

City of Lancaster, Pennsylvania

Financial Statements and Required
Supplementary Information

Year Ended December 31, 2012 with
Independent Auditor's Report

CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2012

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YEAR ENDED DECEMBER 31, 2012

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Independent Auditor's Report

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Pennsylvania (City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lancaster Industrial Development Authority, the Lancaster Recreation Commission, the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority, which represent 100% of the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The financial statements of the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and employer contributions, and budgetary comparison information on pages i through ix and 98 through 104 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania
Independent Auditor's Report
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
July 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lancaster, Pennsylvania ("the City") provides this narrative overview and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2012 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. The City encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2012, the assets of the City of Lancaster exceeded its liabilities by \$101.061 million. The City's net position increased \$4.173 million (4.31 percent) during the fiscal year. The governmental activities net position decreased by \$2.091 million (10.593 percent) while the business-type activities net position increased by \$6.264 million (8.12 percent).
- At the close of 2012, the City's governmental funds reported a combined ending fund balance of \$24.509 million, a decrease of \$1.848 million (7.01 percent). Of this amount, approximately \$11.805 million is legally restricted and/or unavailable to spend, and \$9.569 million is committed and/or assigned for designated projects, leaving \$3.135 million available for spending at the government's discretion (unassigned fund balance).
- The City's total outstanding bonded debt decreased by \$4.473 million (2.02 percent) during the current fiscal year to \$217.103 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **Statement of Net Position** presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the City's financial health.

The **Statement of Activities** presents information showing how the City's net position changed during the current reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, economic development and neighborhood revitalization, and public works. The business-type activities of the City include a water utility, a sewer utility, and solid waste and recycling.

Fund Financial Statements Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on major funds, rather than fund types. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the City's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

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 near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds account for services for which the City charges user fees to outside customers and internal City departments. Proprietary (enterprise) funds utilize full accrual accounting; the same method used by private sector businesses. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility operations, and solid waste and recycling program. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water utility and sewer utility, and the solid waste and recycling program. The water and sewer utilities are considered to be major funds of the City.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. These funds are reported using full accrual accounting. The City's fiduciary funds include the Non-Uniformed Employees' Retirement Fund, the Firemen's Pension Fund, the Police Pension Fund, OPEB trust, and various private-purpose trust and agency funds. The government-wide financial statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent spendable assets of the City to finance its operations.

Notes to the Financial Statements The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Required Supplementary Information Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. This data includes pension plan and OPEB funding and budgetary comparisons for the general fund and budgeted major special revenue funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at the close of December 31, 2012 by approximately \$101.061 million.

Statement of Net Position

Table A-1 Condensed Statement of Net Position (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$51,446	\$52,502	\$46,774	\$60,512	\$98,220	\$113,014
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	60,295	56,439	221,034	206,747	281,329	263,186
Total Assets	111,741	108,941	267,808	267,259	379,549	376,200
Current and Other Liabilities	7,236	6,398	16,911	20,063	24,147	26,461
Long-Term Liabilities	86,856	82,803	167,485	170,048	254,341	252,851
Total Liabilities	94,092	89,201	184,396	190,111	278,488	279,312
Net Position						
Net Investment in Capital Assets	40,880	40,839	92,273	84,506	133,153	125,345
Restricted	2,420	2,179	3,781	6,879	6,201	9,058
Unrestricted	(25,651)	(23,278)	(12,642)	(14,237)	(38,293)	(37,515)
Total Net Position	\$17,649	\$19,740	\$83,412	\$77,148	\$101,061	\$96,888

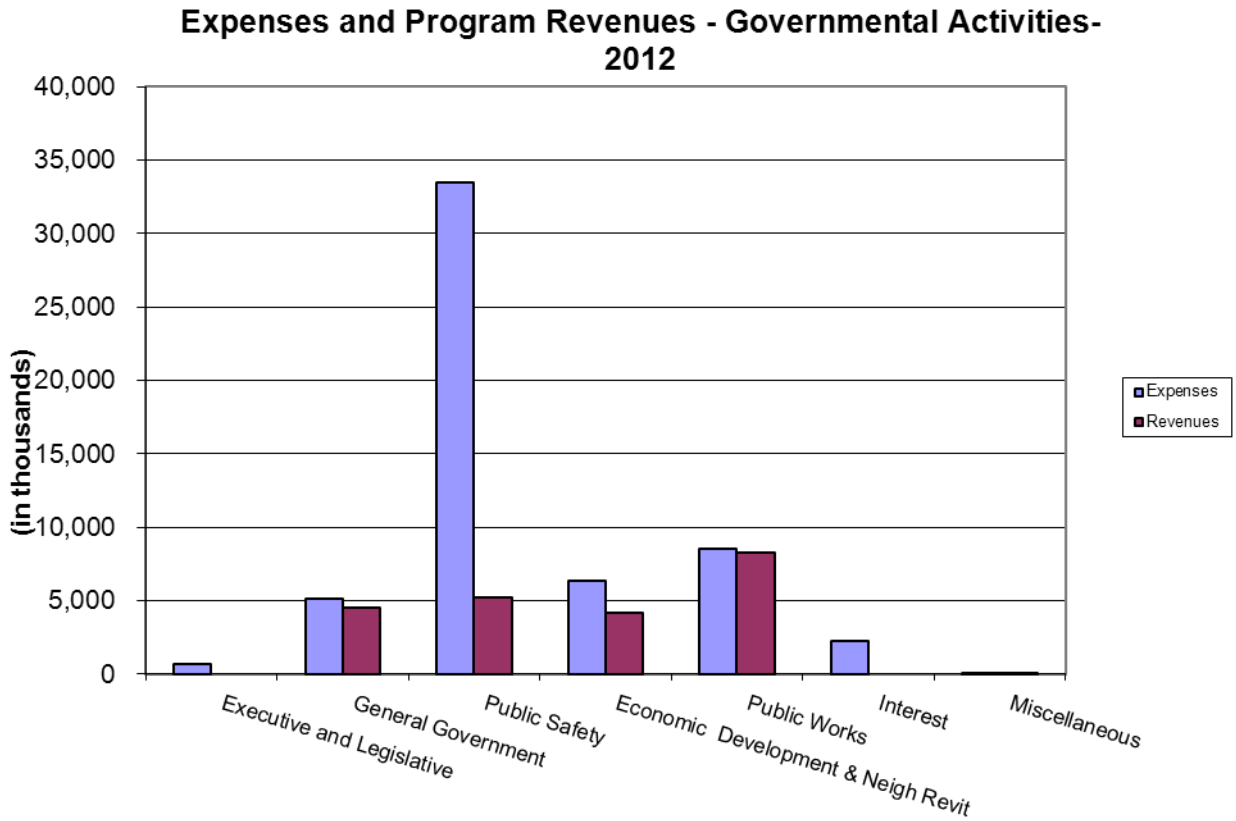
Table A-1 is a condensed version of the statement of net position for the City of Lancaster.

**Table A-2 Changes in Net Position Resulting from Changes in Revenues and Expenses
(In Thousands)**

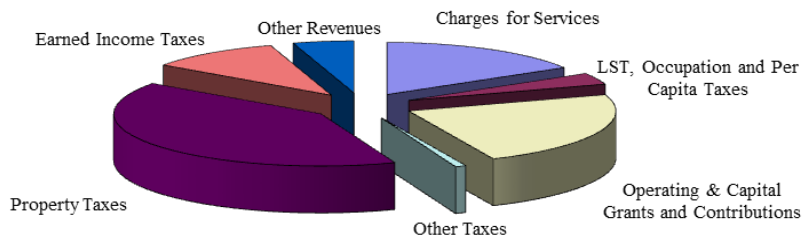
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	\$9,163	\$8,804	\$36,820	\$29,469	\$45,983	\$38,273
Operating & Capital Grants and Contributions	13,104	13,479	5,619	6,683	18,723	20,162
General Revenues						
Property Taxes	22,798	22,796			22,798	22,796
Earned Income Tax	5,809	4,471			5,809	4,471
EMS, Occupation and Per Capita Taxes	2,013	1,738			2,013	1,738
Other Taxes	470	497			470	497
Miscellaneous	2,660	4,071	86	93	2,746	4,164
Total Revenues	56,017	55,856	42,525	36,245	98,542	92,101
Expenses						
Governmental Activities:						
Executive and Legislative	696	712			696	712
General Government	5,135	4,529			5,135	4,529
Public Safety	33,431	33,729			33,431	33,729
Economic Development & Neigh Revit	6,364	7,361			6,364	7,361
Public Works	8,505	8,820			8,505	8,820
Interest	2,295	2,264			2,295	2,264
Miscellaneous	113	122			113	122
Business-Type Activities						
Sewer			14,177	13,531	14,177	13,531
Water			21,019	20,236	21,019	20,236
Solid Waste & Recycling			3,796	3,549	3,796	3,549
Total Expenses	56,539	57,537	38,992	37,316	95,531	94,853
Excess (Deficiency) Before Transfers and Extraordinary Item	(522)	(1,681)	3,533	(1,071)	3,011	(2,752)
Extraordinary item - legal settlement	-	-	1,162	-	1,162	-
Transfers	(1,569)	2,156	1,569	(2,156)	-	-
Increase (Decrease) in Net Position	(2,091)	475	6,264	(3,227)	4,173	(2,752)
Net Position - Beginning of Year	19,740	19,265	77,148	80,375	96,888	99,640
Net Position - End of Year	<u>\$17,649</u>	<u>\$19,740</u>	<u>\$83,412</u>	<u>\$77,148</u>	<u>\$101,061</u>	<u>\$96,888</u>

The City's total net position increased by \$4.173 million in 2012.

Governmental Activities



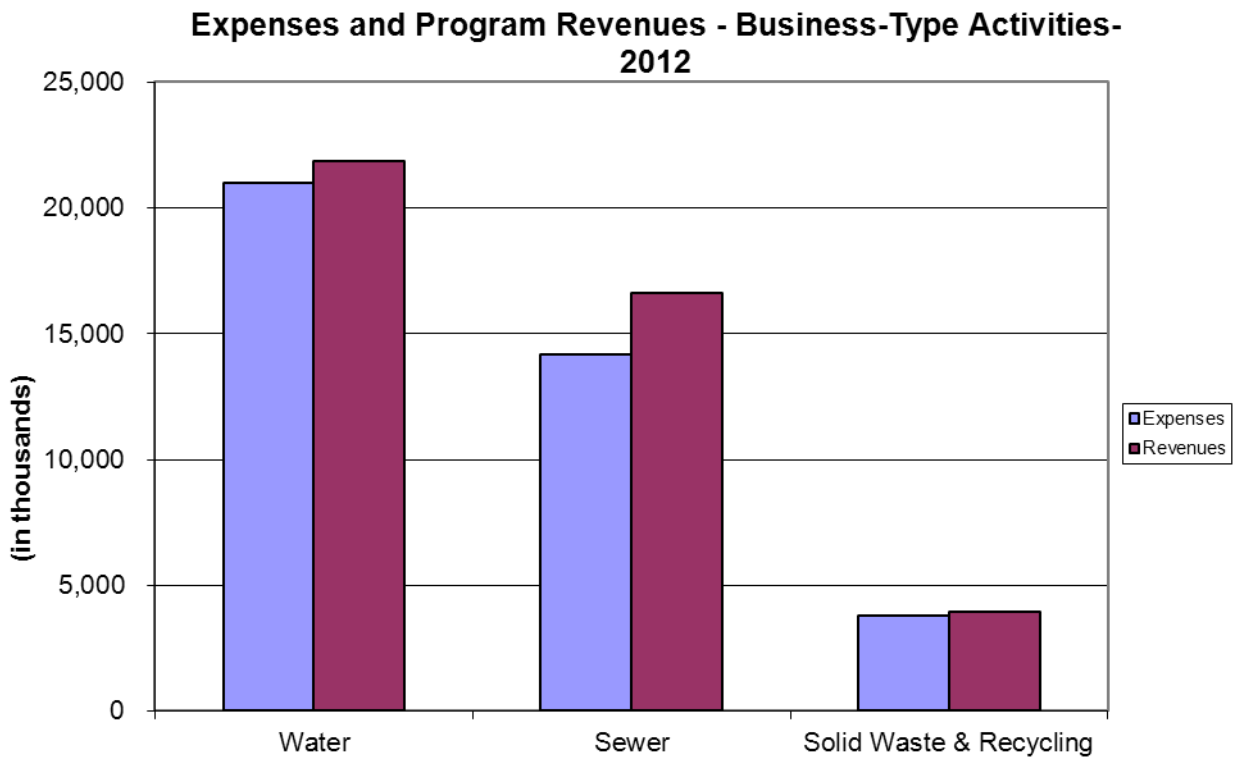
Revenues by Source - Governmental Activities- 2012



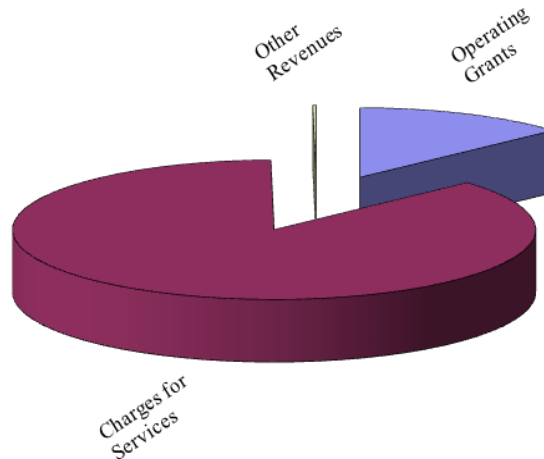
Governmental activities. Governmental activities decreased the City's net position by \$2.091 million. In 2012, total revenues for governmental activities were \$56.018 million, \$.162 million or .003 percent higher than 2011. Total expenses for governmental activities, which were \$56.539 million, were \$.998 million or .017 percent lower than 2011. The decrease in net position is mainly a result of increased transfers from governmental activities to business-type activities for grant funded construction projects.

The charts on the previous page present the City's governmental expenses by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by public works, economic development and neighborhood revitalization and general government. General revenues such as property, earned income, emergency and municipal services, and per capita taxes are not shown by function because they are used to support City-wide program activities.

Business-Type Activities



Revenues by Source - Business-Type Activities-2012



Business-Type activities. Business-type activities increased the City's net position by \$6.264 million to \$83.412 million, an increase of 8.12 percent. Charges for services in the business-type activities increased \$7.351 million from the prior year, due to water and sewer rate increases. Operating & Capital Grants and Contribution revenue decreased by \$1.064 million, a decrease of 15.92 percent, primarily due to reduced capital contributions from developers and other governments for construction projects from 2011. Expenses for water, sewer, and solid waste and recycling operations increased \$1.676 million from 2011 due to primarily to interest and depreciation expense costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance measures the City's net resources available for spending at the end of the fiscal year. Governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, and capital project funds.

At the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$24.509 million. Approximately \$3.135 million of that amount constitutes unassigned fund balance, which is available for discretionary spending. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form

(\$.081), 2) restricted for particular purposes (\$11.724), 3) committed for particular purposes (\$.662), or 4) assigned for particular purposes (\$8.907).

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

Net position of the Water, Sewer and Solid Waste and Recycling Funds at the end of the year amounted to \$83.444 million. Net position of the Solid Waste and Recycling Fund increased \$0.390 million. Net position of the Water and Sewer Funds decreased \$1.179 million and increased \$7.085 million respectively.

Fiduciary Funds. The City maintains fiduciary funds for the assets of City of Lancaster Cash Balance Pension Plan, Defined Contribution Plan, the Police Pension Plan, the Firemen's Pension Plan, OPEB trust, and various agency and private-purpose trust funds. The total net position of the combined fiduciary funds is \$99.620 million. The City's employee pension plans and OPEB trust represent 99.69 percent of that amount. At the end of 2012, the net position of the Pension Trust Funds increased by \$4.437 million to \$98.607 million. The change is related to the appreciation of the retirement plans' investments due to current economic conditions and reduced benefit expenditures compared to 2011. Additionally, the OPEB Trust Fund increased by \$.706 due to the City partially funding OPEB costs during 2012.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget contained \$46.347 million in appropriations, and \$45.192 in estimated revenues, with \$1.155 million of required resources coming from the unreserved fund balance. Overall, revenues were higher than anticipated by \$2.223 million. Key factors for the increase are as follows:

- Real Estate taxes collected by the City were \$.181 higher than the budgeted amount.
- Earned income taxes and Local Services Tax collected by the Lancaster County Tax Collection Bureau were higher than the budgeted amount by \$2.084 and \$.362 respectively.
- Licenses and Permits issued were \$.418 under budget due to economic conditions.

Expenditures in comparison to budget were reduced in virtually all operating departments by administrative actions, including the shifting of several capital projects to the Capital Improvement Plan budget and delaying hiring for vacancies.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City of Lancaster's investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounts to \$281.329 (net of accumulated depreciation). This investment includes land, buildings, improvements, infrastructure, vehicles, machinery and equipment. More detail about the City's capital assets is presented in Note 6 to the financial statements.

Debt administration. At the end of 2012 the City had \$217.103 million outstanding debt, compared to \$221.576 million in 2011. More detailed information about the City's long-term debt is presented in Note 10 to the financial statements.

During 2004, the City entered into derivative agreements in connection with the 1998 General Obligation Bonds, Series A. More detailed information about the City's derivative agreements is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The City of Lancaster continues to face fiscal challenges common to many urban communities across Pennsylvania and the nation; a stagnant tax base due to the lack of open and developable land, inflationary pressures on labor costs and benefits and a high number of tax-exempt properties (28% of all assessed property value in the City) which reduces the revenue available to support City services. While the national economic downturn has not bypassed Lancaster, the City of Lancaster has been able to weather the storm better than many areas of the state and country by starting fiscal restraint efforts in 2006 prior to the beginning of the economic downturn. Indicators of local economic health such as Real Estate Transfer taxes have remained stagnant, but Earned Income tax revenues have begun to rebound after several years of declining revenues. Despite the national economy's impact on City revenues, a renewed focus on city living and business investment has allowed the City to maintain a vibrant downtown retail and arts environment.

The Penn Square Marriott Hotel and Lancaster County Convention Center opened in June 2009 and both have seen strong usage. Since 2007, the downtown and Northwest area of the City alone have seen a net increase of 140 retail, restaurant and service businesses. The City also continued to experience high levels of construction and renovation activity in 2012 with 1,763 building permits issued for projects worth a total of nearly \$60,000,000. Lancaster also saw a population increase in the past decade with the 2010 US Census showing a population increase of 5.3% since 2000. While challenges for cities will always be present, Lancaster City continues to thrive as the economic, arts and entertainment hub of Lancaster County and the surrounding region.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Administrator, 120 North Duke Street, PO Box 1599, Lancaster, PA 17608-1599 (Telephone 717-291-3556).

