2. Benefit Provisions – Continued

Disability Benefit

Service Related: Total and permanent disablement which occurs following the completion of 15 years of continuous service.

Non-Service Related: None.

Amount of Benefit: A monthly benefit equal to the greater of 50 percent of the monthly salary or 50 percent of the final monthly average salary plus service increment, if any, calculated at date of disablement.

Termination Benefits

Eligibility: Occurs after 12 years of continuous service and before the completion of 20 years of service.

Amount of Benefit: A monthly benefit commencing at age 60 equal to the normal benefit multiplied by the ratio of years of continuous service at termination to 20 years.

Member Contributions

Amount or Rate: 5 percent of compensation for participant hired prior to January 1, 1993. 6 percent for participants hired on or after January 1, 1993.

Refund: Accumulated contributions without interest.

3. Summary of Significant Accounting Policies

Basis of Accounting: These statements have been prepared on the accrual basis of accounting. Contributions and pension payments are recognized in the period that they are due.

Valuation of Investments: Plan investments are listed at fair value as reported by PNC Institutional Asset Management and are allocated to the Officers and Employees Pension Plan based on the conventions of the Aggregate Trust. The Aggregate Trust was established as a requirement of Act 205 of 1984 for Level II Distressed Plans.

Contributions: Act 205 of 1984 (as amended) requires that annual contributions be based upon the Minimum Municipal Obligation (MMO), which is based on the plan's most recent biennial actuarial valuation. The MMO includes the normal costs, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to ten percent (10%) of the excess, if any, of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state and member contributions must be funded by the employer.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

3. Summary of Significant Accounting Policies – Continued

Contributions (continued): Employees are required to contribute three and one-half percent (3.5%) of covered payroll subject to social security taxation and five percent (5%) of pay in excess of the taxable wage base. Participants may contribute five percent (5%) to eliminate the social security offset and an extra one percent (1%) for the survivor benefit. Participants hired after December 31, 1992, contribute six percent (6%) of pay. This contribution is governed by the Plan's governing ordinances.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or plan earnings.

4. Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service Cost	\$ 90,763	\$ 101,095
Interest	393,041	379,029
Differences between expected and actual experience	-	(228,342)
Benefit payments, including refunds of employee contributions	<u>(269,985)</u>	<u>(295,500)</u>
Net change in total pension liability	213,819	(43,718)
Total pension liability-beginning	<u>5,282,331</u>	<u>5,326,049</u>
Total pension liability-ending	<u>5,496,150</u>	<u>5,282,331</u>
Plan fiduciary net position		
Contributions-employer	\$ 60,410	\$ 102,991
Contributions-employee	65,452	55,475
Net investment income	407,148	33,315
Benefit payments, including refunds of employee contributions	<u>(269,985)</u>	<u>(295,500)</u>
Administrative expense	<u>(27,750)</u>	<u>(33,675)</u>
Net change in plan fiduciary net position	235,275	(137,394)
Plan fiduciary net position-beginning	<u>5,342,352</u>	<u>5,479,746</u>
Plan fiduciary net position-ending	<u>5,577,627</u>	<u>5,342,352</u>
Net pension liability	<u>(\$ 81,477)</u>	<u>(\$ 60,021)</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

4. Schedule of Changes in Net Pension Liability and Related Ratios – Continued

Plan fiduciary net position as a percentage of the total pension liability	101.5%	101.%
Covered employee payroll	\$ 991,160	\$ 959,031
Net pension liability as a percentage of covered employee payroll	(8.2)%	(6.3)%

The schedule of changes in net pension liability and related ratios shown above is presented using the accrual basis of accounting. The City's financial statements, including the statements of net position and changes in net position for the fiduciary funds presented on pages 7 and 8 of the financial statements, are prepared using the modified cash basis, which does not recognize the recording of amounts owed to and by the Plan, deferred expenses and revenues, and other assets and liabilities normally recorded using the accrual basis of accounting as required by generally accepted accounting principles.

