

City of Lancaster

Police Pension Fund

Financial Statements and Required
Supplementary Information

Years Ended December 31, 2012 and 2011 with
Independent Auditor's Report

CITY OF LANCASTER POLICE PENSION FUND

YEARS ENDED DECEMBER 31, 2012 AND 2011

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Independent Auditor's Report

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Independent Auditor's Report

To the Honorable J. Richard Gray, Mayor
and Members of the Police Pension Fund
City of Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Police Pension Fund of the City of Lancaster, as of and for the years ended December 31, 2012 and 2011, and the related notes to the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Police Pension Fund of the City of Lancaster, as of December 31, 2012 and 2011, and the changes in the financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Police Pension Fund and do not purport to, and do not, present fairly the financial position of the City of Lancaster, as of December 31, 2012 and 2011, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and employer contributions on page 8 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 audits 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.

Maher Duessel

Harrisburg, Pennsylvania
July 25, 2013

CITY OF LANCASTER POLICE PENSION FUND

STATEMENTS OF PLAN NET POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
Assets		
Investments (at fair value):		
Money market funds	\$ 1,141,341	\$ 523,299
U.S. government obligations	8,621,014	6,965,485
U.S. government agency obligations	246,833	1,140,300
Corporate notes and bonds	7,723,564	6,528,914
Common stock	32,937,220	32,596,896
Municipal bonds	-	297,760
Accrued interest	157,462	196,535
Total Assets	50,827,434	48,249,189
Liabilities		
Accounts payable	14,050	25,918
Net Position		
Restricted for pension benefits	\$ 50,813,384	\$ 48,223,271

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

CITY OF LANCASTER POLICE PENSION FUND

STATEMENTS OF CHANGES IN PLAN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Additions:		
Contributions:		
Employees	\$ 613,215	\$ 591,397
Employer	1,718,841	1,732,970
Total contributions	2,332,056	2,324,367
Investment income:		
Net appreciation in fair value of investments	2,615,445	2,643,227
Interest and dividends	1,454,835	1,438,213
Less: investment expenses	4,070,280 (214,215)	4,081,440 (205,358)
Net investment income	3,856,065	3,876,082
Total additions	6,188,121	6,200,449
Deductions:		
Benefits	3,579,413	3,492,090
Refunds of contributions	-	41,819
Administrative expenses	18,595	27,460
Total deductions	3,598,008	3,561,369
Net Increase in Plan Net Position	2,590,113	2,639,080
Net Position:		
Beginning of year	48,223,271	45,584,191
End of year	\$ 50,813,384	\$ 48,223,271

The accompanying notes are integral part of these financial statements.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Police Pension Fund (Fund) is a single-employer public employee retirement system established and administered by the City of Lancaster, Pennsylvania (City), to provide pension benefits for employees of its Bureau of Police. The Fund is considered part of the City's financial reporting entity and is included in the City's financial reports as a pension trust fund. The accompanying financial statements do not include any other funds of the City and, therefore, do not present fairly the financial position and the changes in financial position of the City in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

These financial statements are prepared using the accrual basis of accounting. Police Pension Plan (Plan) member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments are recorded at fair value. Securities traded on a national exchange are valued at quoted market prices. Mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net appreciation in fair value of investments includes both realized and unrealized gains and losses.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, additions to net position restricted for pension benefits, and deductions from net position restricted for pension benefits. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Plan Participants

Membership of the Plan consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	145
Active Plan participants	<u>143</u>
	<u><u>288</u></u>

Plan Description

The Plan is a single-employer defined benefit pension plan that covers all full-time members of the City's Bureau of Police. The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries. Plan provisions are established and may be amended through the collective bargaining process.

Contributions

Plan members are required to contribute 5% of lieutenant's pay (or actual pay, if higher) and longevity, plus \$5.00 per month for the service increment. The City is required to make actuarially 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 \$1,718,841 and \$1,732,970 to the Plan for the years ended December 31, 2012 and 2011, respectively.