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2012

<u>Assets</u>	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Cash and cash equivalents	\$ 3,896,731	\$ 850	\$ 3,897,581	\$ 2,468,143	\$ 6,365,724
Cash and cash equivalents - restricted	9,646,298	44,548,885	54,195,183	2,309,120	56,504,303
Investments	399,454	-	399,454	-	399,454
Investments - restricted	122,936	1,485,644	1,608,580	3,052,471	4,661,051
Receivables (net of allowance for uncollectibles:					
Taxes	2,538,801	-	2,538,801	-	2,538,801
Accounts	492,101	7,961,805	8,453,906	857,671	9,311,577
Notes	6,734,001	-	6,734,001	1,799,938	8,533,939
Investment income	72,764	-	72,764	-	72,764
Other	-	154,307	154,307	42,527	196,834
Internal balances	9,217,582	(9,217,582)	-	-	-
Accrued interest	-	-	-	617,636	617,636
Prepaid expenses	82,766	16,612	99,378	178,681	278,059
Lease rental receivable	-	-	-	27,289,420	27,289,420
Due from other governments	4,056,223	99,174	4,155,397	8,989,416	13,144,813
Properties held for resale	-	-	-	536,000	536,000
Net pension asset	12,784,650	-	12,784,650	-	12,784,650
Embedded derivative instrument	788,546	-	788,546	-	788,546
Debt issuance costs, net	613,263	1,724,114	2,337,377	-	2,337,377
Capital assets, not being depreciated	9,970,041	5,182,682	15,152,723	5,392,645	20,545,368
Capital assets, being depreciated, net	50,324,555	215,851,915	266,176,470	16,302,616	282,479,086
Total Assets	\$ 111,740,712	\$ 267,808,406	\$ 379,549,118	\$ 69,836,284	\$ 449,385,402

(Continued)

	Primary Government			Component	
	Governmental Activities	Business-type Activities	Total	Units	Total
Liabilities and Net Position					
Liabilities:					
Accounts payable	\$ 2,988,261	\$ 5,175,116	\$ 8,163,377	\$ 294,246	\$ 8,457,623
Due to other governments	1,313	-	1,313	-	1,313
Accrued salaries and benefits	544,505	168,202	712,707	40,762	753,469
Accrued expenses	379,201	1,148,763	1,527,964	406,902	1,934,866
Line of credit	-	-	-	667,223	667,223
Due to primary government	-	-	-	369,344	369,344
Unearned revenues	357,425	185,000	542,425	11,926,326	12,468,751
Contingent liability from property resettlements	-	-	-	334,500	334,500
Other liabilities	77,325	-	77,325	-	77,325
Long-term liabilities:					
Portion due or payable within one year:					
Due to other governments	-	6,709,509	6,709,509	-	6,709,509
Compensated absences payable	255,016	33,336	288,352	-	288,352
Workers' compensation liability	244,383	5,678	250,061	-	250,061
Capital leases	193,394	195,143	388,537	2,259	390,796
Borrowing payable - basis swap	166,053	-	166,053	-	166,053
Loans payable	-	-	-	150,000	150,000
Notes payable	815,000	1,799,549	2,614,549	129,022	2,743,571
Bonds payable	1,213,800	1,491,200	2,705,000	2,081,099	4,786,099
Portion due or payable after one year:					
Due to other governments	-	469,070	469,070	-	469,070
Compensated absences payable	833,866	115,286	949,152	-	949,152
Workers' compensation liability	772,917	17,958	790,875	-	790,875
Net other post-employment liability	34,055,577	5,873,199	39,928,776	-	39,928,776
Due to lessee	-	-	-	1,000,243	1,000,243
Capital leases	455,191	446,694	901,885	1,240	903,125
Borrowing payable - basis swap	1,399,797	-	1,399,797	-	1,399,797
Loans payable	-	-	-	1,050,000	1,050,000
Notes payable	10,910,000	23,093,469	34,003,469	-	34,003,469
Bonds payable	38,428,737	137,469,259	175,897,996	50,871,063	226,769,059
Total Liabilities	94,091,761	184,396,431	278,488,192	69,324,229	347,812,421
Net Position:					
Net investment in capital assets	40,880,110	92,272,628	133,152,738	(5,989,633)	127,163,105
Restricted for:					
Capital acquisition	-	3,781,116	3,781,116	685,190	4,466,306
Housing and neighborhood development	259,117	-	259,117	-	259,117
Economic and community development	1,600,380	-	1,600,380	-	1,600,380
Public works	336,031	-	336,031	-	336,031
Parks and recreation	223,733	-	223,733	-	223,733
Debt service	746	-	746	177,683	178,429
Unrestricted	(25,651,166)	(12,641,769)	(38,292,935)	5,638,815	(32,654,120)
Total Net Position	17,648,951	83,411,975	101,060,926	512,055	101,572,981
Total Liabilities and Net Position	\$ 111,740,712	\$ 267,808,406	\$ 379,549,118	\$ 69,836,284	\$ 449,385,402

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
Executive department	\$ 565,611	\$ -	\$ -	\$ -
Legislative department	113,035	-	-	-
Office of the City Treasurer/Controller	17,000	-	-	-
General government	5,134,874	2,823,017	1,705,329	-
Public safety	33,431,232	4,266,432	934,899	36,720
Economic development and neighborhood revitalization	6,364,524	1,935,881	2,256,197	-
Public works	8,504,621	136,504	1,447,547	6,688,948
Miscellaneous	113,091	1,301	34,188	-
Interest	2,295,013	-	-	-
Total governmental activities	56,539,001	9,163,135	6,378,160	6,725,668
Business-type activities:				
Sewer	14,177,452	12,155,095	85,704	4,395,913
Water	21,018,750	20,976,627	139,983	720,914
Other enterprise fund	3,796,231	3,687,939	276,841	-
Total business-type activities	38,992,433	36,819,661	502,528	5,116,827
Total Primary Government	\$ 95,531,434	\$ 45,982,796	\$ 6,880,688	\$ 11,842,495
Component units:				
Lancaster Industrial Development Authority	\$ 21,533	\$ 30,620	\$ -	\$ -
Lancaster Recreation Commission	3,455,143	2,829,003	459,976	-
The Parking Authority of the City of Lancaster	4,351,140	4,838,667	-	-
Redevelopment Authority of the City of Lancaster	2,940,250	576,646	1,083,521	1,500,000
Lancaster Downtown Investment District Authority	397,499	332,436	64,562	-
Total component units	\$ 11,165,565	\$ 8,607,372	\$ 1,608,059	\$ 1,500,000

General revenues:

Taxes:

Property taxes for general purposes

Real estate transfer tax

Earned income tax

Local services tax

Delinquent occupation and per capita taxes

Grants not restricted to specific programs

Investment earnings

Transfers

Extraordinary item - legal settlement

Total general revenues, transfers, and extraordinary item

Change in Net Position

Net Position:

Beginning of year - restated

End of year

Net (Expenses) Revenue and
Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
\$ (565,611)	\$ -	\$ (565,611)	\$ -	\$ (565,611)
(113,035)	-	(113,035)	-	(113,035)
(17,000)	-	(17,000)	-	(17,000)
(606,528)	-	(606,528)	-	(606,528)
(28,193,181)	-	(28,193,181)	-	(28,193,181)
(2,172,446)	-	(2,172,446)	-	(2,172,446)
(231,622)	-	(231,622)	-	(231,622)
(77,602)	-	(77,602)	-	(77,602)
(2,295,013)	-	(2,295,013)	-	(2,295,013)
<u>(34,272,038)</u>	<u>-</u>	<u>(34,272,038)</u>	<u>-</u>	<u>(34,272,038)</u>
-	2,459,260	2,459,260	-	2,459,260
-	818,774	818,774	-	818,774
-	168,549	168,549	-	168,549
-	3,446,583	3,446,583	-	3,446,583
<u>(34,272,038)</u>	<u>3,446,583</u>	<u>(30,825,455)</u>	<u>-</u>	<u>(30,825,455)</u>
-	-	-	9,087	9,087
-	-	-	(166,164)	(166,164)
-	-	-	487,527	487,527
-	-	-	219,917	219,917
-	-	-	(501)	(501)
-	-	-	<u>549,866</u>	<u>549,866</u>
22,797,703	-	22,797,703	-	22,797,703
469,748	-	469,748	-	469,748
5,808,710	-	5,808,710	-	5,808,710
2,011,983	-	2,011,983	-	2,011,983
1,316	-	1,316	-	1,316
2,277,595	-	2,277,595	-	2,277,595
383,174	86,202	469,376	1,385,437	1,854,813
(1,569,442)	1,569,442	-	-	-
-	1,162,000	1,162,000	-	1,162,000
<u>32,180,787</u>	<u>2,817,644</u>	<u>34,998,431</u>	<u>1,385,437</u>	<u>36,383,868</u>
(2,091,251)	6,264,227	4,172,976	1,935,303	6,108,279
<u>19,740,202</u>	<u>77,147,748</u>	<u>96,887,950</u>	<u>(1,423,248)</u>	<u>95,464,702</u>
<u>\$ 17,648,951</u>	<u>\$ 83,411,975</u>	<u>\$ 101,060,926</u>	<u>\$ 512,055</u>	<u>\$ 101,572,981</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	General Fund	Capital Projects	Debt Service Fund	Miscellaneous State Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 58,787	\$ 181,964	\$ -	\$ -	\$ 2,528,071	\$ 2,768,822
Cash and cash equivalents - restricted	100,000	9,546,298	-	-	-	9,646,298
Investments	-	-	5,746	-	393,708	399,454
Investments - restricted	122,936	-	-	-	-	122,936
Receivables (net of allowance for uncollectibles):						
Taxes	2,538,801	-	-	-	-	2,538,801
Accounts	476,353	6,526	-	-	9,222	492,101
Investment income	-	-	-	-	72,764	72,764
Due from other funds	10,857,177	-	-	-	-	10,857,177
Due from other governments	377,452	-	-	3,267,090	411,681	4,056,223
Prepaid expenditures	81,001	-	-	1,311	454	82,766
Total Assets	\$ 14,612,507	\$ 9,734,788	\$ 5,746	\$ 3,268,401	\$ 3,415,900	\$ 31,037,342
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	\$ 604,985	\$ 430,542	\$ 5,000	\$ 1,477,109	\$ 103,782	\$ 2,621,418
Due to other funds	-	-	-	1,671,788	-	1,671,788
Due to other governments	-	-	-	-	1,313	1,313
Accrued salaries and benefits	544,505	-	-	-	-	544,505
Unearned revenues	1,019,827	-	-	119,504	228,368	1,367,699
Other liabilities	75,781	-	-	-	1,544	77,325
Workers' compensation liability	244,383	-	-	-	-	244,383
Total Liabilities	2,489,481	430,542	5,000	3,268,401	335,007	6,528,431
Fund Balance:						
Nonspendable:						
Prepaid expenditures	81,001	-	-	-	-	81,001
Restricted for:						
Capital acquisition	-	9,304,246	-	-	-	9,304,246
Housing and neighborhood development	-	-	-	-	259,117	259,117
Economic and community development	-	-	-	-	1,600,380	1,600,380
Public works	-	-	-	-	336,031	336,031
Parks and recreation	-	-	-	-	223,733	223,733
Debt service	-	-	746	-	-	746
Committed for:						
Economic and community development	-	-	-	-	661,632	661,632
Assigned for:						
2013 budget	2,307,057	-	-	-	-	2,307,057
Debt service	3,250,000	-	-	-	-	3,250,000
Excess medical expenditures	1,100,000	-	-	-	-	1,100,000
Excess workers' compensation expenditures	650,000	-	-	-	-	650,000
ERP system replacement	1,000,000	-	-	-	-	1,000,000
Animal control shelter	600,000	-	-	-	-	600,000
Unassigned	3,134,968	-	-	-	-	3,134,968
Total Fund Balance	12,123,026	9,304,246	746	-	3,080,893	24,508,911
Total Liabilities and Fund Balance	\$ 14,612,507	\$ 9,734,788	\$ 5,746	\$ 3,268,401	\$ 3,415,900	\$ 31,037,342

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2012

Total Fund Balance - Governmental Funds \$ 24,508,911

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 60,294,596

The net pension asset resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds. 12,784,650

Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unearned revenue in the funds. 1,010,274

Notes receivable are long-term in nature and are not available to pay current period expenditures and, therefore, are not reported in the funds. 6,734,001

Debt issuance costs resulting from the issuance of bonds in the current and prior years are not financial resources and, therefore, are not reported in the funds. 613,263

Deferred losses on refunding resulting from the issuance of notes in the current year and prior years are not financing uses and, therefore, are not reported in the funds. 861,204

Embedded derivative instrument is not a financial resource and, therefore, is not reported in the funds. 788,546

Long-term liabilities, including bonds and note payable, capital leases, borrowing payable - basis swap, compensated absences, workers' compensation liability, and net other post-retirement liability, applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

General obligation bonds	\$ (40,503,741)	
General obligation notes	(11,725,000)	
Accrued interest on general obligation bonds and notes	(379,201)	
Capital leases	(648,585)	
Borrowing payable - basis swap	(1,565,850)	
Compensated absences payable	(1,088,882)	
Workers' compensation liability	(772,917)	
Net other post-employment liability	<u>(34,055,577)</u>	(90,739,753)

Internal service funds are used by management to charge the costs of insurance services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

Internal service fund net position	761,066	
Adjustment related to proprietary funds	<u>32,193</u>	<u>793,259</u>

Total Net Position - Governmental Activities \$ 17,648,951

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2012

	General Fund	Capital Projects	Debt Service Fund	Miscellaneous State Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 31,208,143	\$ -	\$ -	\$ -	\$ -	\$ 31,208,143
Intergovernmental revenues	2,589,960	-	-	5,558,469	4,325,387	12,473,816
Licenses and permits	1,748,259	-	-	-	-	1,748,259
Fines and forfeitures	2,495,469	-	-	-	-	2,495,469
Rents and charges for services	1,681,009	-	-	-	53,471	1,734,480
Program income	-	-	-	-	316,394	316,394
Investment income	1,793	14,875	125	-	41,833	58,626
Miscellaneous	2,246,486	7,699	-	-	17,576	2,271,761
Total revenues	<u>41,971,119</u>	<u>22,574</u>	<u>125</u>	<u>5,558,469</u>	<u>4,754,661</u>	<u>52,306,948</u>
Expenditures:						
Executive department	565,611	-	-	-	-	565,611
Legislative department	113,035	-	-	-	-	113,035
Office of the City Treasurer/Controller	17,000	-	-	-	-	17,000
General government	4,764,822	-	-	14,027	-	4,778,849
Public safety	28,945,001	-	-	315,342	433,782	29,694,125
Economic development and neighborhood revitalization	2,141,321	1,500,000	-	423,005	2,000,817	6,065,143
Public works	5,355,403	-	-	1,535,450	1,253,640	8,144,493
Miscellaneous	-	-	-	-	113,091	113,091
Capital outlay	-	2,312,067	-	-	-	2,312,067
Debt service:						
Principal	161,435	-	1,784,600	-	68,836	2,014,871
Interest	9,881	-	2,365,406	-	11,305	2,386,592
Total expenditures	<u>42,073,509</u>	<u>3,812,067</u>	<u>4,150,006</u>	<u>2,287,824</u>	<u>3,881,471</u>	<u>56,204,877</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(102,390)</u>	<u>(3,789,493)</u>	<u>(4,149,881)</u>	<u>3,270,645</u>	<u>873,190</u>	<u>(3,897,929)</u>
Other Financing Sources (Uses):						
Interfund reimbursements	2,781,206	-	-	-	-	2,781,206
Capital lease	476,217	-	-	-	-	476,217
Sale of general capital assets	362,181	-	-	-	-	362,181
Transfers in	2,300,000	-	4,149,881	-	-	6,449,881
Transfers out	(3,906,587)	(212,504)	-	(3,270,645)	(629,587)	(8,019,323)
Total other financing sources (uses)	<u>2,013,017</u>	<u>(212,504)</u>	<u>4,149,881</u>	<u>(3,270,645)</u>	<u>(629,587)</u>	<u>2,050,162</u>
Net Change in Fund Balance	<u>1,910,627</u>	<u>(4,001,997)</u>	<u>-</u>	<u>-</u>	<u>243,603</u>	<u>(1,847,767)</u>
Fund Balance:						
Beginning of year	10,212,399	13,306,243	746	-	2,837,290	26,356,678
End of year	<u>\$ 12,123,026</u>	<u>\$ 9,304,246</u>	<u>\$ 746</u>	<u>\$ -</u>	<u>\$ 3,080,893</u>	<u>\$ 24,508,911</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

Net Change in Fund Balance - Governmental Funds \$ (1,847,767)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (2,394,130)	
Capital outlay	<u>6,895,143</u>	4,501,013

When recognizing the sale of capital assets and other property held for sale, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported with the governmental activities.

(1,264,834)

Bond, note, and capital lease proceeds, as well as borrowing payable - basis swap, are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.

Payment of long-term liabilities	2,191,611	
Capital lease	<u>(476,217)</u>	1,715,394

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as accrues.

Change in compensated absences payable	(32,061)	
Change in workers' compensation liability	94,301	
Change in other post-employment liability	(6,007,849)	
Change in accrued interest on bonds	6,336	
Amortization of debt issuance costs	(55,732)	
Amortization of debt premium	47,204	
Amortization of deferred loss on refunding	(82,969)	
Change in value of embedded derivative instrument	333,149	
Change in net pension asset	<u>(261,344)</u>	(5,958,965)

The issuance of notes receivable are reported as expenditures in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing notes receivable increases assets and does not affect the statement of activities. Similarly, repayment of principal is program income in the governmental funds, but reduces the assets in the statement of net position.

Notes receivable issued	488,393	
Principal payments received	(315,883)	
Change in allowance	<u>(82,013)</u>	90,497

Under the modified accrual basis of accounting used in the governmental funds, certain revenues are not recognized unless they are both available to pay current year expenditures and measurable. In the statement of activities, however, which is presented on the accrual basis, revenues and assets are reported regardless of when financial resources are available.

Unearned tax revenue	<u>(119,848)</u>	(119,848)
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Internal service funds are used by management to charge the costs of insurance services to individual funds. The net revenue of certain activities of the internal service fund is reported within governmental activities.

Internal service fund change in net position	761,066	
Adjustment related to proprietary funds	<u>32,193</u>	<u>793,259</u>

Change in Net Position - Governmental Activities \$ (2,091,251)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2012

Assets	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund	Total	
Current assets:					
Cash and cash equivalents	\$ 300	\$ 550	\$ -	\$ 850	\$ 1,127,909
Cash and cash equivalents - restricted	31,493,524	13,055,361	-	44,548,885	-
Investments - restricted	1,485,644	-	-	1,485,644	-
Receivables (net of allowance for uncollectibles):					
Accounts	3,321,625	3,367,936	1,272,244	7,961,805	-
Other	87,859	21,920	44,528	154,307	-
Due from other governments	-	45,685	-	45,685	-
Prepaid expenses	7,822	7,068	1,722	16,612	-
Total current assets	36,396,774	16,498,520	1,318,494	54,213,788	1,127,909
Long-term assets:					
Due from other governments	53,489	-	-	53,489	-
Bond issuance costs, net	668,763	1,055,351	-	1,724,114	-
Capital assets, not being depreciated	2,460,939	2,721,743	-	5,182,682	-
Capital assets, being depreciated, net	79,192,879	136,277,991	381,045	215,851,915	-
Total long-term assets	82,376,070	140,055,085	381,045	222,812,200	-
Total Assets	\$ 118,772,844	\$ 156,553,605	\$ 1,699,539	\$ 277,025,988	\$ 1,127,909
Liabilities and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable	\$ 3,539,144	\$ 1,372,960	\$ 263,012	\$ 5,175,116	\$ -
Claims payable	-	-	-	-	366,843
Accrued salaries and benefits	59,584	101,315	7,303	168,202	-
Accrued expenses	280,736	868,027	-	1,148,763	-
Due to other funds	3,206,487	5,188,043	790,859	9,185,389	-
Due to other governments	6,709,509	-	-	6,709,509	-
Unearned revenue	185,000	-	-	185,000	-
Compensated absences, current portion	15,382	17,954	-	33,336	-
Workers' compensation liability	481	5,197	-	5,678	-
Capital lease, current portion	97,796	73,615	23,732	195,143	-
Notes payable, current portion	840,000	959,549	-	1,799,549	-
Bonds payable, current portion	535,000	956,200	-	1,491,200	-
Total current liabilities	15,469,119	9,542,860	1,084,906	26,096,885	366,843
Long-term liabilities:					
Due to other governments	469,070	-	-	469,070	-
Compensated absences	50,299	58,706	6,281	115,286	-
Workers' compensation liability	1,523	16,435	-	17,958	-
Net other post-employment liability	2,495,243	3,339,429	38,527	5,873,199	-
Capital lease	219,926	153,745	73,023	446,694	-
Notes payable	10,670,000	12,423,469	-	23,093,469	-
Bonds payable	31,642,816	105,826,443	-	137,469,259	-
Total long-term liabilities	45,548,877	121,818,227	117,831	167,484,935	-
Total Liabilities	61,017,996	131,361,087	1,202,737	193,581,820	366,843
Net Position:					
Net investment in capital assets	60,089,151	31,899,187	284,290	92,272,628	-
Restricted	3,781,116	-	-	3,781,116	-
Unrestricted	(6,115,419)	(6,706,669)	212,512	(12,609,576)	761,066
Total Net Position	57,754,848	25,192,518	496,802	83,444,168	761,066
Total Liabilities and Net Position	\$ 118,772,844	\$ 156,553,605	\$ 1,699,539	\$ 277,025,988	\$ 1,127,909
Total net position of enterprise funds				\$ 83,444,168	
Adjustment to reflect the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time.				(32,193)	
Net position of business-type activities				\$ 83,411,975	

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund	Total	
Operating Revenues:					
Charges for services	\$ 11,800,888	\$ 20,527,379	\$ 3,687,939	\$ 36,016,206	\$ 11,514,155
Miscellaneous	354,207	449,248	-	803,455	-
Total operating revenues	<u>12,155,095</u>	<u>20,976,627</u>	<u>3,687,939</u>	<u>36,819,661</u>	<u>11,514,155</u>
Operating Expenses:					
Sewage pumping stations	1,044,558	-	-	1,044,558	-
Susquehanna treatment plant	-	2,344,657	-	2,344,657	-
Conestoga treatment plant	-	2,064,395	-	2,064,395	-
Collection system	641,653	-	460,096	1,101,749	-
Hauling and tipping	-	-	3,133,085	3,133,085	-
Transmission and distribution	-	1,380,869	-	1,380,869	-
Meters and meter labor	-	628,789	-	628,789	-
Laboratory	-	246,233	-	246,233	-
Sewage treatment plant	4,421,333	-	-	4,421,333	-
Administration	3,385,101	4,720,204	166,790	8,272,095	-
Grounds maintenance	135,200	380,870	63,201	579,271	-
Wastewater and green infrastructure	199,349	-	-	199,349	-
Health insurance claims	-	-	-	-	9,934,059
Insurance premiums	-	-	-	-	819,213
Depreciation expense	2,569,361	3,408,732	6,133	5,984,226	-
Total operating expenses	<u>12,396,555</u>	<u>15,174,749</u>	<u>3,829,305</u>	<u>31,400,609</u>	<u>10,753,272</u>
Operating Income (Loss)	<u>(241,460)</u>	<u>5,801,878</u>	<u>(141,366)</u>	<u>5,419,052</u>	<u>760,883</u>
Nonoperating Revenues (Expenses):					
State pension contribution	85,704	139,983	8,164	233,851	-
Investment income	58,247	27,825	130	86,202	183
Intergovernmental revenue	79,691	15,115	268,677	363,483	-
Amortization expense	(60,732)	(77,296)	-	(138,028)	-
Interest expense	(1,928,101)	(5,491,934)	(1,568)	(7,421,603)	-
Total nonoperating revenues (expenses)	<u>(1,765,191)</u>	<u>(5,386,307)</u>	<u>275,403</u>	<u>(6,876,095)</u>	<u>183</u>
Income (loss) before transfers and capital contributions	(2,006,651)	415,571	134,037	(1,457,043)	761,066
Transfers in (out)	3,613,269	(2,300,000)	256,173	1,569,442	-
Capital contributions	4,316,222	705,799	-	5,022,021	-
Change in Net Position Before Extraordinary Item	5,922,840	(1,178,630)	390,210	5,134,420	761,066
Extraordinary Item:					
Legal settlement	1,162,000	-	-	1,162,000	-
Change in Net Position	7,084,840	(1,178,630)	390,210	6,296,420	761,066
Net Position:					
Beginning of year	50,670,008	26,371,148	106,592		-
End of year	<u>\$ 57,754,848</u>	<u>\$ 25,192,518</u>	<u>\$ 496,802</u>		<u>\$ 761,066</u>
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds				(32,193)	
Changes in net position of business-type activities				<u>\$ 6,264,227</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund	Total	
Cash Flows From Operating Activities:					
Cash received from users	\$ 11,216,601	\$ 20,681,917	\$ 3,522,793	\$ 35,421,311	\$ 11,514,155
Cash paid to suppliers	(5,541,080)	(7,187,142)	(3,646,792)	(16,375,014)	(10,386,429)
Cash paid to employees	(2,215,641)	(4,548,753)	(408,904)	(7,173,298)	-
Net cash provided by (used in) operating activities	3,459,880	8,946,022	(532,903)	11,872,999	1,127,726
Cash Flows From Investing Activities:					
Investment income received	58,247	27,825	130	86,202	183
Net sale of investments	1,649,232	-	-	1,649,232	-
Net cash provided by investing activities	1,707,479	27,825	130	1,735,434	183
Cash Flows From Capital and Related Financing Activities:					
Principal payments on capital leases	(105,649)	(125,996)	(25,853)	(257,498)	-
Principal payments on notes payable	(820,000)	(933,374)	-	(1,753,374)	-
Principal payments on bonds payable	(515,000)	(420,400)	-	(935,400)	-
Interest paid	(1,959,157)	(5,402,390)	(1,568)	(7,363,115)	-
Acquisition of capital assets	(15,341,588)	(3,521,835)	(256,174)	(19,119,597)	-
Grant income received	79,691	15,115	-	94,806	-
Legal settlement	1,162,000	-	-	1,162,000	-
Net change in escrow deposits	(881,992)	-	-	(881,992)	-
Net cash used in capital and related financing activities	(18,381,695)	(10,388,880)	(283,595)	(29,054,170)	-
Cash Flows From Noncapital Financing Activities:					
Transfer in (out)	3,613,269	(2,300,000)	256,173	1,569,442	-
Due to (from) other funds	941,487	153,043	140,859	1,235,389	-
State pension contribution	85,704	139,983	8,164	233,851	-
Intergovernmental revenue	-	-	268,677	268,677	-
Net cash provided by (used in) noncapital financing activities	4,640,460	(2,006,974)	673,873	3,307,359	-
Net Increase (Decrease) in Cash and Cash Equivalents	(8,573,876)	(3,422,007)	(142,495)	(12,138,378)	1,127,909
Cash and Cash Equivalents:					
Beginning of year	40,067,700	16,477,918	142,495	56,688,113	-
End of year	\$ 31,493,824	\$ 13,055,911	\$ -	\$ 44,549,735	\$ 1,127,909