At December 31, 2016, the Plan reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 126,856
Net difference between projected and actual earnings on pension plan investments	<u>223,176</u>	<u>9,803</u>
Total	<u>\$223,176</u>	<u>\$136,659</u>

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

<u>Year ended December 31,</u>	
2017	\$ 21,198
2018	21,198
2019	46,571
2020	(2,450)
Thereafter	<u>-</u>
Total	<u>\$86,517</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

5. Reconciliation of Funded Status

Information regarding the funded status of the officers and employees' pension plan was not available as of December 31, 2017. The components of the net pension liability at December 31, 2016 are as follows:

Total pension liability	\$5,496,150
Plan fiduciary net position	<u>(5,577,627)</u>
Net pension liability	(\$ 81,477)
Funded ratio	101.5%

Changes in the investment rate of return affect the measurement of the actuarial accrued liability. Because the investment rate of return does not affect the measurement of assets, the percentage change in the net pension liability can be very significant for a relatively small change in the investment rate of return. The sensitivity of the net pension liability to the investment rate of return with two additional measures, plus and minus one percent from the actuarial assumption is shown below:

<u>Sensitivity Analysis</u>	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Interest Rate	6.50%	7.50%	8.50%
Net pension liability	<u>\$ 412,622</u>	<u>(\$81,477)</u>	<u>(\$507,789)</u>
Plan fiduciary net position as a percentage of the Total pension liability	92.5%	101.5%	109.2%

An actuarially determined contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The actuarially determined contribution provided is based upon the Minimum Municipal Obligation as defined in ACT 205 which confirms to these standards. The actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the actuarially determined contribution for calendar year 2016 is based upon the January 1, 2015 actuarial valuation.

The actuarially determined contribution for the year ended December 31, 2017 was \$62,073.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 – PENSION PLANS (Continued)

5. Reconciliation of Funded Status – Continued

The actuarially determined contribution for the prior two years are summarized below:

	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$102,991	\$107,424
Contributions made	<u>102,991</u>	<u>107,424</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>
Contributions as a percentage Of participant payroll	10.7%	11.6%

6. Actuarial Methods and Assumptions

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age
Asset valuation method	4 year smoothing
Amortization method	Level dollar
Aggregate remaining amortization period (years)	17
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.00%
Underlying inflation rate	3.00%

7. Concentrations

As of December 31, 2016, the following individual investments constituted more than 5% of the plan's net assets:

Investments at fair value with PMRS	<u>\$5,565,160</u>
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NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance <u>January 1</u>	<u>Additions</u>	<u>Disposals</u>	Ending Balance <u>December 31</u>
Infrastructure	\$ 7,414,122	\$ -	\$ -	\$ 7,414,122
Buildings & Improvements	27,820,862	-	-	27,820,862
Equipment	<u>15,957,857</u>	-	-	<u>15,957,857</u>
	51,192,841	-	-	51,192,841
Accumulated Depreciation	<u>(17,477,759)</u>	<u>(1,409,567)</u>	-	<u>(18,887,326)</u>
Net Capital Assets	<u>\$ 34,715,082</u>	<u>\$ (1,409,567)</u>	<u>\$ -</u>	<u>\$ 32,305,515</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 - LONG TERM DEBT

Long-term debt consisted of the following as of December 31, 2017:

A) Title of Issue: City of Washington - General Obligation Bonds - Series of 2012B

On June 7, 2012, the City of Washington refinanced \$4,417,716 of the 2002 General Obligation Bonds and \$727,211 of the PennVest General Obligation Note to take advantage of lower interest rates. The old interest rate was between 1.601 and 5.860 percent, while the interest rate on the new issuance is between 2.000 and 2.700 percent. The proceeds from the refinanced bonds totaled \$5,315,000. The refinanced debt has a maturity date of September 1, 2023. During 2017, \$2,120,000 of this debt was refinanced as part of the General Obligation Bonds, Series 2017. In addition, the Redevelopment Authority provided \$275,528 towards this debt, which is treated by the City as a contribution from other governmental entities.