Administrative Expenses

Administration costs are financed through investment income.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

3. ANNUAL PENSION COST AND NET PENSION OBLIGATION (ASSET)

The City's annual pension cost and net pension obligation (asset) for the Plan for the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Annual required contribution	\$ 1,718,841	\$ 1,732,970
Interest on net pension asset	(592,639)	(604,735)
Adjustment to annual required contribution	740,799	755,918
Annual pension cost	1,867,001	1,884,153
Contributions made	1,718,841	1,732,970
Change in net pension obligation (asset)	148,160	151,183
Net pension obligation (asset), beginning of year	(7,407,992)	(7,559,175)
Net pension obligation (asset), end of year	\$ (7,259,832)	\$ (7,407,992)

The January 1, 2011 actuarial valuation used the entry age normal actuarial cost method. The actuarial assumptions include: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c) level dollar closed amortization method, and d) 15-year remaining amortization period. The actuarial value of assets for the Plan from the prior valuation report (reduced for benefits paid and increased for contributions) is projected forward at an artificial investment return of 7.5% (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.

Three-year trend information:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2010	\$ 1,733,313	93.4%	\$ (7,559,175)
2011	1,884,153	92.0%	(7,407,992)
2012	1,867,001	92.1%	(7,259,832)

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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) (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	\$ 55,593,841	\$ 66,275,125	\$ 10,681,284	83.9%	\$ 9,909,871	107.8%

4. DEPOSITS AND INVESTMENTS

The deposit and investment policy of the Fund is administered by the trustees and the Police Pension Board. The Fund adheres to state statutes, the Third Class City Code, and prudent business practice.

Investments consist of the following as of December 31:

	2012	2011
Money market funds	\$ 1,141,341	\$ 523,299
U.S. government obligations	8,621,014	6,965,485
U.S. government agency obligations	246,833	1,140,300
Corporate notes and bonds	7,723,564	6,528,914
Common stock	32,937,220	32,596,896
Municipal bonds	-	297,760
Total investments	<u>\$ 50,669,972</u>	<u>\$ 48,052,654</u>

Custodial Credit Risk. Custodial credit risk is the risk that the financial institution or 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 Fund does not have an investment policy for custodial credit risk. All of the Fund's investments are uninsured, registered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Fund's name.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

Concentration of Credit Risk. The Fund places no limit on the amount the Fund may invest in any one issuer. At December 31, 2012, none of the Fund's investments were more than five percent of the Fund's total asset value.

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

	Fair Value	Rating
Money market funds	\$ 1,141,341	AAA
U.S. government agency obligations	246,833	AA+
Corporate notes and bonds	1,028,785	AA
Corporate notes and bonds	1,074,232	AA-
Corporate notes and bonds	1,353,206	A+
Corporate notes and bonds	1,355,371	A
Corporate notes and bonds	2,911,970	A-

Interest Rate Risk. The Fund 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 average maturity of the Fund's money market funds at December 31, 2012 was less than one year. The average maturities for the Fund's fixed income investments for December 31, 2012 were as follows:

	Fair Value	Investment Maturity			
		2013	2014-2018	2019-2023	Subsequent to 2023
U.S. government obligations	\$ 8,621,014	\$ 754,653	\$ 7,866,361	\$ -	\$ -
U.S. government agency obligations	246,833	3,287	91,081	349	152,116
Corporate notes and bonds	7,723,564	-	4,593,873	3,129,691	-
	\$ 16,591,411	\$ 757,940	\$ 12,551,315	\$ 3,130,040	\$ 152,116

**Required Supplementary
Information**

CITY OF LANCASTER POLICE PENSION FUND

SCHEDULE OF FUNDING PROGRESS (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 Percentage of Covered Payroll ((b-a)/c)
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%

The following changes affect the comparability of costs:

Actuarial Valuation Date	Reason	Change in Unfunded Actuarial Accrued Liability
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

SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

Calendar Year	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2007	\$ 1,032,228	\$ 1,032,228	100.0%
2008	1,542,197	1,542,197	100.0%
2009	1,565,272	1,565,272	100.0%
2010	1,618,199	2,588,199	159.9% (1)
2011	1,732,970	1,732,970	100.0%
2012	1,718,841	1,718,841	100.0%

(1) Includes contribution under the City's retirement incentive program.