(Continued)

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012
(Continued)

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ (241,460)	\$ 5,801,878	\$ (141,366)	\$ 5,419,052	\$ 760,883
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	2,569,361	3,408,732	6,133	5,984,226	-
(Increase) decrease in assets:					
Receivables	(928,323)	(294,710)	(165,146)	(1,388,179)	-
Due from other governments	(10,171)	-	-	(10,171)	-
Prepaid expenses	(6,664)	(3,721)	(618)	(11,003)	-
Increase (decrease) in liabilities:					
Accounts payable	1,676,669	65,627	(273,212)	1,469,084	-
Claims payable	-	-	-	-	366,843
Accrued expenses	15,146	19,155	40,403	74,704	-
Compensated absences	(6,140)	(4,806)	903	(10,043)	-
Workers' compensation liability	(8,881)	(5,836)	-	(14,717)	-
Net other post-employment liability	400,343	(40,297)	-	360,046	-
Total adjustments	3,701,340	3,144,144	(391,537)	6,453,947	366,843
Net cash provided by (used in) operating activities	<u>\$ 3,459,880</u>	<u>\$ 8,946,022</u>	<u>\$ (532,903)</u>	<u>\$11,872,999</u>	<u>\$ 1,127,726</u>
Noncash Capital Financing Activities:					
Proceeds from capital lease	<u>\$ 54,538</u>	<u>\$ 219,385</u>	<u>\$ 113,067</u>	<u>\$ 386,990</u>	<u>\$ -</u>
Developers contribution	<u>\$ -</u>	<u>\$ 705,799</u>	<u>\$ -</u>	<u>\$ 705,799</u>	<u>\$ -</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2012

	Pension and OPEB Trust Funds	Private- Purpose Trust	Agency Funds
Assets			
Cash and cash equivalents	\$ 35,630	\$ 6,570	\$ 493,481
Investments	99,020,413	301,053	-
Receivables:			
Accounts	-	-	28,008
Investment income	288,184	-	-
Other	2,479	-	1,490
Total Assets	99,346,706	307,623	522,979
Liabilities			
Benefits payable	-	-	8,066
Other liabilities	33,739	-	514,913
Total Liabilities	33,739	-	\$ 522,979
Net Position			
Restricted for pension and OPEB benefits and other purposes	<u>\$99,312,967</u>	<u>\$ 307,623</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CHANGES IN NET POSITION FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Pension and OPEB Trust Funds	Private- Purpose Trust
Additions:		
<hr/>		
Contributions:		
Employees	\$ 1,302,179	\$ -
Employer	4,068,019	-
	<u>5,370,198</u>	<u>-</u>
Total contributions		
Investment income:		
Net appreciation in fair value of investments	5,090,592	20,312
Interest and dividends	2,901,906	11,609
	<u>7,992,498</u>	<u>31,921</u>
Total investment income		
Less: investment expenses	(356,508)	-
	<u>7,635,990</u>	<u>31,921</u>
Net investment income		
Total additions	<u>13,006,188</u>	<u>31,921</u>
Deductions:		
<hr/>		
Benefits	7,712,195	35,449
Administrative expenses	151,090	-
	<u>7,863,285</u>	<u>35,449</u>
Total deductions		
Change in Net Position	5,142,903	(3,528)
Net Position:		
<hr/>		
Beginning of year	94,170,064	311,151
End of year	<u>\$ 99,312,967</u>	<u>\$ 307,623</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION COMPONENT UNITS

DECEMBER 31, 2012

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	Total Component Units
Assets						
Current assets:						
Cash and cash equivalents	\$ 435,290	\$ 221,394	\$ 1,498,398	\$ 226,137	\$ 86,924	\$ 2,468,143
Cash and cash equivalents - restricted	-	-	-	2,309,120	-	2,309,120
Investments	-	-	-	-	-	-
Investments - restricted	-	-	3,052,471	-	-	3,052,471
Receivables (net of allowance for uncollectibles)						
Accounts	-	146,125	23,349	688,197	-	857,671
Other	-	-	-	3,967	38,560	42,527
Accrued interest	-	-	-	617,636	-	617,636
Current portion:						
Lease rental receivable	-	-	-	2,003,118	-	2,003,118
Due from other governments	-	-	-	428,181	-	428,181
Notes receivable	100,000	-	-	161,526	-	261,526
Properties held for resale	-	-	-	536,000	-	536,000
Prepaid expenses	-	25,383	152,548	-	750	178,681
Total current assets	<u>535,290</u>	<u>392,902</u>	<u>4,726,766</u>	<u>6,973,882</u>	<u>126,234</u>	<u>12,755,074</u>
Long-term assets:						
Lease rental receivable	-	-	-	25,286,302	-	25,286,302
Due from other governments	-	-	-	8,561,235	-	8,561,235
Notes receivable	-	-	-	1,538,412	-	1,538,412
Capital assets, not being depreciated	-	-	3,695,871	1,696,774	-	5,392,645
Capital assets, being depreciated, net	-	164,664	16,126,403	-	11,549	16,302,616
Total long-term assets	<u>-</u>	<u>164,664</u>	<u>19,822,274</u>	<u>37,082,723</u>	<u>11,549</u>	<u>57,081,210</u>
Total Assets	<u>\$ 535,290</u>	<u>\$ 557,566</u>	<u>\$ 24,549,040</u>	<u>\$ 44,056,605</u>	<u>\$ 137,783</u>	<u>\$ 69,836,284</u>

(Continued)

* - As of April 30, 2012

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	Total Component Units
Liabilities and Net Position						
<u>Liabilities:</u>						
Current liabilities:						
Accounts payable	\$ -	\$ 7,185	\$ 32,088	\$ 254,911	\$ 62	\$ 294,246
Accrued salaries and benefits	-	-	40,762	-	-	40,762
Accrued expenses	-	138,185	139,558	121,701	7,458	406,902
Line of credit	-	-	-	667,223	-	667,223
Due to primary government	-	-	-	369,344	-	369,344
Unearned revenue	-	45,806	122,202	1,117,423	-	1,285,431
Contingent liability from property resettlements	-	-	-	334,500	-	334,500
Capital lease, current portion	-	2,259	-	-	-	2,259
Loans payable, current portion	-	-	150,000	-	-	150,000
Bonds payable, current portion	-	-	655,000	1,426,099	-	2,081,099
Total current liabilities	-	193,435	1,139,610	4,291,201	7,520	5,631,766
Long-term liabilities:						
Unearned revenue	-	-	-	10,640,895	-	10,640,895
Due to lessee	-	-	-	1,000,243	-	1,000,243
Capital lease	-	1,240	-	-	-	1,240
Loans payable	-	-	1,050,000	-	-	1,050,000
Notes payable	-	-	-	129,022	-	129,022
Bonds payable	-	-	25,647,372	25,223,691	-	50,871,063
Total long-term liabilities	-	1,240	26,697,372	36,993,851	-	63,692,463
Total Liabilities	-	194,675	27,836,982	41,285,052	7,520	69,324,229
<u>Net Position:</u>						
Net investment in capital assets	-	161,165	(7,680,098)	1,517,751	11,549	(5,989,633)
Restricted	-	-	-	862,873	-	862,873
Unrestricted	535,290	201,726	4,392,156	390,929	118,714	5,638,815
Total Net Position	535,290	362,891	(3,287,942)	2,771,553	130,263	512,055
Total Liabilities and Net Position	\$ 535,290	\$ 557,566	\$ 24,549,040	\$ 44,056,605	\$ 137,783	\$ 69,836,284

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2012

		Program Revenues		
Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Lancaster Industrial Development Authority	\$ 21,533	\$ 30,620	\$ -	\$ -
Lancaster Recreation Commission	3,455,143	2,829,003	459,976	-
The Parking Authority of the City of Lancaster	4,351,140	4,838,667	-	-
Redevelopment Authority of the City of Lancaster	2,940,250	576,646	1,083,521	1,500,000
Lancaster Downtown Investment District Authority *	397,499	332,436	64,562	-
Total component units	\$ 11,165,565	\$ 8,607,372	\$ 1,608,059	\$ 1,500,000
General revenues:				
Investment earnings				
Total general revenues				
Change in Net Position				
Net Position:				
Beginning of year - restated				
End of year				

* - Year ended April 30, 2012

Net (Expenses) Revenue and
Changes in Net Position

Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	Total
\$ 9,087	\$ -	\$ -	\$ -	\$ -	\$ 9,087
-	(166,164)	-	-	-	(166,164)
-	-	487,527	-	-	487,527
-	-	-	219,917	-	219,917
-	-	-	-	(501)	(501)
<u>9,087</u>	<u>(166,164)</u>	<u>487,527</u>	<u>219,917</u>	<u>(501)</u>	<u>549,866</u>
<u>3,506</u>	<u>536</u>	<u>75,577</u>	<u>1,305,745</u>	<u>73</u>	<u>1,385,437</u>
<u>3,506</u>	<u>536</u>	<u>75,577</u>	<u>1,305,745</u>	<u>73</u>	<u>1,385,437</u>
12,593	(165,628)	563,104	1,525,662	(428)	1,935,303
<u>522,697</u>	<u>528,519</u>	<u>(3,851,046)</u>	<u>1,245,891</u>	<u>130,691</u>	<u>(1,423,248)</u>
<u>\$ 535,290</u>	<u>\$ 362,891</u>	<u>\$ (3,287,942)</u>	<u>\$ 2,771,553</u>	<u>\$ 130,263</u>	<u>\$ 512,055</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lancaster, Pennsylvania (the “City”) was incorporated as a Borough on May 1, 1782. The City operates under the Optional Third Class City Charter Law. The governing body consists of an elected City Council (7 members), an elected Mayor, Controller, and Treasurer. The daily operations and management of the City are carried out by department directors, bureau chiefs, and elected officials of the City headed by the Mayor. Department directors and elected officials oversee the following departments: executive, legislative, administrative services, public safety, economic development and neighborhood revitalization, and public works.

The following is a summary of the City’s significant accounting policies.

A. Reporting Entity

The criteria used by the City to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the City reviews the applicability of the following criteria:

The City is financially accountable for:

- Organizations that make up its legal entity.
- Legally separate organizations, if City officials appoint a voting majority of the organization’s governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City as defined below:

Impose its will – If the City can significantly influence the programs, projects, or activities, or the level of services performed or provided by, the organization.

Financial benefit or burden – If the City (1) is entitled to the organization’s resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the City.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Component Units

A component unit is a legally separate entity that satisfies at least one of the following criteria: 1) elected officials of a primary government are financially accountable for the entity; or 2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. The following are the discretely presented component units of the City:

Lancaster Industrial Development Authority (LIDA)

LIDA consists of five members who are appointed to five-year terms by the Mayor with approval of City Council. These terms are arranged so that only one term expires each year. LIDA acts as liaison for securing tax-free loans for industrial and commercial development in Lancaster County. LIDA operates on a fiscal year ending December 31.

Lancaster Recreation Commission (Commission)

The Commission has an eleven-member board consisting of two Lancaster School District Board members, two City Council members, one City employee, one Lancaster School District employee, one Lancaster Township employee, one Lancaster Township resident, and three at-large City residents appointed by City Council. The Commission is generally responsible for policies, rules, and regulations relating to public recreation programs. The Commission operates on a fiscal year ending December 31.

As a member of the Commission, the City is required to make a quarterly contribution to the Commission. For the year ended December 31, 2012, the City contributed \$295,656 to the Commission, which was reported as an expenditure of the General Fund. Complete financial statements for the Lancaster Recreation Commission can be obtained from the Lancaster Recreation Commission, 525 Fairview Avenue, Lancaster, PA 17603.

The Parking Authority of the City of Lancaster (Parking Authority)

The Parking Authority Board is comprised of five members, the majority of whom must be city residents, appointed by the Mayor to serve a term of five years. The terms are staggered so that only one term expires each year. The Board is charged with the duty to acquire, construct, improve, and maintain parking projects; to conduct research of parking problems; to establish a permanent coordinated system of parking facilities; and to borrow money and issue bonds as required. The Parking Authority operates on a fiscal year ending December 31.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Redevelopment Authority of the City of Lancaster (Redevelopment Authority)

The Redevelopment Authority consists of five city residents who are appointed by the Mayor to serve a term of five years. The Redevelopment Authority was created to eliminate blighted conditions that adversely affect the public health, safety, convenience, and welfare of the City. The Redevelopment Authority operates on a fiscal year ending December 31.

Lancaster Downtown Investment District Authority (LDIDA)

LDIDA consists of nine to eleven members who are appointed to five-year terms by the Mayor with the approval of City Council. LDIDA is a non-profit municipal authority, which is dedicated to the continued economic vitality of downtown Lancaster. LDIDA operates on a fiscal year ending April 30.

The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. Separately published financial statements of the above component units are available for public inspection in the Mayor's office.

Related Organizations

Related organizations are not component units, yet there is some form of accountability, other than financial accountability, that exists between the primary government and the related organization because of the appointment authority. The following are related organizations to the City:

Lancaster Municipal Authority

The seven members of this Lancaster Municipal Authority are appointed by the Mayor with City Council approval to serve a term of five years. The Board is responsible for conducting all business necessary to finance and complete capital improvements required for operating a sewer system. The Lancaster Municipal Authority is currently inactive.

Metropolitan Lancaster Authority

The Metropolitan Lancaster Authority consists of seven members who are appointed to five-year terms by the Mayor with City Council approval. The Board has the authority to acquire, hold, construct, improve, maintain, operate, own, and lease (either in the capacity of lessor or lessee) waterworks, water supply works, and water distribution

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

systems for the City and other authorized areas in Lancaster County. The Metropolitan Lancaster Authority is currently inactive.

Lancaster Airport Authority (Airport Authority)

The Airport Authority was created by joint resolution of the Council of the City and the Board of Commissioners of the County of Lancaster in June 1950. The Airport Authority was created for the purpose of acquiring, holding, improving, maintaining, operating, owning, and leasing the Lancaster Municipal Airport and all facilities necessary for its operation.

The Board is comprised of five members who are appointed to five-year terms with only one member's term expiring each year. Two of the Board members are appointed by the Mayor and approved by City Council; an additional two are appointed by the Board of Commissioners of the County of Lancaster; and the fifth member is appointed by the City and the County of Lancaster jointly.

Lancaster Higher Education Authority

The Lancaster Higher Education Authority (LHEA) has five Board members who serve for five-year terms of office. Members are appointed by the Mayor with City Council approval. LHEA is organized for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning, or leasing buildings and facilities for private, non-profit, non-sectarian colleges and universities, state-related universities, and community colleges.

Housing Authority of the City of Lancaster (Housing Authority)

The Housing Authority Board consists of five members who are appointed for five-year terms by the Mayor with City Council approval. These terms are arranged so that only one term expires each year. The Board is entrusted with ensuring that standard, low-cost housing is available for low income persons.

Lancaster County Convention Center Authority (Convention Center Authority)

The Convention Center Authority was created jointly by the City Council of the City, and the Board of Commissioners of the County of Lancaster, in September 1999. The Convention Center Authority was created for the purpose of constructing a convention center in the City.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The Board is comprised of seven members who serve two, three, or four-year terms of office. Three of the Board members are appointed by the Mayor with City Council approval; an additional three are appointed by the Board of Commissioners of the County of Lancaster; and the seventh member appointment shall alternate between the City and the County of Lancaster.

Mayor's Office of Special Events (MOOSE)

The MOOSE Board consists of 15 members who are appointed by the Mayor with City Council approval. The Board is entrusted with creating excitement and enthusiasm for the City by hosting, creating, and producing special events and to promote and market those events.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are recognized as revenue if they are both measurable and available.

The City reports the following major governmental funds:

General Fund

This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

Capital Projects

This fund accounts for the acquisition, construction and improvement of major general capital assets.

Debt Service Fund

This fund accounts for the accumulation of resources for, and payment of, interest and principal on general long-term debt and other long-term liabilities.

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Miscellaneous State Grants Fund

This fund accounts for state grants received by the City.

The City reports the following major proprietary funds:

The City operates two major enterprise funds: The Sewer Fund and the Water Fund account for the provision of water and sewer services to residents within the City's service area.

Additionally, the City reports the following fund types:

Internal Service Fund

This fund accounts for the financing of insurance services provided to the other funds of the City.

Pension and Other Post-Employment Benefit (OPEB) Trust Funds

These funds account for the resources that are required to be held in trust for the members and beneficiaries of the City's defined benefit pension, defined contribution pension, and OPEB plans.

Private-Purpose Trust Fund

This fund is used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds

These funds account for monies held by the City as an agent for other governmental units.

Component units are accounted for as follows:

The discretely presented component units are accounted for as enterprise funds. As such, they account for the activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Services from such activities are provided to outside parties. LIDA is presented on the cash basis of accounting, which is a comprehensive basis of accounting other than

CITY OF LANCASTER, PENNSYLVANIA

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accounting principles generally accepted in the United States of America. However, the effect of this departure is immaterial to the component units as a whole.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The Water and Sewer Funds also recognize, as operating revenue, the portion of tap fees intended to recover the cost of certain prior capital outlays. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, interest-bearing bank deposits.

For the purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

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Loans Receivable

Loans receivable related to governmental funds are recorded as expenditures when issued and loan principal payments related to governmental funds are reflected as program income when received.

Property Taxes

Property taxes are recognized as receivables in the year levied. In governmental funds, revenue is reported as unearned unless the taxes are received within sixty days subsequent to year-end.

Interfund Receivables and Payables

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.

Since one of the City's component units report on an April 30 fiscal year end and is included in the City's December 31 financial statement, amounts due to/from component units/primary government may not net to zero.

Unearned Revenues

Unearned revenues are recorded for governmental fund receivables that are not both measurable and available. In addition, inflows that do not yet meet the criteria for revenue recognition, such as grant revenues collected in advance, are recorded as unearned revenues for both the government-wide and the governmental fund financial statements. For the Parking Authority, parking fees, contract parking income, and lease rental revenues are recognized in the period when such revenues pertain. Any amounts collected in advance of such periods are reflected in the statement of net position as unearned revenues.

Long-Term Obligations

Long-term obligations, such as bonds and notes, are recorded at the fund level in the enterprise fund and at the government-wide level for the governmental and business-type activities. Amounts payable within one year are classified as current liabilities on the enterprise funds statement of net position and the government-wide statement of net position. Debt issuance costs and deferred losses on refundings are amortized on the effective interest method over the life of the related debt.

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Fund Balance

In the fund financial statements, fund balance of governmental funds is classified in five separate categories. The five categories, and their general meaning are as follows:

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid insurance and inventory.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by City Council. Such commitment is made via a resolution by City Council and must be made prior to the end of the year. Removal of this commitment requires a resolution by City Council.
- Assigned – This category represents intentions of the Mayor to use the funds for specific purposes. Through a resolution of City Council, the Mayor or his/her designee has been delegated the responsibility to assign funds.
- Unassigned – This category represents all other funds not otherwise defined.

The City's policy is to use funds in the order of the most restrictive to the least restrictive.