Original Date of Issue:	June 7, 2012
Maturity Date of Issue:	September 1, 2020
Annual Interest Rate:	2.0% - 2.7%
Amount of Original Issue:	\$ 5,315,000
Principal Amount Retired During Year:	\$ 3,040,000
Principal Amount Outstanding at December 31, 2017:	\$ 925,000
Total interest paid during year	\$ 95,230

B) Title of Issue: City of Washington – General Obligation Note – Series 2012

Original Date of Issue:	July 17, 2013
Maturity Date of Issue:	October 15, 2018
Annual Interest Rate:	3.15%
Amount of Original Issue:	\$ 848,370
Principal Amount Retired During Year:	\$ 161,006
Principal Amount Outstanding at December 31, 2017:	\$ -
Total interest paid during year	\$ 5,146

The proceeds from this loan were used to purchase a new fire truck and equipment. During 2017, the Redevelopment Authority provided \$166,152 towards this debt, which is treated by the City as a contribution from other governmental entities. This debt was paid in its entirety as of December 31, 2017.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 - LONG TERM DEBT - (Continued)

C) Title of Issue: City of Washington - General Obligation Bonds - Series of 2014A

On December 22, 2014, the City of Washington refinanced \$2,875,000 of the General Obligation Pension Bonds, Series of 2005A and \$3,220,000 of the General Obligation Bonds, Series of 2005B to take advantage of lower interest rates. The old interest rate was between 3.000 and 5.100 percent, while the interest rate on the new issuance is between 1.188 and 3.325 percent. The proceeds from the refinanced bonds totaled \$6,475,000. The refinanced debt has a maturity date of September 1, 2021. During 2017, the Redevelopment Authority provided \$63,024 towards this debt, which is treated by the City as a contribution from other governmental entities.

Original Date of Issue:	December 22, 2014
Maturity Date of Issue:	September 1, 2021
Annual Interest Rate:	1.188% - 3.325%
Amount of Original Issue:	\$ 6,475,000
Principal Amount Retired During Year:	\$ 1,110,000
Principal Amount Outstanding at December 31, 2017:	\$ 4,365,000
Total interest paid during year	\$ 142,044

D) Title of Issue: City of Washington - General Obligation Bonds - Series of 2014B

On December 22, 2014, the City of Washington refinanced \$1,944,713 of the General Obligation Bonds, Series of 2009 to take advantage of lower interest rates. The old interest rate was 5.180 percent, while the interest rate on the new issuance is between 2.250 and 2.750 percent. The proceeds from the refinanced bonds totaled \$2,340,000. The refinanced debt has a maturity date of September 1, 2024.

Original Date of Issue:	December 22, 2014
Maturity Date of Issue:	September 1, 2024
Annual Interest Rate:	2.250% - 2.750%
Amount of Original Issue:	\$ 2,340,000
Principal Amount Retired During Year:	\$ -0-
Principal Amount Outstanding at December 31, 2017:	\$ 2,340,000
Total interest paid during year	\$ 61,194

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 - LONG TERM DEBT - (Continued)

E) Title of Issue: City of Washington - General Obligation Bonds - Series of 2017

In June 2017, the City of Washington refinanced a portion of the General Obligation Bonds, Series 2012B as well as securing \$2,000,000 in additional proceeds to provide for capital improvements projects. The proceeds from the new bond issuance totaled \$4,865,000. The refinanced debt has a maturity date of September 1, 2025.

Original Date of Issue:	June 8, 2017
Maturity Date of Issue:	September 1, 2025
Annual Interest Rate:	1.600% - 2.125%
Amount of Original Issue:	\$ 4,865,000
Principal Amount Retired During Year:	\$ 20,000
Principal Amount Outstanding at December 31, 2017:	\$ 4,845,000
Total interest paid during year	\$40,229

Debt Maturities of the City of Washington's debt is as follows:

Year Ended December 31,	General Obligation Bond Series 2012B		General Obligation Bond Series 2014A	
	Principal	Interest	Principal	Interest
2018	\$350,000	\$12,794	\$1,125,000	\$122,375
2019	360,000	11,500	1,155,000	96,455
2020	215,000	4,300	1,175,000	65,801
2021	-	-	<u>910,000</u>	<u>30,258</u>
Total	<u>\$925,000</u>	<u>\$28,594</u>	<u>\$4,365,000</u>	<u>\$314,889</u>