Net Position

Net position of the government-wide and proprietary funds are categorized as net investment in capital assets, restricted, or unrestricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. The restricted category represents the balance of assets restricted by requirements of bonds and other externally imposed constraints or by legislation in excess of the related liabilities payable from restricted assets.

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Redevelopment Authority

At December 31, 2012, the Redevelopment Authority has the following restricted balances:

Restricted for parking garage construction cost	\$ 685,190
Restricted for debt service	<u>177,683</u>
	<u>\$ 862,873</u>

Capital Assets

Capital assets of the primary government, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and \$25,000 and an estimated useful life in excess of three years for general capital assets and business-type activity/proprietary fund capital assets, respectively. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is computed on a straight-line basis utilizing the following estimated useful lives:

Sewer and water systems	50 years
Equipment and vehicles	7 to 15 years

The Commission's policy is to capitalize all capital assets at a cost in excess of \$500.

Capital assets are defined by the Parking Authority as assets with a useful life in excess of one year and an initial individual cost of more than \$5,000. Estimated useful lives assigned to the various assets are as follows:

Parking garages, lots, and rental complex	10 to 40 years
Office furnishings, and equipment	5 to 10 years
Equipment	7 to 10 years
Vehicles	5 years

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The Redevelopment Authority's property, plant, and equipment with useful lives of more than one year are stated at historical cost. The Redevelopment Authority generally capitalizes assets with a cost of \$5,000 or more as purchases and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over their useful lives. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Capital assets are defined by LDIDA as assets with a useful life in excess of one year and an initial individual cost of more than \$500. Capital assets are depreciated over the following estimated useful lives:

Leasehold improvements	15 years
Equipment	5 to 7 years

Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest is capitalized in the governmental-wide and enterprise fund financial statements.

D. Other Policies

Budgetary Data

In August of each year, all bureau chiefs of the City submit requests for appropriation to the Mayor so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past years, current year estimates, and requested appropriations for the next fiscal year.

Before November 30, the proposed budget is presented to City Council for review. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The budget must be approved by City Council by the end of December. Any changes in the budget must be within the revenues and reserves estimated as available by the Mayor, or the revenue estimated may be changed by an affirmative vote of a majority of the City Council. All unencumbered budget appropriations lapse at the end of each fiscal year.

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The City adopts annual budgets for the General Fund, certain Special Revenue Funds, and the Enterprise Funds. Budgets are adopted on a project basis for the majority of special revenue funds. Budgets for capital project funds are adopted on a multi-year basis.

Property Taxes

Property taxes are levied as of January 1, on property values assessed as of the same date. The billings provide for a 2% discount period through February 28 and for late payment penalties after April 30. On December 31 of the current year, the bill becomes delinquent and is turned over to the County of Lancaster Tax Claim Bureau for collection.

The City real estate tax rate maximums are provided for in the Third Class City Code. The City may assess up to 25 mills for general governmental purposes. In addition, the millage may be increased to pay for the interest and principal on City indebtedness by an unspecified amount.

In 2012, the City assessed 12.04 mills for general government purposes.

Compensated Absences

The City allows nonuniformed and uniformed employees to accumulate up to a maximum of 200 hours and 480 hours, respectively, of compensatory time. The compensatory time is paid to the employee at termination. The accumulated hours are multiplied by the employee's current salary rate to determine the aggregate cost. For the year ended December 31, 2012, the aggregate cost to the City for the accumulated compensatory time has been estimated at \$733,614 and \$94,712 for governmental activities and business-type activities, respectively.

The City allows nonuniformed union and nonunion employees to accumulate up to a maximum of 200 and 360 days of sick leave, respectively. Upon retirement, at age sixty-two, after twenty years of service, the employee would be paid \$10 per day for unused sick leave up to a maximum of 120 days. The City allows firefighters to accumulate up to 297 days of sick leave. Upon retirement, the employee would be paid \$20 per day for unused sick leave up to 150 days. The City allows police officers to accumulate up to 500 days of sick leave and effective August 8, 2008, new police hires only accumulate up to 297 days. Upon retirement, the employee would be paid \$10 per day for unused sick leave, to a maximum of 40% of the accrued sick leave. For the year ended December 31, 2012, the aggregate cost to the City for accumulated vested sick days has been estimated at \$144,570 and \$6,388 for governmental activities and business-type activities, respectively.

The City allows employees to accumulate up to a maximum of five vacation days each year. Vacation days are paid to the employee at termination. The accumulated days are multiplied

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by the employee's current salary rate to determine the aggregate cost. For the year ended December 31, 2012, the aggregate cost to the City for accumulated vacation days has been estimated at \$210,698 and \$47,522 for governmental activities and business-type activities, respectively.

The liability for compensated absences of the governmental activities is not reported in the balance sheet of the governmental funds and, accordingly, represents a reconciling item between the fund and government-wide presentations.

Retirement and OPEB Plans

The City sponsors and administers four pension plans, which cover nonuniformed and uniformed employees. The Plans consist of three defined benefit plans and one defined contribution plan covering substantially all employees. The City sponsors and administers an OPEB plan, which covers substantially all employees.

Use of Estimates

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

Pending Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 61, "*The Financial Reporting Entity*." The objective of this Statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this Statement are effective for the City's December 31, 2013 financial statements.

The GASB has issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities*." The objective of this Statement is to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for the City's December 31, 2013 financial statements.

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The GASB has issued Statements No. 67 and No. 68, “*Financial Reporting for Pension Plans*,” and “*Accounting and Financial Reporting for Pensions*.” These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the City’s December 31, 2014 and 2015 financial statements.

The GASB Statement has issued Statement No. 70, “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*.” The objective of this Statement is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for the City’s December 31, 2014 financial statements.

The effect of implementation of these statements has not yet been determined.

2. DEPOSITS AND INVESTMENTS

Primary Government

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury obligations, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of the City adheres to state statutes, the Third Class City Code, and prudent business practice.

The City maintains a cash and investment pool that is available for use by all funds with the exception of the Pension and OPEB Trust Funds. At December 31, 2012, the book balance of the pooled funds was \$48,374,433 and the bank balance was \$48,645,880.

A. Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2012, the City’s book balance was \$58,628,445 and the bank balance was \$58,821,983. Of the bank balance, \$10,863,728 was covered by federal depository insurance, \$47,957,348 was collateralized under Act No.

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72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits, and \$907 was uninsured.

Cash and cash equivalents:	
Governmental activities:	
Unrestricted	\$ 3,896,731
Restricted	9,646,298
Business-type activities:	
Unrestricted	850
Restricted	44,548,885
Fiduciary funds	535,681
Total cash and cash equivalents	<u>\$ 58,628,445</u>

B. Investments

The fair value of the investments of the City at December 31, 2012 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 3,895,734
U.S. government agency obligations	362,799
U.S. government obligations	15,813,907
Corporate bonds and notes	14,204,039
Mutual funds - balanced	4,762,901
Mutual funds - fixed income	946,551
Mutual funds - equities	637,184
Certificate of deposit	459,995
Equities	60,246,390
Total investments	<u>\$ 101,329,500</u>

<u>Investments</u>	
Governmental activities:	
Unrestricted	\$ 399,454
Restricted	122,936
Business-type activities:	
Restricted	1,485,644
Fiduciary funds	99,321,466
Total investments	<u>\$ 101,329,500</u>

CITY OF LANCASTER, PENNSYLVANIA

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Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City does not have an investment policy for custodial credit risk. Investments of the City are held by the counterparty, with \$95,368,066 held in the City's name or in the name of the City's multiple Pension Plans and \$5,961,434 registered in the name of the Trustee.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. At December 31, 2012, there were no investments that represented more than five percent of the City's total investments.

Credit risk. The City does not have a formal policy that would limit its investment choices with regard to credit risk. The City's investments had the following level of exposure to credit risk as of December 31, 2012:

	Fair Value	Rating
Money market funds	\$ 2,882,573	AAA
Money market funds	1,013,161	Unrated
U.S. government agency obligations	362,799	AA+
U.S. government obligations	15,813,907	AA+
Corporate bonds and notes	1,886,939	AA
Corporate bonds and notes	1,987,025	AA-
Corporate bonds and notes	2,488,138	A+
Corporate bonds and notes	2,489,763	A
Corporate bonds and notes	5,352,174	A-

Interest rate risk. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the City's investments and their related average maturities:

	Fair Value	Investment Maturity			
		2013	2014 - 2018	2019 - 2023	Subsequent to 2023
Money market funds	\$ 3,895,734	\$ 3,895,734	\$ -	\$ -	\$ -
U.S. government agency obligations	362,799	5,621	175,055	685	181,438
U.S. government obligations	15,813,907	1,384,363	14,429,544	-	-
Corporate bonds and notes	14,204,039	-	8,427,951	5,776,088	-
Certificate of deposit	459,995	459,995	-	-	-
	\$ 34,736,474	\$ 5,745,713	\$ 23,032,550	\$ 5,776,773	\$ 181,438

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C. Restricted Cash, Cash Equivalents, and Investments

Governmental Activities

As of December 31, 2012, the City had restricted cash, cash equivalents, and investments of \$9,769,234, which represents \$122,936 restricted for the payment of workers' compensation claims, and \$9,646,298 restricted for various City projects.

Business-Type Activities

As of December 31, 2012, the City had cash, cash equivalents, and investments of \$46,034,529 restricted for various sewer and water projects.

Component Units

LIDA

LIDA typically maintains cash and cash equivalents in local banks. Cash is insured by the Federal Deposit Insurance Corporation up to a limit of \$250,000 per bank as of December 31, 2012. At times during the year ended December 31, 2012, LIDA's cash balances may have exceeded the federally insured limits.

Commission

The Commission currently has no formal deposit policy.

The Commission's deposits are categorized to give an indication of the level of risk assumed by the Commission as of December 31, 2012. The categories are described as follows:

Category 1 - includes cash and certificates of deposit insured or collateralized with securities held by the Commission or its agent in the Commission's name.

Category 2 - includes cash and certificates of deposit collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name.

Category 3 - includes cash and certificates of deposit that are uncollateralized, including cash and certificates of deposit collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. All maturities are one year or less.

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Deposits, unrestricted and restricted, categorized by level of risk, consist of the following as of December 31, 2012:

	Bank Balance			Total	Carrying Amount
	Category 1	Category 2	Category 3		
Cash	<u>\$ 231,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,956</u>	<u>\$ 221,394</u>

Parking Authority

A. Deposits

The Parking Authority's available cash is invested in demand deposit accounts and petty cash. The carrying amounts of the cash deposits and investments at December 31, 2012 consist of the following:

Cash:	
Cash and cash equivalents	\$ 1,475,043
Petty cash	<u>23,355</u>
TOTAL	<u>\$ 1,498,398</u>
Investments:	
Cash and cash equivalents	\$ 1,104,421
Fixed income	<u>1,948,050</u>
TOTAL	<u>\$ 3,052,471</u>

The Parking Authority has custodial credit risk on cash deposits. This is the risk that in the event of a bank failure, the Parking Authority's deposits may not be returned. The Parking Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

As of December 31, 2012, the Parking Authority's cash deposits were \$1,475,043. The bank balances as of December 31, 2012 were \$1,317,600, of which \$784,062 was exposed to custodial risk, because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Parking Authority's name.

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B. Investments

As of December 31, 2012, the Parking Authority had the following investments and maturities:

Investment type	Total fair value	Investment maturities (in years)	
		Less than one year	Greater than ten years
U.S. government money market fund	\$ 1,104,421	\$ 1,104,421	\$ -
U.S. government securities fixed income securities	1,948,050	-	1,948,050
	<u>\$ 3,052,471</u>	<u>\$ 1,104,421</u>	<u>\$ 1,948,050</u>

As of December 31, 2012, the Parking Authority's investments in United States Treasury Notes were rated AA+ by Standard & Poor's. The Parking Authority's investment in Goldman Sachs Financial Squares Treasury Obligation Money Market Fund was not rated.

The Parking Authority is authorized by the Pennsylvania Parking Authorities Law to invest its funds in certain governmental obligations. Authorized types of investments include short-term, highly liquid debt instruments that include commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. The Parking Authority's investment policy is consistent with these limitations. Non-negotiable certificates of deposits are recorded at cost. Investment income is recognized when earned. All investments held in trust are collateralized by pooled pledged securities. The market value of the pooled pledged securities exceeded the funds on deposit at December 31, 2012. Investments are held in trust in the Parking Authority's name.

As a means of managing its exposure to fair value losses arising from changes in interest rates, the Parking Authority's investment policy permits investments with a maturity date in excess of 18 months provided market conditions and projected use of funds warrants a longer term.

C. Restricted Cash, Cash Equivalents, and Investments

The terms of the bond indentures require that certain assets be restricted in favor of the bondholders and for capital projects. Restricted assets represent monies held or receivable by the independent trustee.

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Redevelopment Authority

Under Section 7.1 of the Municipal Authorities Act, the Redevelopment Authority is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

A. Deposits

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Redevelopment Authority's deposits may not be returned to it. The Redevelopment Authority does not have a policy for custodial credit risk. As of December 31, 2012, \$1,697,821 of the Redevelopment Authority's bank balance of \$2,447,821 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the Redevelopment Authority's name	<u>\$ 1,697,821</u>
Reconciliation to financial statements:	
Uninsured amount above	\$ 1,697,821
Insured amount	750,000
Outstanding checks	(90,739)
Money market fund shown as cash and cash equivalents	178,175
	<u>\$ 2,535,257</u>
Cash and cash equivalent - unrestricted per financial statements	\$ 226,137
Cash and cash equivalent - restricted per financial statements	2,309,120
Total cash per financial statements	<u>\$ 2,535,257</u>

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B. Restrictions

Of the total cash and cash equivalents of \$2,535,257 at December 31, 2012, \$2,309,120 is restricted, \$939,179 is restricted for future redevelopment purposes, \$454,069 is restricted for future debt service requirements as per certain loan and bond documents, and \$915,872 is required to be used for parking garage construction costs as per the City.

C. Investments

As of December 31, 2012, the Redevelopment Authority held investments in the GS Financial Square Treasury Obligations money market fund with a fair market value of \$178,175, which is included as cash and cash equivalents - restricted in the financial statements.

Interest Rate Risk and Credit Risk. The Redevelopment Authority invests certain bond and note proceeds required to be kept on deposit as a result of the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and the Tax Increment Notes Trust Indenture (Note 10). The guidelines set forth in these indentures limit the Redevelopment Authority's interest rate and credit risk by limiting investment choices to certain U.S. government and other select high-grade investments and certain maturities. There are no requirements pertaining to investment diversification to limit exposure to custodial credit risk. At December 31, 2012, 100% of the Redevelopment Authority's investments are in the GS Financial Square Treasury Obligations money market fund and are rated AAAM by Standard & Poor's.

LDIDA

The financial instruments that potentially subject LDIDA to credit risk consist primarily of cash deposits. LDIDA maintains its cash deposits with financial institutions where the account balances may at times exceed Federal Deposit Insurance Corporation insured limits. However, the balances in excess of federal deposit insurance are collateralized by a pool of marketable securities as required by Act 72. All deposits were insured at April 30, 2012.

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term United States and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

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YEAR ENDED DECEMBER 31, 2012

The deposit and investment policy of LDIDA adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of LDIDA.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, LDIDA's deposits may not be returned to it. LDIDA does not have a policy for custodial credit risk. As of April 30, 2012, none of LDIDA's bank balance was exposed to custodial credit risk.

3. RECEIVABLES

Primary Government

Governmental Activities

Receivables as of December 31, 2012, for the City's governmental activities, individual major governmental funds, non-major funds in the aggregate, and applicable allowances for uncollectible accounts, are as follows:

	General	Capital Projects	Non-major funds	Governmental Activities
Receivables:				
Taxes, gross	\$ 2,538,801	\$ -	\$ -	\$ 2,538,801
Allowances for uncollectibles	-	-	-	-
Taxes, net	2,538,801	-	-	2,538,801
Accounts, gross	741,969	6,526	9,222	757,717
Allowances for uncollectibles	(265,616)	-	-	(265,616)
Accounts, net	476,353	6,526	9,222	492,101
Notes, gross	129,144	-	9,008,139	9,137,283
Allowances for uncollectibles	(129,144)	-	(9,008,139)	(2,403,282)
Notes, net	-	-	-	6,734,001
Investment income	-	-	72,764	72,764
Total receivables	\$ 3,015,154	\$ 6,526	\$ 81,986	\$ 9,837,667

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Notes Receivable

As of December 31, 2012, the City has outstanding program loans (notes receivable) aggregating \$9,137,283. These various program loans bear interest at rates ranging from 0% to 3%, maturing over terms of 1 to 30 years, through 2036.

A summary of notes receivable activity for the year ended December 31, 2012 is as follows:

Balance January 1, 2012	New Loans Issued	Forgiveness/ Write-offs/ Principal Receipts	Balance December 31, 2012
\$ 6,643,504	\$ 488,393	\$ (397,896)	\$ 6,734,001

In addition, as of December 31, 2012, there were \$1,484,757 in loans that are forgivable over a period of time, subject to the terms of the loan agreement. The City does not expect to receive any payments on these loans. Therefore, an allowance for doubtful accounts has been established in the fund and the government-wide financial statements at 100% of the note receivable balance.

Business-Type Activities

Receivables and allowances for uncollectible accounts for the City's business-type activities, including individual major funds and non-major fund are as follows:

	Sewer Fund	Water Fund	Other Enterprise Fund	Total
Receivables:				
Accounts, gross	\$ 11,509,323	\$ 3,367,936	\$ 1,272,244	\$ 16,149,503
Allowances for uncollectibles	(8,187,698)	-	-	(8,187,698)
Accounts, net	3,321,625	3,367,936	1,272,244	7,961,805
Other, gross	87,859	21,920	44,528	154,307
Allowances for uncollectibles	-	-	-	-
Other, net	87,859	21,920	44,528	154,307
Total receivables	\$ 3,409,484	\$ 3,389,856	\$ 1,316,772	\$ 8,116,112

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The Sewer Fund's allowance for uncollectible accounts totaling \$8,187,698 represents the cumulative amount of bulk treatment accounts receivable that is the subject of on-going billing disputes with municipalities that are connected to the City's sewer system.

Component Units

LIDA

LIDA loaned \$100,000 to The Lancaster County Redevelopment Authority for the baseball stadium project, at 3%, with all accrued interest and principal due June 30, 2025. The loan was made on September 2, 2005, and the note is secured by a guaranty from the County of Lancaster.

Redevelopment Authority

The Redevelopment Authority's receivables relate to grants receivables, notes receivables, lease rental receivables, and delinquent real estate tax claims purchased from the City. The delinquent real estate tax receivables are recorded at carrying value, including base, penalty, and interest, offset by commission payable. Notes receivables are recorded at carrying value. The Redevelopment Authority reduces the receivable for delinquent real estate tax claims by an allowance for doubtful accounts as determined based on the Redevelopment Authority's best estimate.

Accounts Receivable

A summary of receivables at December 31, 2012 follows:

Delinquent taxes receivable	\$ 716,412
Less: Allowance for doubtful accounts	<u>(28,215)</u>
Total receivables	<u><u>\$ 688,197</u></u>

Annually, the Redevelopment Authority purchases the delinquent real estate tax claims of the City. During the year ended December 31, 2012, the Redevelopment Authority purchased the full amount of delinquent real estate tax claims from the City for the year 2011 with a total carrying value of \$1,116,755 for total consideration of \$1,021,550. The City's continuing involvement with the delinquent real estate tax receivables is effectively terminated.

In the event that this annual cycle of purchasing delinquent tax claims would be discontinued, the Redevelopment Authority would essentially return any accumulated cash balances to the City. Therefore, the Redevelopment Authority has recorded a payable to the

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

City in the amount of \$344,344 as of December 31, 2012, which reflects the positive results of the tax claim collections for the year ended December 31, 2012. Under certain circumstances, the City has the right or the obligation to repurchase all or a portion of the delinquent tax claims from the Redevelopment Authority.

The Redevelopment Authority has financed this transaction with borrowings on a line of credit and has assigned a security interest in the delinquent tax claims to the lender. Collections of the delinquent real estate taxes by the Lancaster County Tax Collection Bureau on behalf of the Redevelopment Authority are used to meet debt service requirements. It is the intent of both the City and the Redevelopment Authority to repeat this transaction annually as real estate taxes related to the City's tax years become delinquent for at least one more year.

Lease Rental Receivable

The Redevelopment Authority has entered into a lease agreement with Penn Square Partners as further outlined in Note 17 for the Hotel unit of the Penn Square Hotel and Convention Center. The Redevelopment Authority classifies this lease as a capital lease and utilizes direct financing lease accounting.

The lease rental receivable represents the discounted future minimum lease payments, which are comprised of base rent and minimum participation rent. The base rental payments are required to be used to meet debt service requirements on the Series of 2005 Taxable Bonds, the minimum participation rent of approximately \$200,000 per annum is not restricted for such purpose. The discount rate is the blended interest rate of the interest rates applicable to the Series of 2005 Taxable Bonds, the proceeds of which were used to finance the underlying hotel construction costs. The imputed interest income of \$9,126,426 as of December 31, 2012 is presented as part of unearned revenue.

The Federally Taxable Hotel Lease Revenue Bonds, Series of 2005 are subject to a variable interest rate. The variable rate in effect at December 31, 2012 was 4.45%. This increase in bond interest rate of 3.54% also increased the capital lease discount rate resulting in an increase of the lease rental receivable asset and unearned revenue liability of \$4,633,124. This change in accounting estimate did not impact the Redevelopment Authority's change in net position for the year ended December 31, 2012.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The following schedule represents the future minimum rental payments due to the Redevelopment Authority as of December 31, 2012:

2013	\$ 2,003,118
2014	2,030,848
2015	2,060,583
2016	2,092,468
2017	2,126,657
2018 - 2022	11,239,167
2023 - 2027	5,436,579
2028 - 2030	300,000
Total	<u>\$ 27,289,420</u>

Due from Other Governments

A summary of the grant receivable due from other governmental units at December 31, 2012 follows:

Commonwealth of Pennsylvania:	
Infrastructure Facilities Improvement Program Grant	\$ 8,989,416
Current portion	<u>428,181</u>
Long-term portion	<u>\$ 8,561,235</u>

The grant receivable related to the Infrastructure Facilities Improvement Program is restricted for debt service payments related to the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and First Supplemental Indenture (Note 10). The grant funds are payable over a twenty-year period to mirror the debt service on aforementioned bonds. The grant receivable has been discounted utilizing the interest rate underlying the associated bond series and is presented at its present value.

A summary of interest due from other governmental units that has been accrued on grants at December 31, 2012 follows:

Commonwealth of Pennsylvania:	
Interest accrued on Infrastructure Facilities Improvement Program Grant, carried at present value	<u>\$ 617,636</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Notes Receivable

Notes receivable at December 31, 2012 were as follows:

Note receivable from Neighborhood Services of Lancaster, due on demand with no interest. By mutual agreement, this loan is currently being repaid in monthly principal installments of \$598. The loan is secured by a mortgage on property at 134 and 136 South Prince Street.	\$ 23,904
Note receivable from Penn Square Partners. This loan of originally \$2,250,000 accrued interest at 2.00% through November 2007. Beginning December 2007, the loan is payable in monthly installments of \$15,539 including interest at 2.00%. This loan is secured by a mortgage on the leasehold interest held by Penn Square Partners in the site of the Penn Square Hotel. A final balloon payment of \$900,566 is due in November 2017.	<u>1,676,034</u>
	1,699,938
Current portion	<u>161,526</u>
Long-term portion	<u><u>\$ 1,538,412</u></u>

LDIDA

LDIDA issues assessments to property owners within the district. The bills are mailed at the beginning of the fiscal year with the following terms:

2% discount period	May 1 to June 30
Face amount period	July 1 to August 31
10% penalty period	September 1 and thereafter

If payment for the current year is not received by LDIDA prior to December 31, a reminder letter is sent to the delinquent property owner. As of May 1 of the subsequent year, all unpaid delinquent assessments have liens filed against their property.

4. DELINQUENT TAX LIEN RECEIVABLES

During the year ended December 31, 2012, the City sold the full amount of delinquent real estate tax lien receivables for the 2011 tax year. Since the City's continuing involvement with the delinquent real estate tax liens is effectively terminated, these transactions were treated as a sale, as opposed to a collateralized borrowing. The total value of the 2011

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

delinquent tax lien receivables at the date of sale was \$1,155,376, which is the total assessed value of real estate taxes, plus any applicable penalties, less collections received from the County. The total received in 2012 by the City for this sale was \$955,294.

In February 2013, the City sold the full amount of delinquent real estate tax lien receivables for the 2012 tax year. The full amount received by the City for this sale was \$938,091 and the revenue was recognized in the year of sale.

5. PROPERTIES HELD FOR RESALE

Component Unit

Redevelopment Authority

Within the scope of its organizational purpose, the Redevelopment Authority acquires through purchase, gift, or eminent domain, blighted properties and in turn sells these properties to private, corporate, or governmental entities for rehabilitation. After rehabilitation, the goal is for the properties to be occupied by low or moderate income families, preferably as the owner. The properties are classified as assets of the Redevelopment Authority upon acquisition and until they are resold for rehabilitation. The properties are carried at the lower of the just compensation paid or payable for them or fair market value. When other costs, such as property improvements, environmental remediation, or delinquent taxes are deemed to be material, they are also included in the value of the properties held for resale.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

434 E. Strawberry Street	\$	22,000
12 S. Mary Street		33,000
23 W. Strawberry Street		21,000
451-453 E. Mifflin Street		9,000
138 Stevens Avenue		31,500
339 Beaver Street		11,000
346 South Prince Street		50,000
673 St. Joseph Street		44,000
344 South Queen Street		12,500
416 Howard Avenue		24,000
428 East Strawberry Street		12,000
457 South Prince Street		7,000
504 South Shippen Street		45,000
526 East King Street		95,000
533 Poplar Street		16,000
542 Layfayette Street		9,500
542 Pershing Avenue		16,500
545 West Vine Street		15,000
554 Beaver Street		16,000
627 Olive Street		12,500
678 Columbia Avenue		33,500
		<hr/>
	\$	536,000

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

6. CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended December 31, 2012 is as follows:

	December 31, 2011	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2012
Governmental activities				
Capital assets not being depreciated:				
Land, easements, right of ways	\$ 8,480,999	\$ -	\$ (495,000)	\$ 7,985,999
Construction in progress	550,693	1,476,056	(42,707)	1,984,042
Total capital assets not being depreciated:	9,031,692	1,476,056	(537,707)	9,970,041
Capital assets being depreciated:				
Land improvements	9,938,189	1,256,164	-	11,194,353
Buildings	34,495,477	463,615	(158,623)	34,800,469
Machinery and equipment	2,525,788	266,940	-	2,792,728
Vehicles	6,775,091	478,970	(273,731)	6,980,330
Infrastructure	33,336,574	2,996,105	-	36,332,679
Total capital assets being depreciated	87,071,119	5,461,794	(432,354)	92,100,559
Less accumulated depreciation for:				
Land improvements	(2,245,797)	(465,409)	-	(2,711,206)
Buildings	(7,025,021)	(676,311)	98,160	(7,603,172)
Machinery and equipment	(1,807,535)	(124,539)	-	(1,932,074)
Vehicles	(3,946,072)	(398,227)	183,788	(4,160,511)
Infrastructure	(24,639,397)	(729,644)	-	(25,369,041)
Total accumulated depreciation	(39,663,822)	(2,394,130)	281,948	(41,776,004)
Total capital assets being depreciated, net	47,407,297	3,067,664	(150,406)	50,324,555
Governmental activities, capital assets, net	\$ 56,438,989	\$ 4,543,720	\$ (688,113)	\$ 60,294,596

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 26,043
Public safety	599,781
Economic development and neighborhood revitalization	44,375
Public works	<u>1,723,931</u>
Total depreciation expense - governmental activities	<u><u>\$ 2,394,130</u></u>

	December 31, 2011	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2012
Business-type activities:				
Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction in progress	<u>171,934</u>	<u>976,115</u>	<u>(171,934)</u>	<u>976,115</u>
Total capital assets not being depreciated	<u>1,656,758</u>	<u>976,115</u>	<u>(171,934)</u>	<u>2,460,939</u>
Capital assets being depreciated:				
Sewer system	118,184,623	13,806,084	-	131,990,707
Equipment and vehicles	<u>9,785,158</u>	<u>353,233</u>	<u>-</u>	<u>10,138,391</u>
Total capital assets being depreciated	<u>127,969,781</u>	<u>14,159,317</u>	<u>-</u>	<u>142,129,098</u>
Less accumulated depreciation for:				
Sewer system	(52,776,883)	(2,319,831)	-	(55,096,714)
Equipment and vehicles	<u>(7,589,975)</u>	<u>(249,530)</u>	<u>-</u>	<u>(7,839,505)</u>
Total accumulated depreciation	<u>(60,366,858)</u>	<u>(2,569,361)</u>	<u>-</u>	<u>(62,936,219)</u>
Total capital assets being depreciated, net	<u>67,602,923</u>	<u>11,589,956</u>	<u>-</u>	<u>79,192,879</u>
Sewer Fund capital assets, net	<u>69,259,681</u>	<u>12,566,071</u>	<u>(171,934)</u>	<u>81,653,818</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	<u>December 31,</u> <u>2011</u>	<u>Increase/</u> <u>Transfers In</u>	<u>Decrease/</u> <u>Transfers Out</u>	<u>December 31,</u> <u>2012</u>
Water Fund:				
Capital assets not being depreciated:				
Land	2,564,600	-	-	2,564,600
Construction in progress	56,980	157,143	(56,980)	157,143
Total capital assets not being depreciated	<u>2,621,580</u>	<u>157,143</u>	<u>(56,980)</u>	<u>2,721,743</u>
Capital assets being depreciated:				
Water system	172,360,764	4,420,580	-	176,781,344
Equipment and vehicles	3,731,121	418,137	(44,362)	4,104,896
Total capital assets being depreciated	<u>176,091,885</u>	<u>4,838,717</u>	<u>(44,362)</u>	<u>180,886,240</u>
Less accumulated depreciation for:				
Water system	(38,965,273)	(3,207,785)	-	(42,173,058)
Equipment and vehicles	(2,278,606)	(200,947)	44,362	(2,435,191)
Total accumulated depreciation	<u>(41,243,879)</u>	<u>(3,408,732)</u>	<u>44,362</u>	<u>(44,608,249)</u>
Total capital assets being depreciated, net	<u>134,848,006</u>	<u>1,429,985</u>	<u>-</u>	<u>136,277,991</u>
Water Fund capital assets, net	<u>137,469,586</u>	<u>1,587,128</u>	<u>(56,980)</u>	<u>138,999,734</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	December 31, 2011	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2012
Other enterprise fund:				
Capital assets being depreciated:				
Buildings	-	281,016	-	281,016
Equipment and vehicles	24,247	138,557	-	162,804
Total capital assets being depreciated	24,247	419,573	-	443,820
Less accumulated depreciation for:				
Buildings	-	(50,332)	-	(50,332)
Equipment and vehicles	(6,310)	(6,133)	-	(12,443)
Total accumulated depreciation	(6,310)	(56,465)	-	(62,775)
Total other enterprise fund capital assets, net	17,937	363,108	-	381,045
Business-type activities capital assets, net	\$ 206,747,204	\$ 14,516,307	\$ (228,914)	\$ 221,034,597

Component Units

Commission

Major classifications of capital assets and their respective depreciable lives consist of the following as of December 31, 2012:

	December 31, 2011	Additions	Deletions	December 31, 2012	Depreciable Lives
Capital assets being depreciated:					
Furniture and equipment	\$ 268,646	\$ 13,684	\$ -	\$ 282,330	3 - 10 years
Project improvements	128,685	7,250	-	135,935	5 - 15 years
Vehicles	98,685	27,089	-	125,774	5 - 10 years
Total capital assets being depreciated	496,016	48,023	-	544,039	
Accumulated depreciation	(323,326)	(56,049)	-	(379,375)	
Capital assets being depreciated, net	\$ 172,690	\$ (8,026)	\$ -	\$ 164,664	

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Parking Authority

Capital asset activity for the year ended December 31, 2012 is as follows:

	December 31, 2011	Increases	Decreases	December 31, 2012
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, and rental complex	31,943,635	348,044	-	32,291,679
Office furnishings and equipment	81,233	12,191	-	93,424
Equipment	3,318,076	32,340	-	3,350,416
Vehicles	74,862	23,956	(9,975)	88,843
Total capital assets being depreciated	<u>35,417,806</u>	<u>416,531</u>	<u>(9,975)</u>	<u>35,824,362</u>
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	(17,547,538)	(555,221)	-	(18,102,759)
Office furnishings and equipment	(64,178)	(7,335)	-	(71,513)
Equipment	(1,174,461)	(304,236)	-	(1,478,697)
Vehicles	(37,989)	(16,794)	9,793	(44,990)
Total accumulated depreciation	<u>(18,824,166)</u>	<u>(883,586)</u>	<u>9,793</u>	<u>(19,697,959)</u>
Total capital assets being depreciated, net	<u>16,593,640</u>	<u>(467,055)</u>	<u>182</u>	<u>16,126,403</u>
Total capital assets	<u>\$ 20,289,511</u>	<u>\$ (467,055)</u>	<u>\$ 182</u>	<u>\$ 19,822,274</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Redevelopment Authority

A summary of changes in capital assets for the year ended December 31, 2012 is as follows:

	December 31, 2011	Increases	Decreases	December 31, 2012
Capital assets not being depreciated:				
Land and improvements	\$ 836,846	\$ 60,737	\$ -	\$ 897,583
Construction in progress	5,750	793,441	-	799,191
Capital assets not being depreciated	<u>\$ 842,596</u>	<u>\$ 854,178</u>	<u>\$ -</u>	<u>\$ 1,696,774</u>

LDIDA

A summary of changes in capital assets for the year ended December 31, 2012 is as follows:

	April 30, 2011	Increases	Decreases	April 30, 2012
Capital assets being depreciated:				
Equipment	\$ 44,708	\$ -	\$ -	\$ 44,708
Leasehold improvements	1,840	-	-	1,840
Total capital assets being depreciated	46,548	-	-	46,548
Less accumulated depreciation	(32,605)	(2,394)	-	(34,999)
Capital assets, net	<u>\$ 13,943</u>	<u>\$ (2,394)</u>	<u>\$ -</u>	<u>\$ 11,549</u>

7. LINE OF CREDIT

Component Units

Commission

The Commission renewed the \$250,000 line of credit agreement with PNC Bank, National Association during 2012. The line expires on October 6, 2013 and bears interest at a variable rate, which was 4.25% at December 31, 2012. There were no draws with this loan during the fiscal year and no balance was outstanding at fiscal year-end.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Redevelopment Authority

The Redevelopment Authority entered into a revolving line of credit agreement with a bank which is secured by the Redevelopment Authority's interest in the City's delinquent tax receivables. Interest accrues at a variable rate, not to exceed 7.90% per annum, measured by interest rates on corporate loans at large U.S. Money Center Commercial Banks as published in the Money Rates column of the Wall Street Journal, Eastern Editions. The interest rate was 4.75% as of December 31, 2012. Interest payments are due monthly. Principal payments are due quarterly based on availability of funds from the collection of delinquent tax receivables. The line will expire on April 1, 2016. During the year ended December 31, 2012, the Redevelopment Authority borrowed \$1,021,551 on this note to facilitate the purchase of delinquent real estate tax claims from the City (Note 3). The outstanding balance on the line of credit was \$617,222 as of December 31, 2012.

During the year ended December 31, 2012, the Redevelopment Authority entered into a line of credit agreement for construction of the parking garage. The maximum amount that can be drawn on this line is \$3,000,000 and interest is due on the first of each month at 65% of the prime rate. The interest rate at December 31, 2012 was 2.1%. The line matures on August 23, 2014 and is secured by a collateral assignment of the grant proceeds and the construction for which it is used. Interest paid on this debt of \$377 was capitalized for the year ended December 31, 2012. The outstanding balance on the line was \$50,001 as of December 31, 2012.

The Redevelopment Authority has been awarded a Redevelopment Assistance Capital Program grant from the Commonwealth of Pennsylvania to reimburse eligible construction costs. The Redevelopment Authority is required to make principal payments on this line of credit upon receipt of the grant funding. The total grant award was \$3,000,000.

Short-term debt activity for the year ended December 31, 2012 was as follows:

	January 1, 2012	Increases	Decreases	December 31, 2012
Line of credit - delinquent real estate taxes	\$ 709,407	\$ 1,021,551	\$ 1,113,736	\$ 617,222
Line of credit - parking garage construction	-	50,001	-	50,001
	<u>\$ 709,407</u>	<u>\$ 1,071,552</u>	<u>\$ 1,113,736</u>	<u>\$ 667,223</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

8. DUE TO THE PRIMARY GOVERNMENT

Component Unit

Redevelopment Authority

The following amounts are due to the primary government at December 31, 2012:

Grant Payment to the City of Lancaster's Mayor's Office of Special Events	\$ 25,000
Accumulated gain on tax claim collection (Note 3)	344,344
	<u>369,344</u>
	<u>\$ 369,344</u>

9. UNEARNED REVENUES

Component Unit

Redevelopment Authority

A summary of unearned revenues at December 31, 2012 follows:

Unearned rent	\$ 16,667
Unearned grant revenue	2,615,225
Unearned interest income - capital lease (Note 3)	9,126,426
	<u>11,758,318</u>
Current portion	1,117,423
Long-term portion	<u>\$ 10,640,895</u>

Unearned grant revenues consists of grant funds received from a governmental agency. In accordance with the grant agreement, portions of these funds have been loaned to a third party and will be repaid to the Redevelopment Authority over an agreed-upon period. Upon the return of these funds to the Redevelopment Authority, the principal and interest earned on the returned funds must be continuously used for making loans to third parties with the objective of the elimination of blighted areas in the City.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

10. LONG-TERM OBLIGATIONS

Primary Government

A summary of bonds and notes payable outstanding as of December 31, 2012 is as follows:

<u>Date of Issue/Maturity</u>	<u>Amount of Original Issue</u>	<u>Description and Interest Rates</u>	<u>Balance Outstanding December 31, 2012</u>
2006/2034	\$ 13,455,000	General Obligation Bonds, 5.00%-5.59%	\$ 12,115,000
2007/2046	125,315,000	General Obligation Bonds, 4.00%-5.00%	121,825,000
2002/2022	692,533	Note Payable to Financing Agency, 2.77%	378,018
2009/2030	43,990,000	General Obligation Notes, 2.50%-4.875%	36,240,000
2010/2028	8,635,000	General Obligation Bonds, 2.00%-4.00%	7,685,000
2011/2041	38,860,000	General Obligation Bonds, 1.75%-5.00%	38,860,000
			<u>\$ 217,103,018</u>

Bonds Payable

In 1998, the City issued \$61,915,000 of general obligation bonds, bearing interest at rates ranging from 3.60% to 5.05%. The proceeds of the bond issuance were used to (i) finance the acquisition of the Water System through the refunding of the Metropolitan Lancaster Authority's outstanding: (a) Water Revenue Bonds, Series of 1990; (b) Water Revenue Bonds, Series of 1992; (c) Water Project Notes, Series of 1997; and (d) Water Revenue Notes, Series of 1998, (ii) to finance the acquisition of the Sewer System through the refunding of the Lancaster Municipal Authority's outstanding (a) Sewer Revenue Bonds, Series of 1987; (b) Sewer Revenue Bonds, Series of 1991; and (c) Sewer Project Notes, Series of 1996; and (iii) to finance the refunding of a portion of the City's outstanding General Obligation Bonds, Series of 1996. These bonds were currently refunded through the issuance of General Obligation Notes, Series of 2009.

In 2003, the City issued \$9,995,000 of general obligation bonds, bearing interest at rates ranging from 2.00% to 4.45%. The proceeds of the bond issuance were used to fund the construction and equipping of a new police station and water fund transmission and distribution projects. These bonds were currently refunded through the issuance of General Obligation Bonds, Series of 2010.

In 2006, the City issued \$13,455,000 of general obligation bonds, bearing interest at rates ranging from 5.00% to 5.59%. The proceeds of the bond issuance were used to fund the

CITY OF LANCASTER, PENNSYLVANIA

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unfunded actuarial accrued liability associated with fire and police pension. The debt service on these bonds is paid by the General Fund.

In 2007, the City issued \$125,315,000 of general obligation bonds, bearing interest rates from 4.00% to 5.00%. The proceeds of the bond issuance were used to fund general municipal projects, upgrades and improvements to the City's sewer system, the current refunding of the 2004 notes payable, and the water system membrane project. The debt service on these bonds is paid by the General Fund, Sewer Fund, and Water Fund.

In 2010, City Council issued \$8,635,000 of general obligation bonds. The proceeds of the bond issuance were used to currently refund the General Obligation Bonds, Series of 2003. The bonds bear interest at rates ranging from 2.00% to 4.00%. The debt service on these bonds is paid by the General Fund and Water Fund.

In 2011, the City issued \$38,860,000 of general obligation bonds, bearing interest rates from 1.75% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the water treatment and distribution facilities, upgrades and improvements to the wastewater treatment and collection facilities, and other capital projects. The debt service on these bonds is paid by the General Fund, Sewer Fund, and Water Fund.

Notes Payable

In 2002, the City issued \$692,533 of notes, bearing interest at 2.77%. The proceeds of the note issuance were used by the Water Fund to construct a water main in Manor Township and to reinforce the water supply to the Borough of Millersville. The debt service on these notes is paid by the Water Fund.

In 2009, the City issued \$43,990,000 of general obligation notes, bearing interest at rates ranging from 2.50% to 4.875%. The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series A of 1998, and to pay the termination costs of the Swaption agreement with Wachovia Bank. The debt service on these notes is paid by the General Fund, Sewer Fund, and Water Fund.

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NOTES TO FINANCIAL STATEMENTS

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Bonds and Notes Payable

A summary of principal and interest maturities on governmental activities bonds and notes payable is as follows:

<u>Year Ended December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2013	\$ 2,028,800	\$ 2,312,250	\$ 4,341,050
2014	2,098,400	2,246,358	4,344,758
2015	2,168,000	2,176,849	4,344,849
2016	2,237,200	2,104,103	4,341,303
2017	2,331,400	2,006,233	4,337,633
2018-2022	13,375,200	8,330,302	21,705,502
2023-2027	15,850,400	5,053,665	20,904,065
2028-2032	10,120,800	1,458,940	11,579,740
2033-2037	1,545,000	130,804	1,675,804
	<u>\$ 51,755,200</u>	<u>\$ 25,819,504</u>	<u>\$ 77,574,704</u>

A summary of principal and interest maturities on business-type activities bonds and notes payable is as follows:

<u>Year Ended December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2013	\$ 3,290,749	\$ 7,297,114	\$ 10,587,863
2014	3,682,367	7,194,899	10,877,266
2015	3,794,027	7,082,004	10,876,031
2016	3,921,132	6,951,823	10,872,955
2017	4,103,283	6,772,288	10,875,571
2018-2022	22,777,460	30,758,827	53,536,287
2023-2027	24,749,600	25,142,045	49,891,645
2028-2032	23,179,200	20,251,241	43,430,441
2033-2037	24,425,000	15,029,727	39,454,727
2038-2042	28,875,000	8,971,380	37,846,380
2043-2046	22,550,000	2,592,675	25,142,675
	<u>\$ 165,347,818</u>	<u>\$ 138,044,023</u>	<u>\$ 303,391,841</u>

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2012

Capital Leases

Governmental Activities

In 2008, the City purchased a street sweeper, which is classified as a capital lease. In 2011, the City purchased a mower, four vehicles, a dump truck, and a street sweeper. In 2012, the City purchased one vehicle, a grinder, software, and a street sweeper. The assets were purchased from the General Fund. As of December 31, 2012, the assets are included as governmental activities in the government-wide financial statements at a cost of \$1,252,500 and accumulated depreciation of \$187,179.