Year Ended December 31,	General Obligation Bond Series 2014B		General Obligation Bond Series 2017	
	Principal	Interest	Principal	Interest
2018	\$ -	\$ 61,194	\$ 25,000	\$ 96,900
2019	-	61,194	25,000	96,400
2020	-	61,194	30,000	96,300
2021	185,000	61,194	470,000	95,300
2022	530,000	58,500	1,080,000	68,720
2023-2025	<u>1,625,000</u>	<u>67,061</u>	<u>3,215,000</u>	<u>142,706</u>
Total	<u>\$2,340,000</u>	<u>\$370,337</u>	<u>\$4,845,000</u>	<u>\$596,326</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 - LONG TERM DEBT - (Continued)

Total of all Long-Term Debt

Year Ended December 31,	Principal	Interest
2018	1,500,000	293,263
2019	1,540,000	265,549
2020	1,420,000	227,595
2021	1,565,000	186,752
2022	1,610,000	127,220
2023-2025	<u>4,840,000</u>	<u>209,767</u>
	<u>\$ 12,475,000</u>	<u>\$1,310,146</u>

Recap of 2017 Long-Term Debt Activity

Outstanding Long-Term Debt 1/1/17	\$11,941,006
(+) Issuance of Series 2017 Bonds	4,865,000
(-) Repayment of Principal in 2017	<u>(4,331,006)</u>
Outstanding Long-Term Debt 12/31/17	<u>\$12,475,000</u>
Total Interest paid on long-term debt during 2017 was	<u>\$ 343,843</u>

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is insured with Selective Insurance through EMC Insurance. General liability for public officials carries a \$10,000 deductible. There is a general aggregate coverage limit of \$2,000,000 with a \$1,000,000 limit for each occurrence.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

In addition, the following commitments and contingencies of the City existed as of December 31, 2017:

- A) During the year ended December 31, 2006, the City became a guarantor on a loan acquired by the Parking Authority in the amount of \$3,535,000 for construction of a new parking garage. The Parking Authority is responsible for the repayment of this debt from parking revenue. However, in the event the Parking Authority defaults on the loan, the City assumes the debt. The City was required to contribute \$38,746 toward the Parking Authority debt during 2017.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 - COMMITMENTS AND CONTINGENCIES – (Continued)

- B) At December 31, 2017, the City of Washington owed the Washington County Tax Claim office approximately \$80,000. This amount represents the accumulation of commissions on delinquent tax property sales over a 10 year period. As of July 13, 2018, the City of Washington has repaid the commissions due to the Washington County Tax Claim office its entirety.

- C) On July 12, 2017, an apartment building partially collapsed requiring rescue workers to be onsite for more than nine hours. The City of Washington received an "Emergency Motion for Demolition" Court Order to begin the demolition of the building. The Court Order imposes a lien on the property for the costs of the demolition. A third-party was contracted to perform the demolition services. Costs associated with the demolition totaling approximately \$800,000 were paid by the property owner's insurance company. The third-party has billed additional costs of \$600,000 to the City for work performed but not paid by the property owner or his insurance company. The City maintains the property owner is responsible for these additional costs and has not agreed to pay the amount invoiced. In the event threatened litigation occurs between the third-party contractor and the City, the City will lien the property to recover any costs awarded.

- D) The City of Washington contracted with a third-party to perform services as part of an economic development project at the park. During 2017, the City of Washington and the company entered into litigation to determine the amount due for the services provided. As a result, the City of Washington is required to pay the company \$144,714 for the services provided. Payment for these services are anticipated to occur during 2019.

The City of Washington is also involved in other litigation concerning inverse condemnation, demolition contracts and employee matters. The insurance carrier has been notified of these litigations and each matter is being handled accordingly. The City believes the liability from these litigations, if any, will not be material.