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2012 are as follows:

Year Ended December 31,	Total
2013	\$ 223,487
2014	223,488
2015	211,479
2016	55,049
Total minimum lease payments	713,503
Less amount representing interest	(64,918)
Present value of future minimum lease payments	\$ 648,585

Business-type Activities

In 2008, the City purchased trucks under long-term lease agreements that are classified as capital leases. In 2011, the City purchased multiple vehicles, a street sweeper, and a loader. These assets were purchased from the Sewer Fund and the Water Fund. The City also purchased equipment, a portion of which is allocated to the Sewer Fund, Water Fund, and Trash Fund, an other enterprise fund. In 2012, the City purchased multiple vehicles, dump trucks, and a trash compactor. As of December 31, 2012, the assets are included as business-type activities in the government-wide financial statements at a cost of \$1,324,838 and accumulated depreciation of \$152,545.

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The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2012 are as follows:

Year Ended December 31,	Total
2013	\$ 224,640
2014	205,403
2015	192,292
2016	84,282
Total minimum lease payments	706,617
Less amount representing interest	(64,780)
Present value of future minimum lease payments	\$ 641,837

Borrowing Payable – Basis Swap

In conjunction with the Basis Swap transaction described in Note 11, the City received an upfront cash payment. This upfront cash payment received by the City was considered to be a borrowing at a rate of 4.4%. As of December 31, 2012, the borrowing had an outstanding balance of \$1,565,850, which is reflected in the governmental activities portion of the City's statement of net position. Payments on the borrowing commenced on May 1, 2009, the date the Basis Swap became effective, and are scheduled to mature on May 1, 2028. Interest is currently being accreted to the principal amount annually. Accreted interest on the borrowing was \$650,261 at December 31, 2012.

A summary of principal and interest maturities on the borrowing at December 31, 2012 is as follows:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 166,053	\$ 61,174	\$ 227,227
2014	152,758	54,564	207,322
2015	138,245	48,582	186,827
2016	122,402	43,286	165,688
2017	116,794	38,234	155,028
2018-2022	526,211	120,835	647,046
2023-2027	328,330	22,346	350,676
2028	15,057	-	15,057
Total	\$ 1,565,850	\$ 389,021	\$ 1,954,871

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Changes in long-term obligations for the year ended December 31, 2012 are as follows:

	December 31, 2011	Increase	Decrease	December 31, 2012	Amount Due Within One Year
Governmental activities:					
Bonds payable	\$ 41,019,800	\$ -	\$ (989,600)	\$ 40,030,200	\$ 1,213,800
Unamortized premium	520,745	-	(47,204)	473,541	-
Deferred loss on refunding	(944,173)	-	82,969	(861,204)	-
Notes payable	12,520,000	-	(795,000)	11,725,000	815,000
Borrowing payable - basis swap	1,742,590	69,856	(246,596)	1,565,850	166,053
Compensated absences	1,056,821	2,507,471	(2,475,410)	1,088,882	255,016
Capital leases	402,639	476,217	(230,271)	648,585	193,394
Workers' compensation payable	1,123,542	166,866	(273,108)	1,017,300	244,383
Total governmental activities	\$ 57,441,964	\$ 3,220,410	\$ (4,974,220)	\$ 55,688,154	\$ 2,887,646

	December 31, 2011	Increase	Decrease	December 31, 2012	Amount Due Within One Year
Business-type activities:					
Bonds payable	\$ 141,390,200	\$ -	\$ (935,400)	\$ 140,454,800	\$ 1,491,200
Unamortized premium	1,894,470	-	(147,782)	1,746,688	-
Deferred loss on refunding	(3,613,232)	-	372,203	(3,241,029)	-
Notes payable	26,646,392	-	(1,753,374)	24,893,018	1,799,549
Compensated absences	158,665	884,639	(894,682)	148,622	33,336
Capital leases	512,345	386,990	(257,498)	641,837	195,143
Workers' compensation payable	38,353	(8,373)	(6,344)	23,636	5,678
Total business-type activities	\$ 167,027,193	\$ 1,263,256	\$ (3,622,877)	\$ 164,667,572	\$ 3,524,906

Compensated absences and workers' compensation claims typically have been liquidated in the General Fund and the Enterprise Funds.

Component Units

Commission

The Commission is the lessee of copy machines under capital leases expiring in 2014. The Commission was also the lessee of a copy machine under a capital lease that expired in 2011. The capitalizable assets are depreciated over their estimated productive lives. Depreciation of

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assets under capital leases is included in depreciation expense for the year ended December 31, 2012:

Capital leases payable	\$ 3,499
Less current portion	<u>(2,259)</u>
	<u>\$ 1,240</u>

Following is a summary of property held under capital leases for the year ended December 31, 2012:

Capital asset - copiers	\$ 9,520
Less: accumulated depreciation	<u>(6,664)</u>
	<u>\$ 2,856</u>

Minimum future lease payments under capital leases as of December 31, 2012 are:

2013	\$ 2,570
2014	1,285
Less amount representing interest	<u>(356)</u>
Present value of net minimum lease payments	<u>\$ 3,499</u>

Interest expense totaled \$575 for the year ended December 31, 2012.

Parking Authority

Advanced Refunding

On September 15, 2007, the Parking Authority issued \$29,460,000 in Parking Revenue Bonds, \$20,385,000 of tax-exempt Series A money with an average interest rate of 4.90%, and \$9,075,000 of taxable Series B money with an average interest rate of 5.94%, to advance refund \$17,980,000 of outstanding 1992 and 1993 Series bonds with average interest rates on both series of zero percent (zero coupon bonds) and repay in full \$700,000 of an outstanding 2003 note with a flat rate of 6.65%. The net proceeds of \$29,098,327 (after payment of \$361,673 in underwriting fees, insurance, and other issuance costs) plus an additional \$755,000 of 1992 sinking fund monies were used to purchase U.S. government securities. Of the total monies received by the Parking Authority, \$13,484,995 was deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 and 1993 bonds. The balance of the 2003 note, \$700,000, and related interest expense

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totaling \$6,452, was paid off in full with proceeds from the new debt issue. As a result, the 1992 and 1993 series bonds are considered to be defeased and the liability for those bonds has been removed from the Parking Authority's balance sheet. The remaining bond issuance will be used to finance the construction of a new parking garage.

The Parking Authority refunded its 1992 bonds, 1993 bonds, and 2003 note in order to restructure its debt to accommodate the issuance of the 2007 bonds attributable to the new capital project in the most efficient manner possible and allow the Parking Authority greater flexibility to issue additional debt to meet its future capital expenditure needs.

Long-term Debt

1992, 1993, 2003, and 2007 Bond Issues

The Parking Revenue Bonds of 1992, 1993, and 2003 are secured by a trust indenture dated December 31, 1985, and supplemental trust indentures dated January 15, 1992, December 14, 1993, and January 1, 1996, respectively, all issued by the Parking Authority to the Trustee. The bonds are payable out of revenue derived principally from the operation of the parking facilities. The City has guaranteed (under the terms of a lease agreement dated December 31, 1985, as amended by supplemental issues dated January 15, 1992, December 14, 1993, and January 1, 1996) debt service payments to the Trustee.

On September 15, 2007, as previously described, the 1992 and 1993 series were defeased and the 2003 note was paid in full with issuance of 2007 series A and B Parking Revenue Bonds. The 2007 bonds are secured by a trust indenture dated September 15, 2007. Debt service payments are guaranteed by the City with a guaranty agreement dated September 15, 2007. The bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the 2007 Series A bond range from 3.65 to 5.00%. Interest rates on the 2007 Series B bond range from 5.60 to 5.95%.

	December 31, 2011	Increase	Decrease	December 31, 2012	Amount Due Within One Year
2007 Series A parking revenue bonds	\$ 18,725,000	\$ -	\$ (620,000)	\$ 18,105,000	\$ 645,000
2007 Series B parking revenue bonds	8,550,000	-	(10,000)	8,540,000	10,000
	\$ 27,275,000	\$ -	\$ (630,000)	\$ 26,645,000	\$ 655,000

CITY OF LANCASTER, PENNSYLVANIA

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Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 655,000	\$ 1,383,772	\$ 2,038,772
2014	690,000	1,357,396	2,047,396
2015	715,000	1,329,532	2,044,532
2016	745,000	1,300,667	2,045,667
2017	785,000	1,263,306	2,048,306
2018-2022	4,665,000	5,567,433	10,232,433
2023-2027	6,160,000	4,035,590	10,195,590
2028-2032	7,880,000	2,308,000	10,188,000
2033-2035	4,350,000	375,000	4,725,000
Total	<u>\$ 26,645,000</u>	<u>\$ 18,920,696</u>	<u>\$ 45,565,696</u>

Elevator Debt

During 2010, the Parking Authority obtained additional bank financing of \$1,500,000 to upgrade its elevators in the garages. Principal is paid in ten equal annual installments of \$150,000. Interest is fixed at 4.31% thru August 1, 2020, when the loan is scheduled to be paid in full.

	December 31, 2011	Increase	Decrease	December 31, 2012	Amount Due Within One Year
Elevator loan payable	<u>\$ 1,350,000</u>	<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ 1,200,000</u>	<u>\$ 150,000</u>

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 150,000	\$ 51,720	\$ 201,720
2014	150,000	45,255	195,255
2015	150,000	38,790	188,790
2016	150,000	32,325	182,325
2017	150,000	25,860	175,860
2018-2020	450,000	38,790	488,790
Total	<u>\$ 1,200,000</u>	<u>\$ 232,740</u>	<u>\$ 1,432,740</u>

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Interest Expense

Interest expense on all bonds totaled \$1,403,003 for the year ended December 31, 2012. Interest expense on the elevator loan totaled \$59,352 for the year ended December 31, 2012.

Defeasance Debt

On December 31, 1985, the Parking Authority funded the outstanding balance of \$13,825,000 of the Parking Revenue Bonds of the 1968 issue and the 1972 issue, by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. The bonds considered to be extinguished for financial reporting purposes are excluded from the balance sheets. The Trustee retired \$415,000 of this debt in 2012. The debt has been fully retired as of December 31, 2012.

On September 15, 2007, the Parking Authority funded the outstanding balance of \$17,980,000 of the Parking Revenue Bonds of the 1992 issue and the 1993 issue, by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. The bonds are considered to be extinguished for financial reporting purposes and are excluded from the balance sheets. The Trustee retired \$2,135,000 of this debt in 2012.

A summary of outstanding funded bonds at December 31, 2012 is as follows:

Series of 1992 and 1993:

Bonded debt outstanding	\$ 6,980,000
Funds on deposit with Trustee at market value	\$ 6,359,287

Redevelopment Authority

Due to Lessee

The lessee of the Penn Square Hotel advanced \$1,000,000 to the Redevelopment Authority to facilitate debt service payments. Upon full payment of the related debt, these funds and any interest earned will be returned to the lessee. At December 31, 2012, the amount due is \$1,000,243.

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Notes Payable

During the year ended December 31, 2012, the Redevelopment Authority entered into a non-revolving, multi-advance time loan. The maximum amount the Redevelopment Authority can borrow on this loan is \$5,075,000 to be used for parking garage construction through December 15, 2014, at which point semi-annual payments are required to be made. The loan bears interest at 3.30% until December 22, 2022, then moves to 65% of 30-day LIBOR, plus 200 basis points, with a floor of 5.75%. The note is secured with the intergovernmental tax increment financing revenues. The lender can put a lien on the property being constructed, if desired. The loan matures December 15, 2028. Interest paid on this debt of \$1,516 was capitalized for the year ended December 31, 2012. The outstanding balance as of December 31, 2012 was \$129,022. No payments, other than interest, are due until June 15, 2015.

Bonds Payable

The Redevelopment Authority issued Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of \$8,000,000 in a private placement at a premium of \$1,540,000. The bonds bear interest of 6.99% per annum. Bond proceeds were used to fund the construction of the Penn Square Hotel (Note 17). Proceeds from the Infrastructure Facilities Improvement Grant (Notes 3 and 16) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The outstanding balance at December 31, 2012 is \$5,432,140, of which \$267,698 is due within one year.

The Redevelopment Authority issued additional bonds as the First Supplemental Indenture to the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of \$4,000,000 in a private placement at a premium of \$983,716. The bonds bear interest of 6.39% per annum. Bond proceeds were used to fund construction of the Penn Square Hotel (Note 17). Proceeds from the Infrastructure Facilities Improvement Grant (Notes 3 and 16) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The outstanding balance at December 31, 2012 is \$3,123,993, of which \$160,483 is due within one year.

The Redevelopment Authority does not amortize the bond premium of the Guaranteed Special Revenue Bonds, Series of 2005. The Redevelopment Authority is expecting reimbursement of the debt service through the Infrastructure Facilities Improvement Program

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grant. The premium received does not represent a reduction of debt service but an offset of construction costs and is a part of lease rental.

On April 1, 2009, the Redevelopment Authority issued the Federally Taxable Hotel Lease Revenue Bonds, Series of 2005 in the amount of \$21,456,414 in a private placement. The bonds bear interest at 7.00% per annum. The rate is subject to upward adjustment if the interest paid by the bondholder's to a third party lender exceeds the rate. The adjusted rate is a variable rate which is related to the bondholder's funding interest rate with a third-party. This rate is 4.45% as of December 31, 2012. The funding interest rate changed in 2012 because the bondholder refinanced its funding debt into a permanent variable rate debt structure. The bonds are secured with the Redevelopment Authority's interest in the lease rental payments from the Penn Square Hotel lessee and a limited guarantee from the City in the event of the imposition of certain taxes on the project. The outstanding balance as of December 31, 2012 was \$18,093,657, of which \$997,918 is due within one year.

Aggregate maturities required on bonds and notes payable at December 31, 2012 are as follows:

	Principal	Interest	Total
2013	\$ 1,426,099	\$ 1,381,277	\$ 2,807,376
2014	1,566,675	1,307,431	2,874,106
2015	1,726,516	1,227,059	2,953,575
2016	1,753,073	1,139,395	2,892,468
2017	1,877,965	1,048,692	2,926,657
2018-2022	11,598,191	3,641,175	15,239,366
2023-2026	6,830,293	606,283	7,436,576
Total	\$ 26,778,812	\$ 10,351,312	\$ 37,130,124

Long-term obligation activity for the year ended December 31, 2012 can be summarized as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
Due to lessee	\$ 1,000,214	\$ 29	\$ -	\$ 1,000,243
Notes payable	-	129,022	-	129,022
Bonds payable	27,981,073	-	(1,331,283)	26,649,790
	\$ 28,981,287	\$ 129,051	\$ (1,331,283)	\$ 27,779,055

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11. DERIVATIVE AGREEMENTS

Objective of the interest rate swap agreements. During the year ended December 31, 1998, the City issued its \$61,915,000, aggregate principal amount, General Obligation Bonds, Series A of 1998 (the “Series A Bonds”). During the year ended December 31, 2004, because of the market conditions, the City entered into a forward interest rate swap agreement (Basis Swap) in connection with the Series A Bonds commencing May 1, 2009 through the final maturity of the Series A Bonds (May 1, 2028).

Terms. With respect to its Series A Bonds, the City entered the Basis Swap with PNC Bank, N.A., as the counterparty. Beginning on May 1, 2009 and ending on the final maturity date of May 1, 2028, the City will pay a variable interest rate equal to the SIFMA index based on the notional amount remaining on the Series A Bonds and receive a variable interest rate equal to 67% of the 1-Month LIBOR rate. The Basis Swap agreement contains an embedded interest rate cap, providing that the floating rate to be paid by the City shall not exceed 25%. PNC Bank, N.A. paid a premium to the City in the amount of \$1,715,700 for the Basis Swap.

The Basis Swap became effective on May 1, 2009 and has been assigned to a proportionate share of the City’s General Obligation Notes, Series of 2009 which refunded the Series A Bonds. The final maturity date of May 1, 2028 remains unchanged.

Fair value. As of December 31, 2012, the Basis Swap had a fair value of (\$777,304). As the Basis Swap is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative asset and as a borrowing on the City’s government-wide statement of net position. The change in fair value of \$333,149 during the year ended December 31, 2012 is recorded as a component of investment income on the City’s government-wide statement of activities. The fair value is calculated using the zero-coupon method.

Credit risk. The City solicited competitive bids in connection with the Basis Swap agreement. The City solicited bids only from counterparties with an excellent credit rating (see – The City’s Interest Rate Management Plan). PNC Bank, N.A. is rated A+ by Fitch Ratings, A by Standard & Poor’s, and A2 by Moody’s Investors Service as of December 31, 2012. To mitigate the potential for credit risk, if PNC Bank’s credit rating falls below A-/A3 (threshold ratings) the counterparty will be obligated to post a certain amount of collateral or the City will have the right to terminate the swap agreement; PNC Bank negotiated a credit support annex with the City at the time the transaction was entered into, which would require PNC Bank to collateralize its obligations with direct obligations guaranteed by the United States of America if its respective credit ratings fell below the predetermined threshold ratings.

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Termination risk. The City or the counterparty may terminate the Basis Swap agreement if the other party defaults under the terms of the Agreement. In addition, the City may terminate the Basis Swap Agreement without cause at any time with notice to the counterparty of not less than two days. The termination value would be determined by the Calculation Agent (counterparty) using commercially reasonable judgment, or if disputed, the Calculation Agent shall seek bids from Reference Market-makers consistent with Section 6 of the Agreement. If the Basis Swap is terminated and has a negative fair value, the City would be liable to the counterparty for the termination payment. If the Basis Swap Agreement is terminated and has a positive fair value, the counterparty would be liable to the City for the termination payment.

Basis risk. The City is subject to basis risk because the interest index on the variable rate receipt arm of the swap is based on one-month LIBOR and the variable interest rate payment arm is based on a different index. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the City's calculated payments and, as a result, cost savings or synthetic interest rates may not be realized. As of December 31, 2012, the interest rate the City is paying under the Basis Swap was .13%, whereas the interest the City is receiving at 67% of the one-month LIBOR rate was .14%.

Contingent feature. If the City's credit rating is below A- by Standard & Poor's or A3 by Moody's Investors Service, as well as fails to deliver eligible collateral, then the swap transaction may be terminated. In the event that the collateral is called, the City would have to post eligible collateral up to the fair value of the Basis Swap at that time. Eligible collateral includes cash, negotiable debt obligations issued by the U.S. Treasury Department, securities guaranteed by the Government National Mortgage, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation, and agency notes issued directly by any of the Federal Home Loan Banks, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation. As of December 31, 2012, the City's rating is not below the rating threshold and, therefore, the City had not posted any collateral due to a ratings trigger.

12. RETIREMENT PLANS

Primary Government

Defined Benefit Plans

The City administers three single-employer defined benefit pension plans – the Fire Pension Plan (FPP), the Police Pension Plan (PPP), and the Cash Balance Pension Plan (CBPP). The assets of these plans are not commingled.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

FPP and PPP

The FPP and PPP issue publicly available financial reports that include financial statements and required supplementary information. These financial reports may be obtained from the City's Accounting Department at 120 North Duke Street, Lancaster, PA 17602.

The FPP and PPP are single employer public employee retirement systems established and administered by the City to provide pension benefits for employees of its Bureau of Fire and Bureau of Police, respectively. At January 1, 2011, the date of the most recent actuarial report, the FPP and PPP membership consisted of the following:

	<u>FPP</u>	<u>PPP</u>
Retirees and beneficiaries currently receiving benefits	123	145
Active plan participants	66	143
Total	<u>189</u>	<u>288</u>

The financial statements of the FPP and PPP are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the FPP and PPP are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

At December 31, 2012, none of the FPP's and PPP's investments were more than five percent of the total asset value for each plan.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The City's annual pension cost and net pension obligation (asset) for the FPP and PPP for the current year were as follows:

	FPP	PPP
Annual required contribution	\$ 1,075,765	\$ 1,718,841
Interest on net pension asset	(444,260)	(592,639)
Adjustment to annual required contribution	555,325	740,799
Annual pension cost	1,186,830	1,867,001
Contributions made	1,075,765	1,718,841
Change in net pension asset	111,065	148,160
Net pension asset, beginning of year	(5,553,246)	(7,407,992)
Net pension asset, end of year	\$ (5,442,181)	\$ (7,259,832)

Funded Status and Schedule of Funding Progress:

The schedules of funding progress, presented as required supplementary information following the notes to financial statements, present multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Fire Pension Plan:						
1/1/2011	\$ 37,934,781	\$ 46,785,075	\$ 8,850,294	81.1%	\$ 4,390,834	201.6%
Police Pension Plan:						
1/1/2011	\$ 55,593,841	\$ 66,275,125	\$ 10,681,284	83.9%	\$ 9,909,871	107.8%

CBPP

The CBPP does not issue stand-alone financial reports.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

A. Summary of Significant Accounting Policies

Basis of Accounting

The CBPP's financial statements are prepared using the accrual basis of accounting. The CBPP member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

B. Plan Description and Contribution Information

Membership

Membership of CBPP consisted of the following at January 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	44
Terminated employees entitled to benefits	<u>33</u>
	<u>77</u>
Active plan participants:	
Fully-vested	180
Non-vested	<u>117</u>
	<u>297</u>
Total	<u><u>374</u></u>

Plan Description

CBPP is a single-employer defined benefit pension plan that covers all full-time, nonuniformed employees of the City. CBPP provides retirement, disability, and death

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

benefits to plan members and their beneficiaries. Plan provisions are established and may be amended by the Nonuniformed Pension Board.

Contributions

Plan members are not required to contribute to the CBPP. The City is required to make actuarial determined periodic contributions at rates that for individual employees increase over time so that sufficient assets will be available to pay benefits when due.

The annual required contribution is determined annually during the budgeting process. The results of actuarial valuations are used in budgeting for future years.

The City contributed \$516,512 to the CBPP for the year ended December 31, 2012.

C. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation (asset) for the CBPP for the current year were as follows:

Annual required contribution	\$ 516,512
Interest on net pension asset	(6,357)
Adjustment to annual required contribution	8,476
Annual pension cost	<u>518,631</u>
Contributions made	<u>516,512</u>
Change in net pension asset	2,119
Net pension asset, beginning of year	<u>(84,756)</u>
Net pension asset, end of year	<u><u>\$ (82,637)</u></u>

The January 1, 2012 actuarial valuation used the entry age normal actuarial cost method. The actuarial assumptions included a) 7.50% investment rate of return, b) a projected salary increase of 5%, c) level dollar closed amortization method, and d) 16-year amortization period. The actuarial value of assets from the prior valuation report (reduced for benefits paid and increased for contributions) is projected forward at an artificial investment return of 6.50% (interest rate assumption minus 1%). In no event is the actuarial value of assets allowed to be greater than 130% or less than 70% of market value.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Three-Year Information:

CBPP:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2010	\$ 501,354	99.60%	\$ (86,929)
2011	506,453	99.60%	(84,756)
2012	518,631	99.60%	(82,637)

Funded Status and Schedule of Funding Progress:

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ 9,583,121	\$ 11,273,769	\$ 1,690,648	85.0%	\$ 12,365,380	13.7%

Defined Contribution Plan

The City administers a single-employer defined contribution plan, the Supplemental Savings Plan (SSP), in which all eligible, full-time, nonuniformed employees of the City may elect to participate. As of December 31, 2012, there were 187 plan participants. Plan participants may elect to contribute up to 10% of their after-tax pay. The City will match 25% of the participant's contribution, on the first 5% contributed by each participant. Participant contributions in excess of 5% of compensation will not be matched. The Plan provisions are established and may be amended by the Nonuniformed Pension Board. During the year ended December 31, 2012, plan participants and the City made contributions of \$375,290 and \$81,386, respectively.

The SSP uses the same basis of accounting and methods to value investments as the City's defined benefit plans.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Pension Financial Statements

Financial statements for the individual pension plans are presented below:

Statement of Net Position December 31, 2012

	FPP	PPP	CBPP	SPP
Assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 35,630
Investments	33,085,929	50,669,972	8,599,480	5,961,429
Receivables:				
Investment income	103,810	157,462	26,912	-
Total Assets	<u>33,189,739</u>	<u>50,827,434</u>	<u>8,626,392</u>	<u>5,997,059</u>
Liabilities:				
Other	10,830	14,050	7,459	1,400
Net position restricted for pension benefits	<u>\$ 33,178,909</u>	<u>\$ 50,813,384</u>	<u>\$ 8,618,933</u>	<u>\$ 5,995,659</u>

Statement of Changes in Net Position Year Ended December 31, 2012

	FPP	PPP	CBPP	SPP
Additions:				
Contributions:				
Employees	\$ 283,109	\$ 613,215	\$ -	\$ 375,290
Employer	1,075,765	1,718,841	516,512	81,386
Total contributions	<u>1,358,874</u>	<u>2,332,056</u>	<u>516,512</u>	<u>456,676</u>
Investment income:				
Net appreciation in fair value of investments	1,730,123	2,615,445	433,892	311,132
Interest and dividends	969,367	1,454,835	241,490	236,212
Total investment income	<u>2,699,490</u>	<u>4,070,280</u>	<u>675,382</u>	<u>547,344</u>
Less: investment expenses	(142,293)	(214,215)	-	-
Net investment income	<u>2,557,197</u>	<u>3,856,065</u>	<u>675,382</u>	<u>547,344</u>
Total additions	<u>3,916,071</u>	<u>6,188,121</u>	<u>1,191,894</u>	<u>1,004,020</u>
Deductions:				
Benefits	3,219,858	3,579,413	547,592	365,332
Administrative expenses	25,430	18,595	67,215	39,850
Total deductions	<u>3,245,288</u>	<u>3,598,008</u>	<u>614,807</u>	<u>405,182</u>
Change in net position	670,783	2,590,113	577,087	598,838
Net position restricted for pension benefits:				
Beginning of year	32,508,126	48,223,271	8,041,846	5,396,821
End of year	<u>\$ 33,178,909</u>	<u>\$ 50,813,384</u>	<u>\$ 8,618,933</u>	<u>\$ 5,995,659</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Component Units

Commission

The Commission established a non-contributory, money purchase retirement plan for all eligible employees. The Corporation contributes 6% of eligible employees' earnings during the Plan year. Retirement expense totaled \$48,664 in 2012.

Parking Authority

The Parking Authority's defined benefit pension plan, The Parking Authority of the City of Lancaster Employee Pension Plan, provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension plan is affiliated with the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer pension plan administered by an independent state agency created by the Pennsylvania General Assembly in 1974 to administer local government pension plans. The authority to participate in the PMRS plan and to select specific benefit options rests with the Board of Directors of the Parking Authority. The PMRS issues a publicly available comprehensive annual financial report (CAFR). A copy of the CAFR can be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165 or by calling 1-800-622-7968.

Funding Policy

Plan participants are required to contribute 3.50% of their total compensation. The Parking Authority is required to contribute at an actuarially determined rate; the current rate is 7.87% of annual covered payroll. The contribution requirement of the Parking Authority is established and may be amended by PMRS. The contribution requirement of the plan participants is established by the Board of Directors of the Parking Authority.

Annual Pension Cost

The Parking Authority had an annual pension cost of \$14,139 for the year ended December 31, 2012, which equaled the Parking Authority's required and actual contribution. The required contribution was determined as a part of the actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include: (a) 6.00% investment rate of return (net of administration expense), (b) projected salary increases using an age-related scale for merit/seniority (e.g. age 30 – 6.4%; age 40 – 5.0%; age 50 – 4.1%; age 60 – 3.7%; 2.0% added for each of the first 3 years of service), including inflation at 3.0%, and (c) disability rates equal to 50% of the rates set forth in the 1964 OASPI (Social Security) experience.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The following is a summary of the last three years:

Calendar Year	Annual Required Contributions (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2010	\$ 10,008	100%	\$ -
2011	13,372	100%	-
2012	14,139	100%	-

The funded status of the Parking Authority's pension plan as of January 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2011	\$ 1,487,813	\$ 1,336,517	\$ (151,296)	111.32%	\$ 362,428	-41.75%

13. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to the retirement benefits described in Note 12, the City provides single-employer health care benefits for all retired employees, their spouses, and dependents. These benefit provisions and all other requirements are established under the various union contracts and City policy for non-organized employees. Those employees are required to pay a portion of the cost of the Plan, which generally ranges from approximately 20% to 100% of the annual premiums.

Police officers and firefighters are eligible to retire with benefits after completion of 20 years of service or upon disability. Mandatory retirement with benefits occurs when police officers and firefighters reach age 60 regardless of service. Non-uniformed employees are eligible to retire after completion of 10 years of service and attainment of age 55.

Any firefighter who is eligible to retire will receive fully paid medical and prescription drug coverage for the member, spouse, and eligible dependent children unless the retiree becomes employed by another employer. Retired firefighters will also receive dental coverage for the member only. Any police officer hired on or before December 26, 2011 who is eligible to retire will receive fully paid medical and prescription drug coverage for the member, spouse, and eligible dependent children unless the retiree becomes employed by another employer. For any police officer hired after December 26, 2011 who is eligible to retire, the City will

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

pay 50% of the premium for member, spouse, and eligible dependent children for medical and prescription drug coverage unless the retiree becomes employed by another employer. Upon employment with a subsequent employer, the retiree, spouse, and eligible dependent children must accept the medical coverage offered by the subsequent employer and terminate coverage under the City's group plan. Upon termination of employment with any subsequent employer, the retiree, spouse, and eligible dependent children must elect, in writing within sixty days of the termination of employment, to re-enroll under the City's plan or otherwise forfeit reinstatement. Any non-uniformed employee who elects coverage will make monthly contributions. Once any retiree or spouse becomes eligible for Medicare, he/she must apply for Medicare Part A and Part B. For those eligible for Medicare coverage, medical insurance provided by the City will supplement Medicare.

If an active police officer or firefighter would die, dependents will become eligible for the same benefits as the member would upon retirement. If a retired employee would die while enrolled in the City's medical plan, his/her spouse and eligible dependents may continue coverage under the plan. If a police officer or firefighter would die while covered by a subsequent employer's medical plan, his/her surviving spouse and eligible dependents will be allowed to re-enroll into the City's medical plan.

Upon retirement, police officers will be provided with \$7,500 of life insurance and firefighters will be provided with \$10,000 of life insurance. A non-uniformed employee will be eligible for \$7,000 of life insurance upon 10 years of service and attainment age of 55.

As of December 31, 2012, the number of retirees or spouses eligible for health benefits and life insurance was 352 and 263, respectively.

Union labor contracts for the police, firefighters, and non-uniformed union employees establish the post-retirement health care plan provisions. Such union contracts do not require City Council approval and may be amended through future negotiations. The post-retirement health care plan provisions for non-union employees are established through the City's human resources policies, which are approved by the Mayor.

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements through the General Fund. For the year ended December 31, 2012, the City's net cost of providing health benefits and life insurance for retired employees was approximately \$4,448,000. A portion of the contribution made during the year ended December 31, 2012, in the amount of \$675,515, was made directly to the City's OPEB trust fund by the City's Water Fund. Plan members receiving benefits contributed \$90,157, as required by the cost sharing provisions of the plans for the year ended December 31, 2011.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Union labor contracts and the City's human resource policies establish and amend the obligations of the plan members and the City to contribute to the plans.

For police officers hired on or before December 26, 2011 and firefighters eligible to retire, the City pays the entire cost of medical and prescription drug coverage for the retiree, spouse and eligible dependent children. For police officers hired after December 26, 2011 eligible to retire, the City pays 50% of medical and prescription drug coverage for the retiree, spouse, and eligible dependent children. Retired firefighters will also receive dental coverage of the member only. Any non-uniformed employee who elects coverage will make monthly contributions. For eligible non-uniform individuals under the age of 65, the monthly costs for the retiree, spouse, and eligible dependent children are \$65, \$110, and \$60, respectively. For eligible non-uniformed individuals over the age of 65, the monthly costs for the retiree and spouse are \$50 and the monthly costs for eligible dependent children is \$65.

The City pays the entire cost of the life insurance benefits.

The City's annual OPEB cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2012
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5% per year
Medical inflation	7.5% in 2012, decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later
Amortization period	30 years, open period

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the plan for the year ended December 31, 2012 were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	\$ 9,634,338	\$ 1,770,204	\$ 11,404,542
Interest on net OPEB obligation	1,262,148	246,359	1,508,507
Adjustment to annual required contribution	(1,721,892)	(336,095)	(2,057,987)
Annual OPEB cost	9,174,594	1,680,468	10,855,062
Contribution made	(3,166,745)	(1,281,895)	(4,448,640)
Change in Net OPEB obligation	6,007,849	398,573	6,406,422
Net OPEB obligation, beginning	28,047,728	5,474,626	33,522,354
Net OPEB obligation, ending	\$ 34,055,577	\$ 5,873,199	\$ 39,928,776

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2010	\$ 10,830,890	30%	\$ 26,499,162
2011	10,708,642	34%	33,522,354
2012	10,855,062	41%	39,928,776

Funded Status and Schedule of Funding Progress

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ -	\$ 113,807,524	\$ 113,807,524	0.00%	\$ 25,591,950	444.70%

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Financial statements for the OPEB Trust Fund are presented below:

Statement of Net Position December 31, 2012

Assets:	
Investments	\$ 703,603
Receivables	2,479
Total Assets	<u>706,082</u>
Net position restricted for other post-employment benefits	<u>\$ 706,082</u>

Statement of Changes in Net Position Year Ended December 31, 2012

Additions:	
Contributions:	
Employees	\$ 30,565
Employer	675,515
Total contributions	<u>706,080</u>
Investment income:	
Interest and dividends	2
Total investment income	<u>2</u>
Total additions	<u>706,082</u>
Increase in net position	706,082
Net position restricted for other post-employment benefits:	
Beginning of year	-
End of year	<u>\$ 706,082</u>

14. RISK MANAGEMENT

The City maintains both insurance contracts and self-funded arrangements to deal with the risk of loss arising from the following events: torts; theft of, damage to, or destruction of assets; business interruptions; errors and omissions; job-related illnesses or injuries to employees; acts of God; and losses resulting from providing fringe benefits to employees and their dependents.

Insurance contracts cover public officials, law enforcement, automobile, excess workers' compensation, excess health claims, and umbrella liabilities. The contracts also provide

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

employee, tax collector/treasurer, mayor, controller, city engineer, and employee blanket bonds.

Self-Insurance-Workers' Compensation

The City has a self-funded third-party administered workers' compensation arrangement through Murray Risk Management and Insurance. During 2012, the City was limited to \$500,000 per each accident and \$500,000 per each employee for disease. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

A summary of workers' compensation claims for the years ended December 31, 2012 and 2011 is as follows:

Unpaid claims as of January 1, 2011	\$ 1,308,513
Incurred claims and change in estimates during 2011	153,683
Payments during 2011	<u>(300,301)</u>
Unpaid claims as of January 1, 2012	1,161,895
Incurred claims and change in estimates during 2012	158,493
Payments during 2012	<u>(279,452)</u>
Unpaid claims as of December 31, 2012	<u><u>\$ 1,040,936</u></u>

Self-Insurance-Health Insurance

The City is exposed to various risks of loss related to major medical self-insurance. The City has a stop/loss agreement with an insurance company which covers all individual claim amounts exceeding \$150,000. This policy has an aggregate stop-loss limit of \$1,000,000. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends as determined by the City's independent third-party administrator.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Changes in the balance of claims liability (net of excess insurance) during the year ended December 31, 2012 were as follows:

Unpaid claims as of January 1, 2012	\$ -
Incurred claims and change in estimates during 2012	9,934,059
Payments during 2012	<u>(9,567,216)</u>
Unpaid claims as of December 31, 2012	<u>\$ 366,843</u>

15. PROPERTY SALES AND CAPITAL CONTRIBUTION FROM THE CITY

Component Unit

Redevelopment Authority

During the year ended December 31, 2012, twenty-four properties, which were acquired by purchase or eminent domain, were resold to private or corporate entities for rehabilitation. The just compensation cannot always be obtained when properties are resold as the cost of the rehabilitation work required when added to the just compensation would prohibit the property from being marketable to low or moderate income families. As a result, the Redevelopment Authority may have losses from time to time on the sale or transfer of properties held for resale. Grant funding received from Community Development Block Grant allocations are used to absorb these losses.

Cost of property sold represents the inventoried value at the time of the sale, after any possible prior-period losses from lower of cost or market inventory adjustments.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Properties sold during the year ended December 31, 2012:

Property	Net Proceeds from Property Sales	Cost of Property Sold	Gain (Loss)
130 Dauphin Street	\$ 18,500	\$ 26,000	\$ (7,500)
132 Dauphin Street	13,100	11,500	1,600
14 North Plum Street	10,500	6,500	4,000
234 Coral Street	18,500	17,000	1,500
234 West Lemon Street	20,500	22,000	(1,500)
248 West Strawberry Street	13,500	12,000	1,500
251 North Pine Street	21,500	20,000	1,500
304 West Vine Street	21,500	20,000	1,500
344 - 346 Beaver Street	1,000	1,000	-
424 Lafayette Street	4,000	4,000	-
435 Chambers Street	11,500	10,000	1,500
439 High Street	17,520	18,000	(480)
443 West Fredrick Street	31,500	30,000	1,500
453 West King Street	16,750	15,000	1,750
461 Manor Street	13,500	12,000	1,500
468 Atlantic Avenue	18,000	16,000	2,000
474 Atlantic Avenue	13,000	14,000	(1,000)
525 New Dorwart Street	28,000	29,000	(1,000)
531 Chester Street	12,000	11,500	500
533 Chester Street	11,000	10,000	1,000
58 Campbell Avenue	100	3,500	(3,400)
610 Beaver Street	25,500	24,000	1,500
675 Poplar Street	31,000	31,000	-
719 East Orange Street	31,500	30,000	1,500
Additional allocated costs	-	20,007	(20,007)
	<u>\$ 403,470</u>	<u>\$ 414,007</u>	<u>\$ (10,537)</u>

In addition to the above transactions, there were two properties that were removed from inventory, totaling \$93,000. There was no gain or loss resulting from removing these, as the corresponding liability was also removed.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

16. GRANTS

Component Unit

Redevelopment Authority

The Redevelopment Authority receives grants from various agencies. Grants are generally recognized in earnings or to offset private/public partnership project expenses in the period in which the related expenditures are incurred.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Redevelopment Authority. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time.

The Redevelopment Authority receives Community Development Block Grant funding which supports operations, especially as they relate to the purchase and sale of blighted properties.

On April 20, 2009, the Redevelopment Authority entered into an Infrastructure and Facilities Improvement Program Grant with the Commonwealth of Pennsylvania. The Redevelopment Authority will receive annual grant proceeds of up to \$1,000,000 based on stipulations included in the grant agreement for a period of ten years. Upon receipt, the Redevelopment Authority will forward those proceeds to a third-party developer to assist with debt service related to the Lancaster Stockyard project. The Redevelopment Authority received and subsequently disbursed \$1,000,000 under this grant agreement during the year ended December 31, 2012.

In addition, the Redevelopment Authority has been awarded an Infrastructure Facilities Improvement Grant through the Commonwealth of Pennsylvania, which is payable in annual increments of up to \$1,000,000 over twenty years to be used for debt service of equal annual amount on the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and First Supplemental Indenture (Note 10) on a reimbursement basis. The Redevelopment Authority has discounted the future grant receipts (Note 3) and offset construction expenses related to the Penn Square Hotel project in the amount of \$12,000,000. During the year ended December 31, 2012, \$1,000,000 was received under this grant agreement to offset debt service requirements.

Receipt of annual grant funding after year five of the Infrastructure Facilities Improvement Program grant is contingent upon the Redevelopment Authority demonstrating to the Commonwealth of Pennsylvania that anticipated tax revenues generated for the

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Commonwealth as a result of the Penn Square Hotel project will equal or exceed the grant amount of the year. The Redevelopment Authority has offset the hotel construction costs by the maximum grant award of \$1,000,000 per year. Actual annual amounts received after year five may be reduced by an amount that cannot be reasonably estimated at this time. The maximum annual grant award equals the debt service requirements of the Guaranteed Special Revenue Bonds, Series of 2005. The debt service is guaranteed by the City.

For the year ended December 31, 2012, the Redevelopment Authority was able to demonstrate that \$1,000,000 of tax revenue was generated and, therefore, received the maximum grant award of \$1,000,000.

17. PENN SQUARE HOTEL PROJECT

Component Unit

Redevelopment Authority

Acquisition and Construction

On January 31, 2006, the Redevelopment Authority purchased from Penn Square Partners (PSP) the Watt & Shand Building and the rights to certain development materials completed by PSP relative to the project. The Redevelopment Authority then constructed the Penn Square Hotel. The Redevelopment Authority utilized several funding tranches to facilitate the construction of the hotel, including grant funding from the Commonwealth of Pennsylvania, bond issuances, and investments by the lessee. As further disclosed in Notes 3 and 16, the Redevelopment Authority expects additional \$15,000,000 of Infrastructure Facilities Improvement Grant funding to assist with future debt service requirements.

Hotel Lease and Operation

The Redevelopment Authority has entered into a lease agreement with PSP. In accordance with the agreement, PSP will lease the premises for an initial term, an interim term, and a base term. In addition, PSP has agreed to make an initial investment of approximately \$10,000,000 for certain fixtures, professional fees, working capital, and other pre-opening expenses for the hotel and restaurant.

The base term of the lease commenced on June 19, 2009. Rent during the base term includes amounts required as debt service on certain bonds issued by the Redevelopment Authority (base rent), other charges in connection with the bonds, plus any costs incurred by the Redevelopment Authority relative to the administration of the lease that are not provided for

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

in the bond financing documents (additional rent). During the base term, PSP also pays the Redevelopment Authority minimum participation rent in the amount of \$200,000 per annum for the remainder of the lease. The minimum participation rent will be increased if certain hotel operating results, as defined in the lease agreement, are met.

PSP has the option to purchase the property from the Redevelopment Authority based on a formula set forth in the agreement. The purchase price will include the payment of any bonds outstanding and amounts owed to the Redevelopment Authority by PSP at the time of the purchase, in addition to the amount derived by the formula.

The Redevelopment Authority accounts for this lease agreement as a capital, direct financing lease. Construction expenses were offset by grant funding received to facilitate the project. The property is not carried as an asset on the Redevelopment Authority's books. Instead, a lease rental receivable is recognized (Note 3).