NOTE 10 – SUBSEQUENT EVENTS

During 2018, the City decided to participate in an Early Intervention Program (EIP). This program is designed to evaluate the City's current financial position and develop a sound five-year financial plan. Currently, City Council is in the beginning stages of the EIP study. As a result of the EIP study, recommendations will be provided to City Council for review and possible implementation.

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 – PARKING AUTHORITY OF THE CITY OF WASHINGTON

The Parking Authority of the City of Washington (Parking Authority) was incorporated in 2005 under the Nonprofit Corporation Law of 1988 and was created pursuant to Parking Authority Law, 53 Pa.C.S.5505 et seq. The governing body consists of five members who are each appointed for three year terms by the City.

The activity of the Parking Authority is not presented in the financial statements of the City. However, the following is a summary of the financial information for the Parking Authority as of and for the year ended December 31, 2017 from its most recent audited financial statements.

Total Assets		
Current assets	\$ 391,194	
Other assets	242,065	
Fixed assets, net	<u>10,251,885</u>	<u>\$10,885,144</u>
Total Liabilities		
Current liabilities	\$ 166,991	
Noncurrent liabilities	<u>2,315,000</u>	\$ 2,481,991
Total Net Position		<u>8,403,153</u>
Total Liabilities and Net Position		<u>\$10,885,144</u>
Operating Revenue		\$ 309,137
Operating Expenses		<u>651,854</u>
Operating Income (Loss)		(342,717)
Other Non-Operating Income		<u>57,292</u>
Decrease in Net Assets		<u>\$ (285,425)</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 12 – CITY OF WASHINGTON BUSINESS DISTRICT AUTHORITY

The City of Washington Business District Authority was created in 1999 pursuant to the laws of the Commonwealth of Pennsylvania, and the Municipal Authorities Act of 1945, as amended. The Washington Business District Authority was created for the purpose of making business improvements and providing administrative service to the central business district of the City of Washington. The governing body consists of 9 members who are appointed by the City.

The activity of the Washington Business District Authority is not presented in the financial statements of the City. The following is a summary of the financial information for the Washington Business District Authority as of and for the year ended December 31, 2017 from its most recent audited financial statements.

Total Assets		
Current assets	\$ 60,057	
Fixed assets, net	<u>5,607</u>	<u>\$ 65,664</u>
Total Liabilities		
Current liabilities		\$ 1,589
Total Net Assets		<u>64,075</u>
Total Liabilities and Net Assets		<u>\$ 65,664</u>
Operating Revenue		\$ 135,016
Operating Expenses		<u>96,632</u>
Increase in Net Assets		<u>\$ 38,384</u>

**CITY OF WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 13 – OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosures to include an overview of certain information concerning individual funds including:

- A. Summary disclosures of changes in general long-term debt. This requirement is met by Note 7.
- B. Deficit fund balances of individual funds. There are no deficit fund balances of any individual funds as of December 31, 2017.
- C. Individual Fund interfund receivable (Due From) and payable (Due To) balances. There are no individual fund interfund receivables or payables as of December 31, 2017.
- D. The following transfers were made between funds for the governmental activities for the year ended December 31, 2017:
 - 1) The General Fund received a transfer from the Debt Service Fund of \$1,332,562 to provide for debt service payments made by the General Fund. The General Fund also received a transfer of \$157,835 from the Stormwater Improvement Fund to provide for stormwater improvement expenses paid from the General Fund. The Capital Improvements Fund also transferred \$17,000 to the General Fund to provide for community development projects. Additionally, the General Fund received transfers totaling \$2,030,773 from other governmental funds to provide for pension contributions, debt repayment and other special projects.
 - 2) The General Fund transferred \$18,098 to the other governmental funds to provide funds for public safety and community development projects.
 - 3) The General Reserve Fund transferred \$2,008,430 to the Stormwater Improvements Fund which represents the net proceeds from the General Obligation Bonds, Series 2017 restricted for future stormwater improvements. Additionally, the General Reserve Fund transferred \$5,500 to the other governmental funds for street and highway projects.
 - 4) The Capital Improvements Fund received a transfer of \$10,000 from the other governmental funds to provide for public safety expenses and equipment purchases.