Pledged Revenues

All future base rent payments have been pledged for the payment of the debt service related to the Redevelopment Authority's Federally Taxable Hotel Lease Revenue Bonds, Series of 2005 and Series A of 2005. For the year ended December 31, 2012, the Redevelopment Authority recognized interest income from the underlying capital lease in the amount of \$662,258 and received base rent cash flow in the amount of \$1,392,899. These funds were utilized to make principal payments in the amount of \$930,642 and interest payments in the amount of \$462,257.

18. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

A reconciliation of the interfund receivables and payables at December 31, 2012 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 10,857,177	\$ -
Miscellaneous State Grants Fund	-	1,671,788
Proprietary funds:		
Sewer Fund	-	3,206,487
Water Fund	-	5,188,043
Other Enterprise Fund	-	790,859
	\$ 10,857,177	\$ 10,857,177

Primarily, interfund balances represent short term borrowings between funds for the purpose of eliminating negative cash.

Interfund transfers for the year ended December 31, 2012 are as follows:

	Interfund Transfers In	Interfund Transfers Out
Governmental funds:		
General Fund	\$ 2,300,000	\$ 3,906,587
Capital Projects Fund	-	212,504
Debt Service Fund	4,149,881	-
Miscellaneous State Grants Fund	-	3,270,645
Non-major governmental funds	-	629,587
Proprietary funds:		
Sewer Fund	3,613,269	-
Water Fund	-	2,300,000
Other Enterprise Fund	256,173	-
	\$ 10,319,323	\$ 10,319,323

These amounts primarily represent transfers for debt service for principal and interest payments, transfers of grant related capital projects, and to fulfill budgetary transfer requirements.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

19. COMMITMENTS AND CONTINGENCIES

Primary Government

Litigation

In the normal course of business, there are various claims and lawsuits pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss, if any, of all claims and lawsuits will not materially affect the City's financial position. With the exception of workers' compensation and health insurance, the City purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2012.

Grants

The City participates in various federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors. Any liability for reimbursement of unallowed costs, which may arise as a result of these audits, if any, would not materially affect the City's financial position.

Contract Commitments

Beginning in 2011, the City, through the Capital Projects Fund, entered into contracts with construction contractors totaling \$11,312,261. At December 31, 2012, \$588,353 was included in accounts payable. The commitment remaining on the contracts at December 31, 2012 was \$8,735,368.

Beginning in 2009, the Sewer Fund entered into various contracts for pumping stations upgrades and maintenance. As a result of this, the City entered into contracts with construction contractors totaling \$23,334,803. At December 31, 2012, \$1,223,480 was included in accounts payable. The commitment remaining on the contracts at December 31, 2012 was \$7,005,275.

Beginning in 2011, the Water Fund contracted to make necessary capital improvements to the water system. As a result of this, the City entered into contracts with construction contractors totaling \$2,275,947. At December 31, 2012, \$818,238 was included in accounts payable. The commitment remaining on the contracts at December 31, 2012 was \$1,402,943.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Guarantee

The City is guarantor of the outstanding revenue bonds of the Parking Authority. As of December 31, 2012, the outstanding bonds amounted to \$26,645,000.

The City is guarantor of certain bonds of the Redevelopment Authority. The Redevelopment Authority issued \$12 million Bonds under the State's IFIP grant. The City has guaranteed the debt service payments due and owing under the Bonds. The Redevelopment Authority is expected to use its annual grant from the State to pay the debt service. In the event of a shortfall in the grant amount, the City is liable under the Guaranty agreement for payment of the shortfall in the annual debt service payment. Additionally, the Redevelopment Authority issued \$24 million in Bonds under a lease agreement with Penn Square Partners. The City has guaranteed, on a limited basis, the debt service payments due and owing under the bonds. The guarantee is limited to the shortfall in any debt service payment owed by the Redevelopment Authority as the result of a shortfall in amounts available to the Redevelopment Authority under the lease because the Redevelopment Authority must apply amounts to the payment of real estate taxes on the property subject to the lease. If the property is determined to be taxable, then the lease rental payments will not be sufficient to meet the debt service obligations if the taxes have to be paid by the Redevelopment Authority. In that case, the City would be liable for payment of the shortfall in the debt service payments per the terms of the limited guaranty.

The City was not required to make payments under either of the above guarantees during the year ended December 31, 2012.

Component Units

LIDA

The term conduit debt obligations refers to debt instruments issued by LIDA in the form of bonds or notes for the express purpose of providing capital financing for a specific third party that is not a part of LIDA's financial reporting entity. Although conduit debt obligations bear the name of LIDA, LIDA has no obligation for such debt beyond the resources provided to the third party on whose behalf they are issued. LIDA does not record the assets or liabilities from completed bonds or notes since its primary function is to arrange the financing between the borrowing companies and the bond note holders, and funds arising therefrom are controlled by trustees or banks acting as fiscal agents.

As of December 31, 2012, there were bonds and notes issued and outstanding of \$172,293,871.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Parking Authority

In 2007, the Parking Authority entered into a lease agreement with Penn Square Partners. The lease provides Penn Square Partners with 300 guaranteed spaces, and the option to modify the Penn Square Garage. All modifications are to be paid by the Parking Authority upon approval and are then reimbursed by the leasee. In the event of lease termination or cancellation, the leasee is responsible for all expenses required to revert the Penn Square Garage to its original form that existed prior to the lease agreement.

Redevelopment Authority

The Redevelopment Authority has committed \$100,000 of minimum rental payment for the year ended December 31, 2013 to be granted to the City's Mayor's Office of Special Events.

The just compensation of properties acquired by the Redevelopment Authority under the power of eminent domain may be subject to change. Such changes could take place in the event of a court-mandated change in the estimated value of the property. The amount of pending changes, if any, cannot be determined at this time. Based on current facts and circumstances, the Redevelopment Authority has determined that it is probable that additional just compensation will be required on the following properties and has accrued the following amounts as of December 31, 2012:

Property	Accrued Loss
234 Coral Street	\$ 17,000
344 South Queen Street	12,500
416 Howard Avenue	24,000
428 East Strawberry Street	12,000
424 East Strawberry Street	10,000
451 - 453 East Mifflin Street	9,000
457 South Prince Street	7,000
504 South Shippen Street	45,000
526 East King Street	95,000
533 Poplar Street	16,000
542 Lafayette Street	9,500
542 Pershing Avenue	16,500
545 West Vine Street	15,000
527 Olive Street	12,500
678 Columbia Avenue	33,500
	<u>\$ 334,500</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Additional just compensation on these properties is not reasonably estimable due to the uncertainty surrounding these settlements.

During 2011, the Redevelopment Authority purchased the property at 400 North Market Street with the intent to build a parking garage to provide parking to future tenants of the Lancaster Press Building, current lot users, and the public. During the year ended December 31, 2012, other adjacent properties were purchased, existing structures on the lots were demolished, and the design phase of the garage was substantially completed. The Redevelopment Authority expects to complete the construction phase of the project in 2013. The project cost is estimated at \$11.9 million plus capitalized interest.

Subsequent to December 31, 2012, the Redevelopment Authority has awarded bids for construction and has committed itself as follows:

Construction management	\$ 220,000
Architectural and engineering	55,000
Construction contracts	<u>6,985,000</u>
	<u>\$ 7,260,000</u>

The Redevelopment Authority intends to finance the project with the following three funding sources:

- \$3.9 million capital contribution from the City of which \$2,340,813 has been received as of December 31, 2012.
- The Redevelopment Authority has been awarded a \$3.0 million RACP grant award which reimburses eligible construction costs. The Redevelopment Authority has secured a \$3.0 million construction line of credit for short-term financing of the construction costs (Note 7).
- In 2012, the Redevelopment Authority has issued a \$5,075,000 million tax increment financing (TIF), non-revolving, multi-advance note payable (Note 10).

The Redevelopment Authority plans to contract with the Parking Authority to operate the parking garage, which will provide approximately 266 spaces. The Redevelopment Authority has entered into a lease agreement with a condominium owners association for the lease of 88 parking spaces for an annual amount to equal the cost per parking space but no less than \$17,645. The agreement expires March 21, 2065 subject to certain early termination provisions. The Redevelopment Authority has a memorandum of understanding with Lancaster Press Partners reserving the 68 ground level parking spaces for future residents of

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

the Lancaster Press Building at cost. The remaining parking spaces will be available to the public at rates yet to be determined.

The City, Redevelopment Authority, Lancaster County, and the School District of Lancaster created the Northwest Lancaster Tax Increment District (TIF district) on December 16, 2008 and agreed that 50% of the TIF revenues generated by the incremental increase in total assessed value of property and 50% of any millage rate increases within the TIF district will be paid to the Redevelopment Authority as further outlined in the TIF agreement. The TIF agreement was entered into on May 15, 2012 with an effective date of December 16, 2008. The parties involved calculated the TIF revenues due to the Redevelopment Authority from TIF district inception through December 31, 2012 and the following amounts were received by the Redevelopment Authority during the year ended December 31, 2012:

City	\$ 34,990
Lancaster County	9,928
School District of Lancaster	119,862
	<u>\$ 164,780</u>

The TIF revenues are restricted to be used for debt service on the TIF note payable and certain other permissible project related expenses. Any related cash balances of the Redevelopment Authority are presented as restricted cash and restricted net position. Any residual cash balances upon payment of the TIF note payable in full would be returned to the three taxing bodies noted above.

20. NEGATIVE UNRESTRICTED NET POSITION OF PROPRIETARY FUNDS

In addition to sewer rate increases for inside City customers in 2010 (10%) and 2011 (20%), City Council approved a 35% rate increase for inside City customers effective in January 2012. The additional revenues to the Sewer Fund generated by this series of rate increases reduced the Sewer Fund's need for cash borrowing from the General Fund from \$1.7 million during the year ended December 31, 2011 to \$749,000 during the year ended December 31, 2012. Additionally, the PA Public Utility Commission (PUC) approved a rate increase for outside City sewer customers in April 2013 for an annualized revenue increase of \$399,000.

The City has also formally initiated arbitration with East Lampeter seeking settlement of nearly \$3.7 million in disputed bulk sewer charges dating back as far as 1992. East Lampeter's withholding of payment for these disputed charges has caused a significant drain on the Sewer Fund's cash flow over this period. As of mid-2013, the arbitration process is ongoing.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

In the Water Fund, a series of inside City rate increases as well as a nearly 75% increase in rates for outside City customers approved by the PUC in July 2011 have greatly improved cash flow. The need for cash borrowing from the General Fund was reduced from \$2.46 million during the year ended December 31, 2011 to \$153,000 during the year ended December 31, 2012. The City is currently in the process of reviewing proposals for PUC rate case attorneys to begin another rate case for outside City water rates in late 2013.

21. EXTRAORDINARY ITEM – LEGAL SETTLEMENT

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. During the year ended December 31, 2011, the City filed legal proceedings against a business for issues relating to the design and repair of an overflow tunnel for the City's storm water/wastewater system. In April 2012, the court ordered in favor of the City and the matter was settled on October 15, 2012, in the amount of \$1,162,000. The settlement revenue has been presented in the Sewer Fund on the statement of revenues, expenses, and changes in fund net position as an extraordinary item for the year ended December 31, 2012.

22. SUBSEQUENT EVENTS

In January 2013, the City issued \$7,000,000 Guaranteed Revenue Note of 2012. This is a Pennvest loan that is for the construction of a series of green infrastructure source control practices, including porous pavement in parking lots, paths, alleys, and streets; infiltration and bio-retention systems; green roofs; rain gardens and rain barrels in order to capture storm water runoff, various other green infrastructure improvements throughout the City, and other ongoing capital improvement projects of the City.

In January 2013, the City issued \$5,000,000 Federally Taxable General Obligation Note, Series 2013 for building upgrades related to the Redevelopment Assistance Capital Program (RACP) grant project.

Effective for firefighters hired after November 30, 2012, the City will provide employee-only medical insurance (single coverage) to those employees who retire and are under the age of 65 and not Medicare eligible. Such eligible retirees will be given the option of purchasing coverage for their spouses through the City. If the retiree dies, his or her surviving spouse will provided coverage to age 65 or until such time as the spouse become eligible for Medicare due to disability or other reason.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

23. RESTATEMENT

During the year ended December 31, 2012, the Parking Authority reduced the carrying value of unamortized note issuance costs. The beginning of year Parking Authority net position has been decreased from (\$3,651,422) to (\$3,851,046).

CITY OF LANCASTER, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - PENSION PLANS (UNAUDITED)

	Actuarial Valuation January 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Cash Balance Pension Plan:							
	2007	\$ 8,428,386	\$ 9,052,319	\$ 623,933	93.1%	\$ 10,644,441	5.9%
	2008	8,747,557	9,591,825	844,268	91.2%	10,905,822	7.7%
	2009	8,802,470	9,815,584	1,013,114	89.7%	10,853,541	9.3%
	2010	9,311,791	10,448,552	1,136,761	89.1%	12,022,604	9.5%
	2011	8,974,375	10,432,429	1,458,054	86.0%	11,972,809	12.2%
	2012	9,583,121	11,273,769	1,690,648	85.0%	12,365,380	13.7%
Fire Pension Plan:							
	2006	\$ 29,077,316	\$ -	\$ -	-	\$ -	-
	2007	34,806,993	38,446,351	3,639,358	90.5%	4,329,634	84.1%
	2008	35,648,730	-	-	-	-	-
	2009	35,258,887	41,692,040	6,433,153	84.6%	4,736,888	135.8%
	2010	36,773,767	-	-	-	-	-
	2011	37,934,781	46,785,075	8,850,294	81.1%	4,390,834	201.6%
Police Pension Plan:							
	2006	\$ 37,274,439	\$ -	\$ -	-	\$ -	-
	2007	46,343,194	50,895,296	4,552,102	91.1%	10,241,530	44.4%
	2008	48,600,558	-	-	-	-	-
	2009	49,259,232	57,157,584	7,898,352	86.2%	10,119,512	78.1%
	2010	52,071,868	-	-	-	-	-
	2011	55,593,841	66,275,125	10,681,284	83.9%	9,909,871	107.8%

See accompanying note to required supplementary information - pension plans (unaudited).

CITY OF LANCASTER, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN (UNAUDITED)

Cash Balance Pension Plan:

<u>Calendar Year</u>	<u>Annual Required Contribution</u>	<u>Contributions from Employer</u>	<u>Percentage Contributed</u>
2007	\$ 410,346	\$ 410,346	100.00%
2008	459,603	459,603	100.00%
2009	475,248	475,248	100.00%
2010	499,125	499,125	100.00%
2011	504,280	504,280	100.00%
2012	516,512	516,512	100.00%

See accompanying note to required supplementary information – pension plans
(unaudited).

CITY OF LANCASTER, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION PENSION PLANS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2012

Significant Factors Affecting Schedules

The following changes affect the comparability of costs.

	<u>Actuarial Valuation Date</u>	<u>Reason(s)</u>	<u>Change in Unfunded Actuarial Accrued Liability</u>
Cash Balance			
Pension Plan:	1/1/2009	Assumption change	\$ (2,031,339)
	1/1/2011	Assumption change	252,898
Fire Pension Plan:	1/1/2007	Plan amendment	\$ 394,897
	1/1/2009	Assumption change/ plan amendment	(2,364,437)
	1/1/2011	Assumption change	2,280,365
Police Pension Plan:	1/1/2007	Plan amendment	\$ 484,310
	1/1/2009	Assumption change/ plan amendment	(3,789,172)
	1/1/2011	Assumption change	2,247,464

CITY OF LANCASTER, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - OPEB (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 121,091,825	\$ 121,091,825	0.00%	\$ 27,620,560	438.41%
1/1/2010	-	105,985,918	105,985,918	0.00%	27,660,157	383.17%
1/1/2012	-	113,807,524	113,807,524	0.00%	25,591,950	444.70%

Note: Valuation as of 1/1/08 represent the initial valuation of the plan.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB (UNAUDITED)

Year	Annual Required Contribution	Percentage Contributed
2008	\$ 12,911,247	18.02%
2009	12,911,247	33.86%
2010	11,143,003	29.59%
2011	11,143,003	33.07%
2012	11,404,542	39.01%

Note: 2008 was implementation year.

CITY OF LANCASTER, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES

YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
Real estate taxes, net of discount	\$ 22,630,000	\$ 22,630,000	\$ 22,811,082	\$ 181,082
Real estate transfer tax	550,000	550,000	469,748	(80,252)
Penalties, interest, and costs on delinquent real estate taxes	95,000	95,000	105,304	10,304
Earned income tax	3,725,000	3,725,000	5,808,710	2,083,710
Local services tax	1,650,000	1,650,000	2,011,983	361,983
Per capita taxes	-	-	1,316	1,316
Total taxes	28,650,000	28,650,000	31,208,143	2,558,143
Intergovernmental revenues:				
Grants	14,000	14,000	239,421	225,421
Pension state aid	2,283,996	2,283,996	2,277,595	(6,401)
Public utility reality tax	39,603	39,603	39,044	(559)
Alcohol beverage tax	33,000	33,000	33,900	900
Total intergovernmental revenues	2,370,599	2,370,599	2,589,960	219,361
Licenses and permits	2,165,871	2,165,871	1,748,259	(417,612)
Fines and forfeitures	2,650,000	2,650,000	2,495,469	(154,531)
Rents and charges for services	1,614,000	1,664,400	1,681,009	16,609
Investment income	10,000	10,000	1,793	(8,207)
Miscellaneous	2,193,576	2,193,576	2,246,486	52,910
Other financing sources:				
Interfund reimbursements	2,804,588	2,829,588	2,781,206	(48,382)
Sale of general capital assets	357,500	357,500	362,181	4,681
Transfers in	2,300,000	2,300,000	2,300,000	-
Total other financing sources	5,462,088	5,487,088	5,443,387	(43,701)
Total revenues and other financing sources	\$ 45,116,134	\$ 45,191,534	\$ 47,414,506	\$ 2,222,972

See accompanying note to required supplementary information - budgetary comparison schedule.

CITY OF LANCASTER, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Executive department:				
Office of the Mayor	\$ 205,063	\$ 206,007	\$ 206,102	\$ (95)
Office of the City Solicitor	350,000	350,000	359,509	(9,509)
	<u>555,063</u>	<u>556,007</u>	<u>565,611</u>	<u>(9,604)</u>
Legislative department:				
Office of the City Council	57,000	57,000	56,902	98
Office of the City Clerk	59,668	59,668	56,133	3,535
	<u>116,668</u>	<u>116,668</u>	<u>113,035</u>	<u>3,633</u>
Office of the City Treasurer/Controller	<u>17,000</u>	<u>17,000</u>	<u>17,000</u>	<u>-</u>
Administrative services:				
Bureau of Accounting	581,182	574,779	574,552	227
Bureau of Procurement and Collections	136,326	136,781	125,270	11,511
Bureau of Human Resources	260,253	262,731	254,166	8,565
Bureau of Information Services	431,262	431,812	336,713	95,099
Community Involvement	466,500	490,194	568,596	(78,402)
Insurance	554,500	583,665	584,155	(490)
Fringe benefits	2,564,294	2,554,714	2,325,179	229,535
	<u>4,994,317</u>	<u>5,034,676</u>	<u>4,768,631</u>	<u>266,045</u>
Public safety:				
Bureau of Police	19,642,837	19,640,600	19,608,014	32,586
Bureau of Fire	9,308,521	9,303,873	9,186,373	117,500
	<u>28,951,358</u>	<u>28,944,473</u>	<u>28,794,387</u>	<u>150,086</u>
Economic development and neighborhood revitalization:				
Office of the Director	910,854	898,094	854,107	43,987
Bureau of Housing and Structural Inspection	951,454	960,574	936,041	24,533
Bureau of Neighborhood Revitalization	116,363	116,363	106,572	9,791
Bureau of Planning	248,698	252,338	244,601	7,737
	<u>2,227,369</u>	<u>2,227,369</u>	<u>2,141,321</u>	<u>86,048</u>
Public works:				
Office of the Director	1,020,844	1,012,029	1,001,308	10,721
Bureau of Engineering	383,808	381,533	274,471	107,062
Bureau of Streets:				
Administration	155,515	208,128	202,829	5,299
Cleaning	455,638	448,735	410,162	38,573
Maintenance	422,786	406,814	329,154	77,660
Traffic	999,586	974,936	898,681	76,255
Motor Vehicles	193,008	196,508	195,633	875
Bureau of Parks:				
Administration	142,311	151,991	124,436	27,555
Buildings	1,021,010	1,009,245	911,151	98,094
Parks	339,100	332,779	480,031	(147,252)
Trees	147,716	148,716	146,132	2,584
Central Market building	62,849	113,494	81,556	31,938
Southern Market building	169,035	169,280	141,763	27,517
	<u>5,513,206</u>	<u>5,554,188</u>	<u>5,197,307</u>	<u>356,881</u>
Other financing uses:				
Transfers out	3,896,478	3,896,478	3,906,587	(10,109)
Total expenditures and other financing uses	<u>\$ 46,271,459</u>	<u>\$ 46,346,859</u>	<u>\$ 45,503,879</u>	<u>\$ 842,980</u>

See accompanying note to required supplementary information - budgetary comparison schedule.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2012

1. BUDGETARY BASIS OF ACCOUNTING

An annual GAAP basis budget is adopted for the General Fund, with the exception of the proceeds from the issuance of capital leases and the related debt service payments, which are included in the function for which the lease was issued.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

	<u>Appropriation</u>	<u>Expenditures</u>
Executive department:		
Office of the Mayor	\$ 206,007	\$ 206,102
Office of the City Solicitor	350,000	359,509
Administrative services:		
Community involvement	\$ 490,194	\$ 568,596
Insurance	583,665	584,155
Public works:		
Bureau of Parks:		
Parks	\$ 332,779	\$ 480,031
Other financing uses:		
Transfers out	\$ 3,896,478	\$ 3,906,587

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund.