

City of Lancaster, Pennsylvania

Financial Statements and Required Supplementary Information

Year Ended December 31, 2013 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2013

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CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2013

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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, 2013, 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 Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority, which represent 68 percent, 169 percent, and 67 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports 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, 2013, 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 99 through 105 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2014 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 9, 2014



MANAGEMENT'S
DISCUSSION AND
ANALYSIS

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, 2013 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. While the Lancaster Industrial Development Authority, 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 are all separate legal entities, they are shown in the financial statements as discretely presented component units. This overview, however, focuses on the primary government and, unless otherwise noted, these component units are not included in this discussion. 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 2013, the assets and deferred outflows of resources of the City exceeded its liabilities by \$100.352 million. The City's net position decreased \$0.709 million (0.702 percent) during the fiscal year. The governmental activities net position decreased by \$2.856 million (16.182 percent) while the business-type activities net position increased by \$2.147 million (2.574 percent).
- At the close of 2013, the City's governmental funds reported a combined ending fund balance of \$15.776 million, a decrease of \$8.733 million (35.631 percent). Of this amount, approximately \$4.527 million is legally restricted and/or unavailable to spend, and \$8.052 million is committed and/or assigned for designated projects, leaving \$3.197 million available for spending at the government's discretion (unassigned fund balance).
- The City's total outstanding bonded debt decreased by \$4.727 million (2.177 percent) during the current fiscal year to \$212.376 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, deferred outflows of resources, and liabilities with the difference between them 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 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. Enterprise 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. The Internal Service Fund accounts for financing of insurance services provided to the other 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 Fire 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 and deferred outflows of resources exceeded liabilities at the close of December 31, 2013 by approximately \$100.352 million.

Statement of Net Position

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$44,922	\$51,446	\$40,888	\$46,774	\$85,810	\$98,220
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	69,831	60,295	228,759	221,034	298,590	281,329
Total Assets	<u>114,753</u>	<u>111,741</u>	<u>269,647</u>	<u>267,808</u>	<u>384,400</u>	<u>379,549</u>
Deferred Charge on Refunding	782	-	2,887	-	3,669	-
Current and Other Liabilities	9,275	7,236	18,870	16,911	28,145	24,147
Long-Term Liabilities	91,467	86,856	168,105	167,485	259,572	254,341
Total Liabilities	<u>100,742</u>	<u>94,092</u>	<u>186,975</u>	<u>184,396</u>	<u>287,717</u>	<u>278,488</u>
Net Position						
Net Investment in Capital Assets	44,232	40,880	92,793	92,273	137,025	133,153
Restricted	2,197	2,420	5,219	3,781	7,416	6,201
Unrestricted	(31,636)	(25,651)	(12,453)	(12,642)	(44,089)	(38,293)
Total Net Position	<u>\$14,793</u>	<u>\$17,649</u>	<u>\$85,559</u>	<u>\$83,412</u>	<u>\$100,352</u>	<u>\$101,061</u>

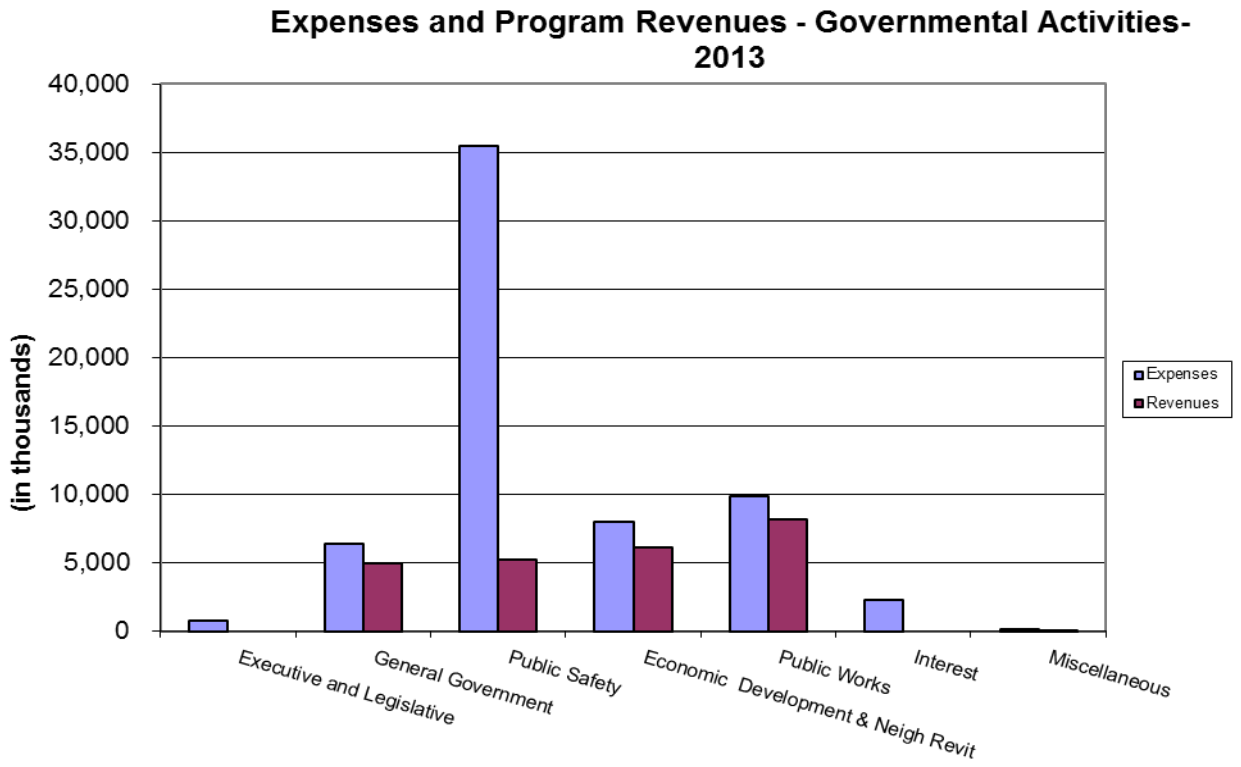
Table A-1 is a condensed version of the statement of net position for the City.

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

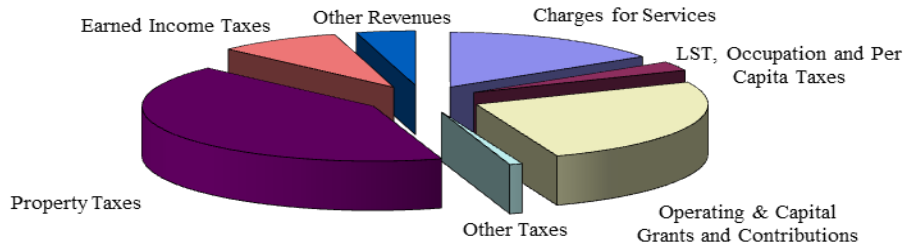
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for Services	\$9,218	\$9,163	\$36,948	\$36,820	\$46,166	\$45,983
Operating & Capital Grants and Contributions	15,386	13,104	6,472	5,619	21,858	18,723
General Revenues						
Property Taxes	24,846	22,798	-	-	24,846	22,798
Earned Income Tax	5,068	5,809	-	-	5,068	5,809
LST, Occupation and Per Capita Taxes	1,613	2,013	-	-	1,613	2,013
Other Taxes	532	470	-	-	532	470
Miscellaneous	2,438	2,660	64	86	2,502	2,746
Total Revenues	59,101	56,017	43,484	42,525	102,585	98,542
Expenses						
Governmental Activities:						
Executive and Legislative	765	696	-	-	765	696
General Government	6,371	5,135	-	-	6,371	5,135
Public Safety	35,435	33,431	-	-	35,435	33,431
Economic Development & Neigh Revit	7,974	6,364	-	-	7,974	6,364
Public Works	9,875	8,505	-	-	9,875	8,505
Interest	2,257	2,295	-	-	2,257	2,295
Miscellaneous	116	113	-	-	116	113
Business-Type Activities						
Sewer	-	-	15,040	14,177	15,040	14,177
Water	-	-	21,652	21,019	21,652	21,019
Solid Waste & Recycling	-	-	3,809	3,796	3,809	3,796
Total Expenses	62,793	56,539	40,501	38,992	103,294	95,531
Excess (Deficiency) Before Transfers and	(3,692)	(522)	2,983	3,533	(709)	3,011
Extraordinary item - legal settlement		-	-	1,162	-	1,162
Transfers	836	(1,569)	(836)	1,569	-	-
Increase (Decrease) in Net Position	(2,856)	(2,091)	2,147	6,264	(709)	4,173
Net Position - Beginning of Year	17,649	19,740	83,412	77,148	101,061	96,888
Net Position - End of Year	\$14,793	\$17,649	\$85,559	\$83,412	\$100,352	\$101,061

The City's total net position decreased by \$0.709 million in 2013.

Governmental Activities



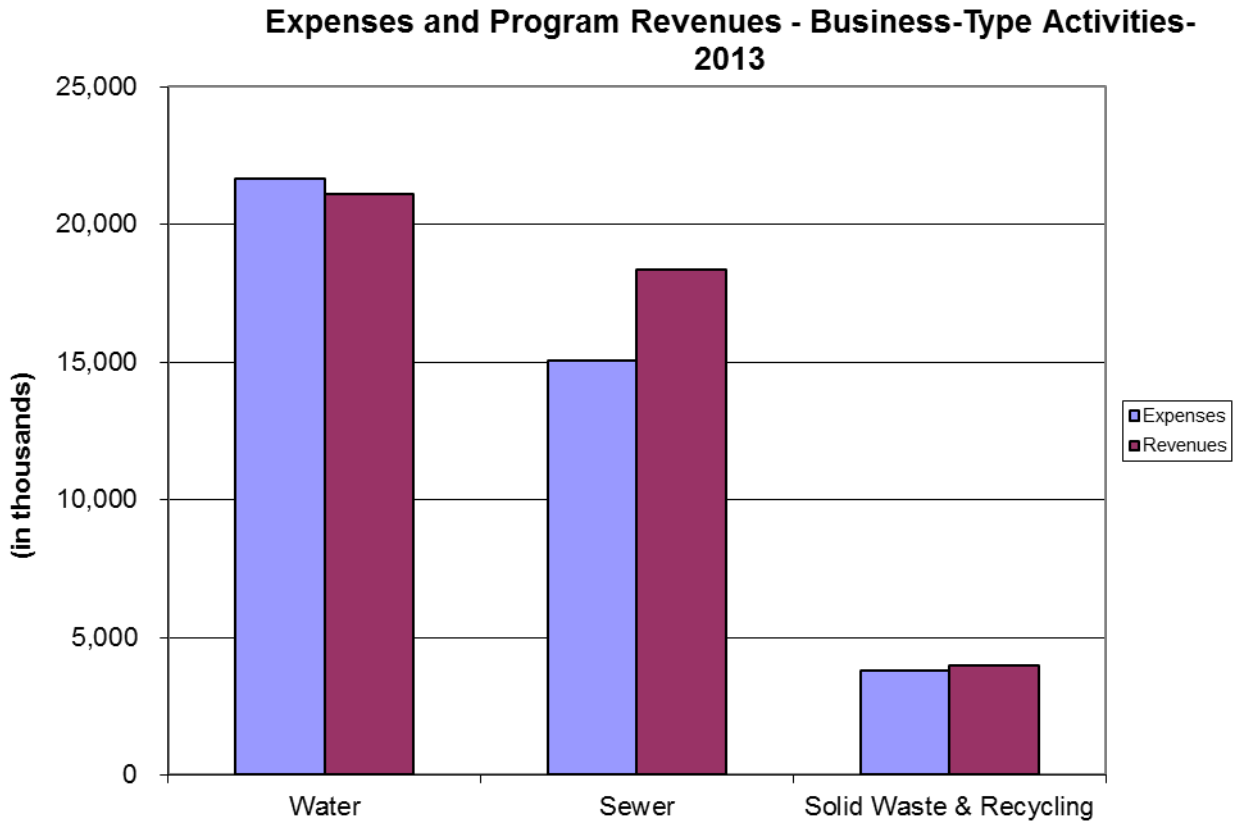
Revenues by Source - Governmental Activities- 2013



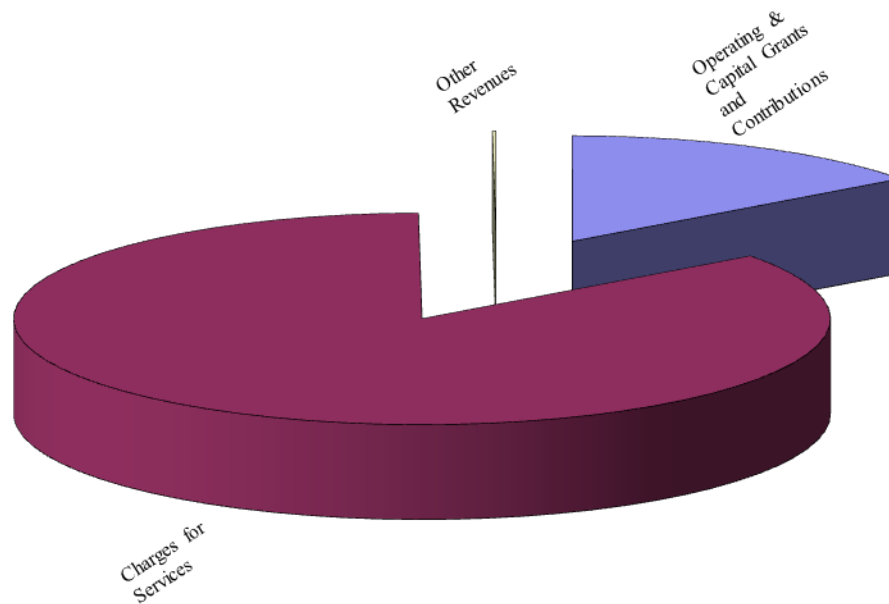
Governmental activities. Governmental activities decreased the City's net position by \$2.856 million. In 2013, total revenues for governmental activities were \$59.101 million, \$3.083 million or 5.504 percent higher than 2012. Total expenses for governmental activities, which were \$62.793 million, were \$6.254 million or 11.059 percent higher than 2012. The decrease in net position is mainly a result of the following: General Fund workers compensation costs increased by \$0.697 million or 67.46 percent; debt service payments increased \$0.405 million or 10.45 percent; and pension contributions to the police and fire pension plans increased \$0.708 and \$0.548 million or 41.22 and 50.91 percent, respectively.

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-2013



Business-Type activities. Business-type activities increased the City's net position by \$2.147 million to \$85.559 million, an increase of 2.574 percent. Charges for services in the business-type activities increased \$0.128 million from the prior year. Operating & Capital Grants and Contributions revenue increased by \$0.853 million, an increase of 15.18 percent, primarily due to increased capital contributions from other governments for construction projects. Expenses for water, sewer, and solid waste and recycling operations increased \$1.509 million from 2012 due primarily to wastewater and green initiatives and depreciation expense.

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, unassigned 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 \$15.776 million. Approximately \$3.197 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

(\$0.049), 2) restricted for particular purposes (\$4.478), 3) committed for particular purposes (\$.662), or 4) assigned for particular purposes (\$7.390).

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 \$85.592 million. Net position of the Solid Waste and Recycling Fund increased \$0.131 million. Net position of the Water and Sewer Funds decreased \$2.950 million and increased \$4.966 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 Fire Pension Plan, OPEB trust, and various agency and private-purpose trust funds. The total net position of the combined fiduciary funds is \$113.431 million. The City's employee pension plans and OPEB trust represent 99.72 percent of that amount. During 2013, the net position of the Pension Trust Funds increased by \$13.051 million to \$111.658 million. The change is related to the appreciation of the retirement plans' investments due to current economic conditions and increased contributions compared to 2012. Additionally, the OPEB Trust Fund increased by \$.754 to \$1.460 million due to the City partially funding OPEB costs during 2013.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget contained \$50.812 million in appropriations, and \$48.015 in estimated revenues, with \$2.797 of required resources coming from the unassigned fund balance. Overall, revenues were higher than anticipated by \$0.334 million. Key factors for the increase are as follows:

- Real Estate taxes collected by the City were \$.469 higher than the budgeted amount.
- Earned income taxes collected by the Lancaster County Tax Collection Bureau were higher than the budgeted amount by \$0.168.
- Licenses and permits issued and fines and forfeitures were \$.327 and \$.344 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's investment in capital assets for its governmental and business-type activities as of December 31, 2013 amounts to \$298.590 million (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 2013 the City had \$212.376 million outstanding debt, compared to \$217.103 million in 2012. 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 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. Despite these pressures, the City has been able to weather the economic storm in recent years better than many areas of the state and country by starting fiscal restraint efforts in 2006 prior to the beginning of the economic downturn. The City's bond rating (Moody's A1) is the highest among all Pennsylvania cities. Indicators of local economic health such as Real Estate Transfer taxes have remained level, but Earned Income tax revenues paid by City residents 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 strong private investment has allowed the City to maintain a vibrant downtown residential, 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 more than 140 retail, restaurant and service businesses. The City also continued to experience high levels of construction and renovation activity in 2013 with 1,842 building permits issued for projects worth a total of nearly \$52,000,000. 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, the 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).



BASIC
FINANCIAL
STATEMENTS

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2013

	Primary Government			Component	
	Governmental Activities	Business-type Activities	Total	Units	Total
Assets and Deferred Outflows of Resources					
Assets:					
Cash and cash equivalents	\$ 2,991,831	\$ 850	\$ 2,992,681	\$ 2,485,337	\$ 5,478,018
Cash and cash equivalents - restricted	3,015,584	40,251,171	43,266,755	1,824,266	45,091,021
Investments	454,301	-	454,301	-	454,301
Investments - restricted	102,646	467,593	570,239	3,070,592	3,640,831
Receivables (net of allowance for uncollectibles):					
Taxes	2,423,841	-	2,423,841	-	2,423,841
Accounts	1,085,148	8,008,749	9,093,897	712,090	9,805,987
Notes	6,991,065	-	6,991,065	1,738,412	8,729,477
Investment income	121,722	-	121,722	-	121,722
Other	-	149,664	149,664	196,112	345,776
Internal balances	9,898,589	(9,898,589)	-	-	-
Accrued interest	-	-	-	617,636	617,636
Prepaid expenses	51,504	102,851	154,355	107,606	261,961
Lease rental receivable	-	-	-	25,286,302	25,286,302
Due from other governments	4,225,502	217,277	4,442,779	11,360,843	15,803,622
Prepaid debt insurance	559,503	1,589,134	2,148,637	-	2,148,637
Properties held for resale	-	-	-	347,000	347,000
Net pension asset	12,528,547	-	12,528,547	-	12,528,547
Embedded derivative instrument	472,151	-	472,151	-	472,151
Capital assets, not being depreciated	8,965,940	4,856,569	13,822,509	12,583,568	26,406,077
Capital assets, being depreciated, net	60,865,204	223,902,490	284,767,694	15,819,716	300,587,410
Total Assets	114,753,078	269,647,759	384,400,837	76,149,480	460,550,317
Deferred Outflows of Resources:					
Deferred charge on refunding	781,974	2,886,743	3,668,717	39,108	3,707,825
Total Deferred Outflows of Resources	781,974	2,886,743	3,668,717	39,108	3,707,825
Total Assets and Deferred Outflows of Resources	\$ 115,535,052	\$ 272,534,502	\$ 388,069,554	\$ 76,188,588	\$ 464,258,142

(Continued)

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Liabilities and Net Position					
Liabilities:					
Accounts payable	\$ 5,099,215	\$ 3,978,851	\$ 9,078,066	\$ 2,338,834	\$ 11,416,900
Due to other governments	6	-	6	-	6
Accrued salaries and benefits	646,343	195,303	841,646	30,057	871,703
Accrued expenses	368,459	1,126,973	1,495,432	361,955	1,857,387
Line of credit	-	-	-	3,488,679	3,488,679
Due to primary government	-	-	-	317,662	317,662
Unearned revenue	212,769	214,254	427,023	10,878,894	11,305,917
Contingent liability from property resettlements	-	-	-	203,500	203,500
Other liabilities	61,013	-	61,013	-	61,013
Long-term liabilities:					
Portion due or payable within one year:					
Due to other governments	-	9,337,943	9,337,943	-	9,337,943
Compensated absences payable	226,703	29,496	256,199	-	256,199
Workers' compensation liability	157,062	33,255	190,317	-	190,317
Capital leases	251,825	271,234	523,059	1,239	524,298
Borrowing payable - basis swap	152,758	-	152,758	-	152,758
Loans payable	-	-	-	150,000	150,000
Notes payable	840,000	1,860,767	2,700,767	39,000	2,739,767
Bonds payable	1,258,400	1,821,600	3,080,000	2,217,675	5,297,675
Portion due or payable after one year:					
Due to other governments	-	467,593	467,593	-	467,593
Compensated absences payable	1,000,709	136,462	1,137,171	-	1,137,171
Workers' compensation liability	1,059,961	224,429	1,284,390	-	1,284,390
Net other post-employment liability	39,690,801	6,164,274	45,855,075	-	45,855,075
Due to lessee	-	-	-	1,000,273	1,000,273
Capital leases	411,775	542,890	954,665	-	954,665
Borrowing payable - basis swap	1,248,472	-	1,248,472	-	1,248,472
Loans payable	-	-	-	900,000	900,000
Notes payable	10,070,000	21,825,483	31,895,483	1,223,955	33,119,438
Bonds payable	37,985,392	138,744,634	176,730,026	48,741,646	225,471,672
Total Liabilities	100,741,663	186,975,441	287,717,104	71,893,369	359,610,473
Net Position:					
Net investment in capital assets	44,232,335	92,792,879	137,025,214	523,541	137,548,755
Restricted for:					
Capital acquisition	-	5,218,942	5,218,942	929,757	6,148,699
Housing and neighborhood development	271,644	-	271,644	-	271,644
Economic and community development	1,376,200	-	1,376,200	-	1,376,200
Public works	303,565	-	303,565	-	303,565
Parks and recreation	245,059	-	245,059	-	245,059
Debt service	746	-	746	177,683	178,429
Unrestricted	(31,636,160)	(12,452,760)	(44,088,920)	2,664,238	(41,424,682)
Total Net Position	14,793,389	85,559,061	100,352,450	4,295,219	104,647,669
Total Liabilities and Net Position	\$ 115,535,052	\$ 272,534,502	\$ 388,069,554	\$ 76,188,588	\$ 464,258,142

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

<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	\$ 631,301	\$ -	\$ -	\$ -
Legislative department	115,817	-	-	-
Office of the City Treasurer/Controller	17,000	-	-	-
General government	6,371,359	3,185,309	1,803,772	-
Public safety	35,434,664	3,929,981	1,309,606	3,167
Economic development and neighborhood revitalization	7,974,351	1,979,367	4,149,625	-
Public works	9,875,386	122,545	1,752,779	6,290,780
Miscellaneous	116,471	1,233	75,878	-
Interest	2,256,791	-	-	-
Total governmental activities	62,793,140	9,218,435	9,091,660	6,293,947
Business-type activities:				
Sewer	15,039,902	12,454,053	104,586	5,801,862
Water	21,652,156	20,804,328	168,044	117,928
Other enterprise fund	3,809,222	3,689,237	280,544	-
Total business-type activities	40,501,280	36,947,618	553,174	5,919,790
Total Primary Government	\$ 103,294,420	\$ 46,166,053	\$ 9,644,834	\$ 12,213,737
Component Units:				
Lancaster Industrial Development Authority	\$ 21,334	\$ 16,970	\$ -	\$ -
Lancaster Recreation Commission	3,016,708	2,687,665	463,500	-
The Parking Authority of the City of Lancaster	4,474,461	5,019,232	-	-
Redevelopment Authority of the City of Lancaster	2,752,072	385,757	762,927	3,358,800
Lancaster Downtown Investment District Authority	405,377	335,127	59,747	-
Total Component Units	\$ 10,669,952	\$ 8,444,751	\$ 1,286,174	\$ 3,358,800
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				
Total general revenues and transfers				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

Net (Expenses) Revenue and
Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
\$ (631,301)	\$ -	\$ (631,301)	\$ -	\$ (631,301)
(115,817)	-	(115,817)	-	(115,817)
(17,000)	-	(17,000)	-	(17,000)
(1,382,278)	-	(1,382,278)	-	(1,382,278)
(30,191,910)	-	(30,191,910)	-	(30,191,910)
(1,845,359)	-	(1,845,359)	-	(1,845,359)
(1,709,282)	-	(1,709,282)	-	(1,709,282)
(39,360)	-	(39,360)	-	(39,360)
(2,256,791)	-	(2,256,791)	-	(2,256,791)
<u>(38,189,098)</u>	<u>-</u>	<u>(38,189,098)</u>	<u>-</u>	<u>(38,189,098)</u>
-	3,320,599	3,320,599	-	3,320,599
-	(561,856)	(561,856)	-	(561,856)
-	160,559	160,559	-	160,559
-	2,919,302	2,919,302	-	2,919,302
<u>(38,189,098)</u>	<u>2,919,302</u>	<u>(35,269,796)</u>	<u>-</u>	<u>(35,269,796)</u>
-	-	-	(4,364)	(4,364)
-	-	-	134,457	134,457
-	-	-	544,771	544,771
-	-	-	1,755,412	1,755,412
-	-	-	(10,503)	(10,503)
-	-	-	<u>2,419,773</u>	<u>2,419,773</u>
24,845,893	-	24,845,893	-	24,845,893
531,810	-	531,810	-	531,810
5,068,230	-	5,068,230	-	5,068,230
1,612,612	-	1,612,612	-	1,612,612
440	-	440	-	440
2,382,254	-	2,382,254	-	2,382,254
55,934	64,147	120,081	1,363,391	1,483,472
836,363	(836,363)	-	-	-
<u>35,333,536</u>	<u>(772,216)</u>	<u>34,561,320</u>	<u>1,363,391</u>	<u>35,924,711</u>
(2,855,562)	2,147,086	(708,476)	3,783,164	3,074,688
<u>17,648,951</u>	<u>83,411,975</u>	<u>101,060,926</u>	<u>512,055</u>	<u>101,572,981</u>
<u>\$ 14,793,389</u>	<u>\$ 85,559,061</u>	<u>\$ 100,352,450</u>	<u>\$ 4,295,219</u>	<u>\$ 104,647,669</u>

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2013

	General Fund	Capital Projects	Debt Service Fund	Miscellaneous State Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 184,500	\$ -	\$ -	\$ -	\$ 606,173	\$ 790,673
Cash and cash equivalents - restricted	100,000	2,915,584	-	-	-	3,015,584
Investments	-	-	5,746	-	448,555	454,301
Investments - restricted	102,646	-	-	-	-	102,646
Receivables (net of allowance for uncollectibles):						
Taxes	2,423,841	-	-	-	-	2,423,841
Accounts	614,892	6,526	-	448,147	15,583	1,085,148
Investment income	-	-	-	-	121,722	121,722
Due from other funds	9,134,487	175,868	-	-	1,318,999	10,629,354
Due from other governments	369,058	-	-	2,877,287	979,157	4,225,502
Prepaid expenditures	49,480	-	-	1,712	312	51,504
Total Assets	\$ 12,978,904	\$ 3,097,978	\$ 5,746	\$ 3,327,146	\$ 3,490,501	\$ 22,900,275
Liabilities, Deferred Inflows of Resources, and Fund Balance						
Liabilities:						
Accounts payable	\$ 607,739	\$ 817,423	\$ 5,000	\$ 2,185,255	\$ 540,242	\$ 4,155,659
Due to other funds	-	-	-	1,019,905	-	1,019,905
Due to other governments	-	-	-	-	6	6
Accrued salaries and benefits	641,845	-	-	-	4,498	646,343
Unearned revenue	5,133	-	-	121,986	85,650	212,769
Other liabilities	59,773	-	-	-	1,240	61,013
Workers' compensation liability	157,062	-	-	-	-	157,062
Total Liabilities	1,471,552	817,423	5,000	3,327,146	631,636	6,252,757
Deferred Inflows of Resources:						
Unavailable revenue - taxes	871,278	-	-	-	-	871,278
Fund Balance:						
Nonspendable:						
Prepaid expenditures	49,480	-	-	-	-	49,480
Restricted for:						
Capital acquisition	-	2,280,555	-	-	-	2,280,555
Housing and neighborhood development	-	-	-	-	271,644	271,644
Economic and community development	-	-	-	-	1,376,200	1,376,200
Public works	-	-	-	-	303,565	303,565
Parks and recreation	-	-	-	-	245,059	245,059
Debt service	-	-	746	-	-	746
Committed for:						
Economic and community development	-	-	-	-	662,397	662,397
Assigned for:						
2014 budget	1,689,975	-	-	-	-	1,689,975
Debt service	3,700,000	-	-	-	-	3,700,000
Excess medical expenditures	600,000	-	-	-	-	600,000
Excess workers' compensation expenditures	750,000	-	-	-	-	750,000
ERP system replacement	650,000	-	-	-	-	650,000
Unassigned	3,196,619	-	-	-	-	3,196,619
Total Fund Balance	10,636,074	2,280,555	746	-	2,858,865	15,776,240
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 12,978,904	\$ 3,097,978	\$ 5,746	\$ 3,327,146	\$ 3,490,501	\$ 22,900,275

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, 2013

Total Fund Balance - Governmental Funds		\$ 15,776,240
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.		69,831,144
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.		12,528,547
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 unavailable revenue in the funds.		871,278
Notes receivable are long-term in nature and are not available to pay current period expenditures and, therefore, are not reported in the funds.		6,991,065
Prepaid debt insurance resulting from insurance paid with the issuance of debt are not financial resources and, therefore, are not reported in the funds.		559,503
Deferred charges on refunding resulting from the issuance of debt are not financing uses and, therefore, are not reported in the funds.		781,974
Embedded derivative instrument is not a financial resource and, therefore, is not reported in the funds.		472,151
Long-term liabilities 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	\$ (39,243,792)	
General obligation notes	(10,910,000)	
Accrued interest on general obligation bonds and notes	(368,459)	
Capital leases	(663,600)	
Borrowing payable - basis swap	(1,401,230)	
Compensated absences payable	(1,227,412)	
Workers' compensation liability	(1,059,961)	
Net other post-employment liability	<u>(39,690,801)</u>	(94,565,255)
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	1,513,907	
Adjustment related to proprietary funds	<u>32,835</u>	<u>1,546,742</u>
Total Net Position - Governmental Activities		\$ <u><u>14,793,389</u></u>

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, 2013

	General Fund	Capital Projects	Debt Service Fund	Miscellaneous State Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 32,196,756	\$ -	\$ -	\$ -	\$ -	\$ 32,196,756
Intergovernmental revenues	2,576,466	-	-	8,811,950	4,242,359	15,630,775
Licenses and permits	1,778,055	-	-	-	-	1,778,055
Fines and forfeitures	2,256,065	-	-	-	-	2,256,065
Rents and charges for services	1,598,930	-	-	-	51,505	1,650,435
Program income	-	-	-	-	276,046	276,046
Investment income	277	8,864	40	-	55,341	64,522
Miscellaneous	2,281,636	40,910	-	-	25,862	2,348,408
Total revenues	<u>42,688,185</u>	<u>49,774</u>	<u>40</u>	<u>8,811,950</u>	<u>4,651,113</u>	<u>56,201,062</u>
Expenditures:						
Executive department	631,301	-	-	-	-	631,301
Legislative department	115,817	-	-	-	-	115,817
Office of the City Treasurer/Controller	17,000	-	-	-	-	17,000
General government	5,788,610	-	-	3,613,950	-	9,402,560
Public safety	30,762,669	-	-	288,156	843,739	31,894,564
Economic development and neighborhood revitalization	2,234,263	1,541,849	-	2,288,008	2,299,199	8,363,319
Public works	6,053,904	-	-	1,055,478	1,389,925	8,499,307
Miscellaneous	-	-	-	-	116,471	116,471
Capital outlay	-	5,531,616	-	-	-	5,531,616
Debt service:						
Principal	190,270	-	2,028,800	-	57,881	2,276,951
Interest	24,557	-	2,312,480	-	8,275	2,345,312
Total expenditures	<u>45,818,391</u>	<u>7,073,465</u>	<u>4,341,280</u>	<u>7,245,592</u>	<u>4,715,490</u>	<u>69,194,218</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,130,206)</u>	<u>(7,023,691)</u>	<u>(4,341,240)</u>	<u>1,566,358</u>	<u>(64,377)</u>	<u>(12,993,156)</u>
Other Financing Sources (Uses):						
Interfund reimbursements	3,132,846	-	-	-	-	3,132,846
Capital lease	263,166	-	-	-	-	263,166
Sale of general capital assets	28,110	-	-	-	-	28,110
Transfers in	2,500,000	-	4,341,240	-	-	6,841,240
Transfers out	(4,280,868)	-	-	(1,566,358)	(157,651)	(6,004,877)
Total other financing sources (uses)	<u>1,643,254</u>	<u>-</u>	<u>4,341,240</u>	<u>(1,566,358)</u>	<u>(157,651)</u>	<u>4,260,485</u>
Net Change in Fund Balance	<u>(1,486,952)</u>	<u>(7,023,691)</u>	<u>-</u>	<u>-</u>	<u>(222,028)</u>	<u>(8,732,671)</u>
Fund Balance:						
Beginning of year	12,123,026	9,304,246	746	-	3,080,893	24,508,911
End of year	<u>\$ 10,636,074</u>	<u>\$ 2,280,555</u>	<u>\$ 746</u>	<u>\$ -</u>	<u>\$ 2,858,865</u>	<u>\$ 15,776,240</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, 2013

Net Change in Fund Balance - Governmental Funds \$ (8,732,671)

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	\$ (2,680,301)	
Capital outlay	<u>12,308,594</u>	9,628,293

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.

(91,745)

Bond, note, and capital lease proceeds 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	2,276,951	
Capital lease	<u>(263,166)</u>	2,013,785

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 it accrues.

Change in borrowing payable - basis swap	164,620	
Change in compensated absences payable	(138,530)	
Change in workers' compensation liability	(287,044)	
Change in other post-employment liability	(5,635,224)	
Change in accrued interest on debt	10,742	
Amortization of prepaid debt insurance	(53,760)	
Amortization of debt premium	46,149	
Amortization of deferred charge on refunding	(79,230)	
Change in value of embedded derivative instrument	(316,395)	
Change in net pension asset	<u>(256,103)</u>	(6,544,775)

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	746,019	
Principal payments received	(405,943)	
Change in allowance	<u>(83,012)</u>	257,064

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.

Change in unavailable tax revenue (138,996)

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	752,841	
Adjustment related to proprietary funds	<u>642</u>	<u>753,483</u>

Change in Net Position - Governmental Activities \$ (2,855,562)

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET PROPRIETARY FUNDS

DECEMBER 31, 2013

Assets and Deferred Outflows of Resources	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund	Total	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 300	\$ 550	\$ -	\$ 850	\$ 2,201,158
Cash and cash equivalents - restricted	29,667,195	10,583,976	-	40,251,171	-
Investments - restricted	467,593	-	-	467,593	-
Receivables (net of allowance for uncollectibles):					
Accounts	3,235,194	3,397,839	1,375,716	8,008,749	-
Other	74,332	32,880	42,452	149,664	-
Due from other funds	-	-	-	-	256,305
Due from other governments	-	63,723	-	63,723	-
Prepaid expenses	93,804	7,253	1,794	102,851	-
Total current assets	33,538,418	14,086,221	1,419,962	49,044,601	2,457,463
Long-term assets:					
Due from other governments	153,554	-	-	153,554	-
Prepaid debt insurance	609,597	979,537	-	1,589,134	-
Capital assets, not being depreciated	1,926,014	2,930,555	-	4,856,569	-
Capital assets, being depreciated, net	87,627,960	135,910,178	364,352	223,902,490	-
Total long-term assets	90,317,125	139,820,270	364,352	230,501,747	-
Total Assets	123,855,543	153,906,491	1,784,314	279,546,348	2,457,463
Deferred Outflows of Resources:					
Deferred charge on refunding	918,600	1,968,143	-	2,886,743	-
Total Deferred Outflows of Resources	918,600	1,968,143	-	2,886,743	-
Total Assets and Deferred Outflows of Resources	\$ 124,774,143	\$ 155,874,634	\$ 1,784,314	\$ 282,433,091	\$ 2,457,463

(Continued)

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

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund	Total	
Liabilities and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable	\$ 2,037,108	\$ 1,685,559	\$ 256,184	\$ 3,978,851	\$ -
Claims payable	-	-	-	-	943,556
Accrued salaries and benefits	65,596	120,121	9,586	195,303	-
Accrued expenses	271,599	855,374	-	1,126,973	-
Due to other funds	2,342,599	6,795,046	728,109	9,865,754	-
Due to other governments	9,337,943	-	-	9,337,943	-
Unearned revenue	214,254	-	-	214,254	-
Compensated absences, current portion	15,055	14,441	-	29,496	-
Workers' compensation liability	127	33,128	-	33,255	-
Capital lease, current portion	164,041	82,440	24,753	271,234	-
Notes payable, current portion	870,000	990,767	-	1,860,767	-
Bonds payable, current portion	840,000	981,600	-	1,821,600	-
Total current liabilities	<u>16,158,322</u>	<u>11,558,476</u>	<u>1,018,632</u>	<u>28,735,430</u>	<u>943,556</u>
Long-term liabilities:					
Due to other governments	467,593	-	-	467,593	-
Compensated absences	66,455	63,742	6,265	136,462	-
Workers' compensation liability	859	223,570	-	224,429	-
Net other post-employment liability	2,884,793	3,196,592	82,889	6,164,274	-
Capital lease	317,843	176,776	48,271	542,890	-
Notes payable	10,392,781	11,432,702	-	21,825,483	-
Bonds payable	31,764,478	106,980,156	-	138,744,634	-
Total long-term liabilities	<u>45,894,802</u>	<u>122,073,538</u>	<u>137,425</u>	<u>168,105,765</u>	<u>-</u>
Total Liabilities	<u>62,053,124</u>	<u>133,632,014</u>	<u>1,156,057</u>	<u>196,841,195</u>	<u>943,556</u>
Net Position:					
Net investment in capital assets	61,709,827	30,791,724	291,328	92,792,879	-
Restricted	5,218,942	-	-	5,218,942	-
Unrestricted	(4,207,750)	(8,549,104)	336,929	(12,419,925)	1,513,907
Total Net Position	<u>62,721,019</u>	<u>22,242,620</u>	<u>628,257</u>	<u>85,591,896</u>	<u>1,513,907</u>
Total Liabilities and Net Position	<u>\$ 124,774,143</u>	<u>\$ 155,874,634</u>	<u>\$ 1,784,314</u>	<u>\$ 282,433,091</u>	<u>\$ 2,457,463</u>
Total net position of enterprise funds				\$ 85,591,896	
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.				(32,835)	
Net position of business-type activities				<u>\$ 85,559,061</u>	

(Concluded)

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, 2013

	Enterprise Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund		
Operating Revenues:					
Charges for services	\$ 12,174,611	\$ 20,325,490	\$ 3,681,981	\$ 36,182,082	\$ 11,763,907
Miscellaneous	279,442	478,838	7,256	765,536	-
Total operating revenues	<u>12,454,053</u>	<u>20,804,328</u>	<u>3,689,237</u>	<u>36,947,618</u>	<u>11,763,907</u>
Operating Expenses:					
Sewage pumping stations	1,088,048	-	-	1,088,048	-
Susquehanna treatment plant	-	2,307,776	-	2,307,776	-
Conestoga treatment plant	-	2,242,765	-	2,242,765	-
Collection system	743,440	-	508,514	1,251,954	-
Hauling and tipping	-	-	3,091,980	3,091,980	-
Transmission and distribution	-	1,306,020	-	1,306,020	-
Meters and meter labor	-	647,740	-	647,740	-
Laboratory	-	262,587	-	262,587	-
Sewage treatment plant	4,116,587	-	-	4,116,587	-
Administration	3,330,533	5,310,231	181,013	8,821,777	-
Grounds maintenance	139,120	393,036	36,387	568,543	-
Wastewater and green initiatives	824,299	-	-	824,299	-
Health insurance claims	-	-	-	-	10,126,703
Insurance premiums	-	-	-	-	884,458
Depreciation expense	2,878,714	3,542,853	16,693	6,438,260	-
Total operating expenses	<u>13,120,741</u>	<u>16,013,008</u>	<u>3,834,587</u>	<u>32,968,336</u>	<u>11,011,161</u>
Operating Income (Loss)	<u>(666,688)</u>	<u>4,791,320</u>	<u>(145,350)</u>	<u>3,979,282</u>	<u>752,746</u>
Nonoperating Revenues (Expenses):					
State pension contribution	104,586	168,044	10,239	282,869	-
Investment income	43,936	20,186	25	64,147	95
Intergovernmental revenue	-	-	270,305	270,305	-
Amortization expense	(59,166)	(75,813)	-	(134,979)	-
Interest expense	(1,921,995)	(5,471,564)	(3,764)	(7,397,323)	-
Total nonoperating revenues (expenses)	<u>(1,832,639)</u>	<u>(5,359,147)</u>	<u>276,805</u>	<u>(6,914,981)</u>	<u>95</u>
Income (loss) before transfers and capital contributions	(2,499,327)	(567,827)	131,455	(2,935,699)	752,841
Transfers in (out)	1,663,636	(2,499,999)	-	(836,363)	-
Capital contributions	5,801,862	117,928	-	5,919,790	-
Change in Net Position	<u>4,966,171</u>	<u>(2,949,898)</u>	<u>131,455</u>	<u>2,147,728</u>	<u>752,841</u>
Net Position:					
Beginning of year	57,754,848	25,192,518	496,802		761,066
End of year	<u>\$ 62,721,019</u>	<u>\$ 22,242,620</u>	<u>\$ 628,257</u>		<u>\$ 1,513,907</u>
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds				<u>(642)</u>	
Changes in net position of business-type activities				<u>\$ 2,147,086</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, 2013

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Fund	Total	
Cash Flows From Operating Activities:					
Cash received from users	\$ 12,453,946	\$ 20,763,465	\$ 3,587,841	\$ 36,805,252	\$ 11,763,907
Cash paid to suppliers	(8,978,721)	(7,475,885)	(3,334,407)	(19,789,013)	(10,434,448)
Cash paid to employees	(2,327,097)	(4,687,171)	(443,758)	(7,458,026)	-
Net cash provided by (used in) operating activities	1,148,128	8,600,409	(190,324)	9,558,213	1,329,459
Cash Flows From Investing Activities:					
Investment income received	1,018,051	20,186	25	1,038,262	95
Net sale of investments	43,936	-	-	43,936	-
Net cash provided by investing activities	1,061,987	20,186	25	1,082,198	95
Cash Flows From Capital and Related Financing Activities:					
Principal payments on capital leases	(170,503)	(102,665)	(23,732)	(296,900)	-
Principal payments on notes payable	(840,000)	(959,549)	-	(1,799,549)	-
Principal payments on bonds payable	(535,000)	(956,200)	-	(1,491,200)	-
Proceeds from note payable	592,781	-	-	592,781	-
Interest paid	(1,917,708)	(5,372,611)	(3,763)	(7,294,082)	-
Acquisition of capital assets	(10,499,167)	(2,976,003)	-	(13,475,170)	-
Net change in escrow deposits	8,428,819	-	-	8,428,819	-
Net cash used in capital and related financing activities	(4,940,778)	(10,367,028)	(27,495)	(15,335,301)	-
Cash Flows From Noncapital Financing Activities:					
Transfer in (out)	1,663,636	(2,499,999)	-	(836,363)	-
Due to (from) other funds	(863,888)	1,607,003	(62,750)	680,365	(256,305)
State pension contribution	104,586	168,044	10,239	282,869	-
Intergovernmental revenue	-	-	270,305	270,305	-
Net cash provided by (used in) noncapital financing activities	904,334	(724,952)	217,794	397,176	(256,305)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,826,329)	(2,471,385)	-	(4,297,714)	1,073,249
Cash and Cash Equivalents:					
Beginning of year	31,493,824	13,055,911	-	44,549,735	1,127,909
End of year	\$ 29,667,495	\$ 10,584,526	\$ -	\$ 40,252,021	\$ 2,201,158

(Continued)

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2013
(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)	\$ (666,688)	\$ 4,791,320	\$ (145,350)	\$ 3,979,282	\$ 752,746
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	2,878,714	3,542,853	16,693	6,438,260	-
(Increase) decrease in assets:					
Receivables	99,958	(40,863)	(101,396)	(42,301)	-
Due from other governments	(100,065)	-	-	(100,065)	-
Prepaid expenses	(85,982)	(185)	(72)	(86,239)	-
Increase (decrease) in liabilities:					
Accounts payable	(1,388,182)	194,613	(6,828)	(1,200,397)	-
Claims payable	-	-	-	-	576,713
Accrued expenses	6,012	18,919	46,645	71,576	-
Compensated absences	15,829	1,523	(16)	17,336	-
Workers' compensation liability	(1,018)	235,066	-	234,048	-
Net other post-employment liability	389,550	(142,837)	-	246,713	-
Total adjustments	1,814,816	3,809,089	(44,974)	5,578,931	576,713
Net cash provided by (used in) operating activities	<u>\$ 1,148,128</u>	<u>\$ 8,600,409</u>	<u>\$ (190,324)</u>	<u>\$ 9,558,213</u>	<u>\$ 1,329,459</u>
Noncash Capital Financing Activities:					
Proceeds from capital lease	<u>\$ 334,665</u>	<u>\$ 134,522</u>	<u>\$ -</u>	<u>\$ 469,187</u>	<u>\$ -</u>
Developers' contribution	<u>\$ -</u>	<u>\$ 117,928</u>	<u>\$ -</u>	<u>\$ 117,928</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, 2013

	Pension and OPEB Trust Funds	Private- Purpose Trust	Agency Funds
Assets			
Cash and cash equivalents	\$ 39,711	\$ -	\$ 399,705
Investments	112,772,612	313,031	-
Receivables:			
Accounts	-	-	26,224
Investment income	338,409	-	-
Other	-	-	1,490
Total Assets	113,150,732	313,031	427,419
Liabilities			
Benefits payable	-	-	4,158
Other liabilities	33,017	-	423,261
Total Liabilities	33,017	-	\$ 427,419
Net Position			
Restricted for pension and OPEB benefits and other purposes	\$113,117,715	\$ 313,031	

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, 2013

	Pension and OPEB Trust Funds	Private- Purpose Trust
Additions:		
Contributions:		
Employees	\$ 1,400,070	\$ -
Employer	5,522,256	-
Total contributions	<u>6,922,326</u>	<u>-</u>
Investment income:		
Net appreciation in fair value of investments	12,339,769	5,709
Interest and dividends	2,813,430	35,166
Total investment income	15,153,199	40,875
Less: investment expenses	<u>(382,936)</u>	<u>-</u>
Net investment income	<u>14,770,263</u>	<u>40,875</u>
Total additions	<u>21,692,589</u>	<u>40,875</u>
Deductions:		
Benefits	7,723,697	35,467
Administrative expenses	164,144	-
Total deductions	<u>7,887,841</u>	<u>35,467</u>
Change in Net Position	13,804,748	5,408
Net Position:		
Beginning of year	<u>99,312,967</u>	<u>307,623</u>
End of year	<u>\$ 113,117,715</u>	<u>\$ 313,031</u>

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET COMPONENT UNITS

DECEMBER 31, 2013

	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 and Deferred Outflows of Resources						
Assets:						
Current assets:						
Cash and cash equivalents	\$ 332,527	\$ 362,978	\$ 1,510,431	\$ 202,081	\$ 77,320	\$ 2,485,337
Cash and cash equivalents - restricted	-	-	-	1,824,266	-	1,824,266
Investments - restricted	-	-	3,070,592	-	-	3,070,592
Receivables (net of allowance for uncollectibles)						
Accounts	-	125,385	11,236	575,289	180	712,090
Other	-	-	-	156,777	39,335	196,112
Accrued interest	-	-	-	617,636	-	617,636
Current portion:						
Lease rental receivable	-	-	-	2,030,848	-	2,030,848
Due from other governments	-	-	-	3,257,225	-	3,257,225
Notes receivable	200,000	-	-	164,642	-	364,642
Properties held for resale	-	-	-	347,000	-	347,000
Prepaid expenses	-	-	107,606	-	-	107,606
Total current assets	532,527	488,363	4,699,865	9,175,764	116,835	15,013,354
Long-term assets:						
Lease rental receivable	-	-	-	23,255,454	-	23,255,454
Due from other governments	-	-	-	8,103,618	-	8,103,618
Notes receivable	-	-	-	1,373,770	-	1,373,770
Capital assets, not being depreciated	-	-	3,695,871	8,887,697	-	12,583,568
Capital assets, being depreciated, net	-	144,259	15,666,007	-	9,450	15,819,716
Total long-term assets	-	144,259	19,361,878	41,620,539	9,450	61,136,126
Total Assets	532,527	632,622	24,061,743	50,796,303	126,285	76,149,480
Deferred Outflows of Resources:						
Deferred charge on refunding	-	-	39,108	-	-	39,108
Total Deferred Outflows of Resources	-	-	39,108	-	-	39,108
Total Assets and Deferred Outflows of Resources	\$ 532,527	\$ 632,622	\$ 24,100,851	\$ 50,796,303	\$ 126,285	\$ 76,188,588

(Continued)

* - As of April 30, 2013

	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						
Liabilities:						
Current liabilities:						
Accounts payable	\$ -	\$ 17,763	\$ 51,683	\$ 2,268,881	\$ 507	\$ 2,338,834
Accrued salaries and benefits	-	-	30,057	-	-	30,057
Accrued expenses	-	107,206	132,301	116,430	6,018	361,955
Line of credit	-	-	-	3,488,679	-	3,488,679
Due to primary government	-	-	-	317,662	-	317,662
Unearned revenue	-	8,607	77,798	977,458	-	1,063,863
Contingent liability from property resettlements	-	-	-	203,500	-	203,500
Capital lease, current portion	-	1,239	-	-	-	1,239
Loans payable, current portion	-	-	150,000	-	-	150,000
Notes payable, current portion	-	-	-	39,000	-	39,000
Bonds payable, current portion	-	-	690,000	1,527,675	-	2,217,675
Total current liabilities	-	134,815	1,131,839	8,939,285	6,525	10,212,464
Long-term liabilities:						
Unearned revenue	-	-	-	9,815,031	-	9,815,031
Due to lessee	-	-	-	1,000,273	-	1,000,273
Loans payable	-	-	900,000	-	-	900,000
Notes payable	-	-	-	1,223,955	-	1,223,955
Bonds payable	-	-	25,045,630	23,696,016	-	48,741,646
Total long-term liabilities	-	-	25,945,630	35,735,275	-	61,680,905
Total Liabilities	-	134,815	27,077,469	44,674,560	6,525	71,893,369
Net Position:						
Net investment in capital assets	-	143,020	(4,314,052)	4,685,123	9,450	523,541
Restricted	-	-	-	1,107,440	-	1,107,440
Unrestricted	532,527	354,787	1,337,434	329,180	110,310	2,664,238
Total Net Position	532,527	497,807	(2,976,618)	6,121,743	119,760	4,295,219
Total Liabilities and Net Position	\$ 532,527	\$ 632,622	\$ 24,100,851	\$ 50,796,303	\$ 126,285	\$ 76,188,588

(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, 2013

		Program Revenues		
Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Lancaster Industrial Development Authority	\$ 21,334	\$ 16,970	\$ -	\$ -
Lancaster Recreation Commission	3,016,708	2,687,665	463,500	-
The Parking Authority of the City of Lancaster	4,474,461	5,019,232	-	-
Redevelopment Authority of the City of Lancaster	2,752,072	385,757	762,927	3,358,800
Lancaster Downtown Investment District Authority *	405,377	335,127	59,747	-
Total component units	\$ 10,669,952	\$ 8,444,751	\$ 1,286,174	\$ 3,358,800
General revenues:				
Investment earnings				
Total general revenues				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

* - Year ended April 30, 2013

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
\$ (4,364)	\$ -	\$ -	\$ -	\$ -	\$ (4,364)
-	134,457	-	-	-	134,457
-	-	544,771	-	-	544,771
-	-	-	1,755,412	-	1,755,412
-	-	-	-	(10,503)	(10,503)
<u>(4,364)</u>	<u>134,457</u>	<u>544,771</u>	<u>1,755,412</u>	<u>(10,503)</u>	<u>2,419,773</u>
<u>1,601</u>	<u>459</u>	<u>(233,447)</u>	<u>1,594,778</u>	<u>-</u>	<u>1,363,391</u>
<u>1,601</u>	<u>459</u>	<u>(233,447)</u>	<u>1,594,778</u>	<u>-</u>	<u>1,363,391</u>
<u>(2,763)</u>	<u>134,916</u>	<u>311,324</u>	<u>3,350,190</u>	<u>(10,503)</u>	<u>3,783,164</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>
<u>\$ 532,527</u>	<u>\$ 497,807</u>	<u>\$ (2,976,618)</u>	<u>\$ 6,121,743</u>	<u>\$ 119,760</u>	<u>\$ 4,295,219</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013

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, 2013, 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, 2013

During the year ended December 31, 2013, the City paid the Parking Authority \$127,192 for employee parking.

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.

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. MOOSE meets the criteria for inclusion as a blended component unit in the City's financial statements; however, the activity of MOOSE is deemed immaterial to the City's financial statements as a whole and, therefore, is not included.

City of Lancaster Revitalization and Improvement Zone Authority (CRIZ)

In October 2013, the City adopted an ordinance organizing the CRIZ for the purposes of designating City Revitalization and Improvement Zones in order to engage in and finance economic development projects in such zones. The CRIZ board consists of nine voting members. Six members of the board are nominated by the State Senator representing the City and three members are nominated by the Mayor. All nine appointments must be approved by City Council. The City's preliminary determination is that the CRIZ meets the criteria for

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

inclusion as a discretely presented component unit in the City's financial statements; however, there was no activity for the CRIZ during the year ended December 31, 2013.

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 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.

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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.

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.

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

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2013

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.

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.

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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.

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.

CITY OF LANCASTER, PENNSYLVANIA

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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 accounting principles generally accepted in the United States of America. However, the effect of this departure is immaterial to the discretely presented 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.

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C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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.

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 unavailable 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 reports 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. Other differences may be the result of

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application of accounting principles generally accepted in the United States of America regarding contingent liabilities and receivables.

Unavailable/Unearned Revenues

Unavailable revenue is recorded for governmental fund receivables that are not both measurable and available. Unavailable revenue consists of real estate taxes, earned income taxes, and local services taxes. Collections of real estate taxes, earned income taxes, and local services taxes are recognized as revenue in the year in which they are measurable and available.

Inflows that do not yet meet the criteria for revenue recognition, such as grant revenues collected in advance, are recorded as unearned revenue for both the government-wide and the governmental fund financial statements. For the Parking Authority, parking fees, contract parking income, and lease rental revenue are recognized in the period when such revenues pertain. Any amounts collected in advance of such periods are reflected in the balance sheet as unearned revenue.

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 fund's balance sheet and the government-wide statement of net position.

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

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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.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

Net position of the government-wide and proprietary funds is 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount. 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 and deferred inflows of resources payable from restricted assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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Redevelopment Authority

At December 31, 2013, the Redevelopment Authority has the following restricted balances:

Restricted for parking garage construction cost	\$ 741,586
Restricted for debt service	<u>365,854</u>
	<u>\$ 1,107,440</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	5 to 30 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 an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at cost. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	5 to 7 years
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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 business-type activities 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.

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2013

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 2013, the City assessed 13.04 mills for general government purposes.

Compensated Absences

The City allows nonuniformed employees and uniformed police officers to accumulate up to a maximum of 200 hours and uniformed firefighters to accumulate up to a maximum of 480 hours 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, 2013, the aggregate cost to the City for the accumulated compensatory time has been estimated at \$850,411 and \$99,884 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, 2013, the aggregate cost to the City for accumulated vested sick days has been estimated at \$148,146 and \$6,600 for governmental activities and business-type activities, respectively.

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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 by the employee's current salary rate to determine the aggregate cost. For the year ended December 31, 2013, the aggregate cost to the City for accumulated vacation days has been estimated at \$228,855 and \$59,474 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. Actual results could differ from those estimates.

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" This Statement reclassifies certain items that were reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of this statement, reclassifications have been made. Under GASB Statement No. 65, debt issuance costs, excluding debt insurance, are fully expensed in the year of issuance.

Pending Pronouncements

In June 2012, the GASB has issued Statements No. 67 and No. 68, "*Financial Reporting for Pension Plans,*" and "*Accounting and Financial Reporting for Pensions.*" In addition, in November 2013, the GASB issued Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date.*" The objective of these Statements is to revise and establish reporting requirements for most governments that provide their employees with

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pension benefits. The provisions of these Statements are effective for the City's December 31, 2014 and 2015 financial statements.

In April 2013, the GASB 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, 2013, the book balance of the pooled funds was \$31,351,770 and the bank balance was \$31,421,424.

A. Deposits

Custodial credit risk. 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, 2013, the City's book balance was \$46,698,852 and the bank balance was \$46,698,255. Of the bank balance, \$1,076,290 was covered by federal depository insurance, \$45,621,100 was collateralized under Act No. 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

CITY OF LANCASTER, PENNSYLVANIA

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defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits, and \$865 was uninsured.

Cash and cash equivalents:	
Governmental activities:	
Unrestricted	\$ 2,991,831
Restricted	3,015,584
Business-type activities:	
Unrestricted	850
Restricted	40,251,171
Fiduciary funds	439,416
Total cash and cash equivalents	<u>\$ 46,698,852</u>

B. Investments

The fair value of the investments of the City at December 31, 2013 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 7,641,354
U.S. government agency obligations	268,504
U.S. government obligations	17,540,103
Corporate bonds and notes	13,213,007
Mutual funds - balanced	5,402,346
Mutual funds - fixed income	953,529
Mutual funds - equities	965,867
Equities	68,125,473
Total investments	<u>\$ 114,110,183</u>
<u>Investments</u>	
Governmental activities:	
Unrestricted	\$ 454,301
Restricted	102,646
Business-type activities:	
Restricted	467,593
Fiduciary funds	113,085,643
Total investments	<u>\$ 114,110,183</u>

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

CITY OF LANCASTER, PENNSYLVANIA

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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 \$107,227,130 held in the City's name or in the name of the City's multiple Pension Plans and \$6,883,053 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, 2013, more than five percent of the City's investments were held with the following issuer:

	<u>Fair Value</u>	<u>Percent of Investments</u>
Goldman Sachs Financial Square Federal Fund Money Market Fund	\$ 5,882,788	5.13%

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, 2013:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 5,858,535	AAA
Money market funds	1,782,819	Unrated
U.S. government agency obligations	268,504	AA+
U.S. government obligations	17,540,103	AA+
Corporate bonds and notes	976,506	AAA
Corporate bonds and notes	967,550	AA+
Corporate bonds and notes	1,034,363	AA
Corporate bonds and notes	2,033,753	AA-
Corporate bonds and notes	3,266,670	A+
Corporate bonds and notes	334,312	A
Corporate bonds and notes	4,599,853	A-

CITY OF LANCASTER, PENNSYLVANIA

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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			Subsequent to 2024
		2014	2015-2019	2020-2024	
Money market funds	\$ 7,641,354	\$ 7,641,354	\$ -	\$ -	\$ -
U.S. government agency obligations	268,504	1,694	103,022	23,391	140,397
U.S. government obligations	17,540,103	11,318,689	5,841,810	379,604	-
Corporate bonds and notes	13,213,007	267,649	8,163,202	4,782,156	-
	<u>\$ 38,662,968</u>	<u>\$ 19,229,386</u>	<u>\$ 14,108,034</u>	<u>\$ 5,185,151</u>	<u>\$ 140,397</u>

C. Restricted Cash, Cash Equivalents, and Investments

Governmental Activities

As of December 31, 2013, the City had restricted cash, cash equivalents, and investments of \$3,118,230, which represents \$202,646 restricted for the payment of workers' compensation claims, and \$2,915,584 restricted for various City projects.

Business-Type Activities

As of December 31, 2013, the City had cash, cash equivalents, and investments of \$40,718,764 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, 2013. At times during the year ended December 31, 2013, LIDA's cash balances may have exceeded the federally insured limits.

CITY OF LANCASTER, PENNSYLVANIA

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Commission

The carrying amount of the Commission's deposits was \$362,978 as of December 31, 2013. The bank balance totaled \$378,072 as of December 31, 2013.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. Act No. 72 of 1971, as amended, allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

The bank balance of the Commission's cash deposits is categorized as follows to give an indication of the level of risk assumed by the Commission at December 31, 2013:

Insured	\$ 325,774
Collateralized	
Collateral held by pledging bank's trust department not in the Commission's name	<u>52,298</u>
Total	<u><u>\$ 378,072</u></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 at December 31, 2013 consist of the following:

Cash Deposits:	
Cash and cash equivalents	\$ 1,488,458
Petty cash	<u>21,973</u>
	<u><u>\$ 1,510,431</u></u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Parking Authority's deposits may not be returned to it. The Parking Authority has custodial credit risk on cash deposits. 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.

CITY OF LANCASTER, PENNSYLVANIA

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As of December 31, 2013, the Parking Authority's cash deposits were \$1,488,458. The bank balance as of December 31, 2013 was \$1,674,745. At December 31, 2013, \$418,021 was covered by federal depository insurance and \$1,256,724 was collateralized under Act No. 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.

B. Investments

As of December 31, 2013, the Parking Authority had the following investments:

<u>Investments</u>	<u>Fair Value</u>
U.S. Government Money Market Fund	\$ 1,423,160
U.S. Government Securities Fixed Income Securities	1,647,432
	<u>\$ 3,070,592</u>

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 Parking Authority does not have a formal policy that would limit its investment choices with regard to custodial credit risk. At December 31, 2013, all investments of the Parking Authority are held by the financial institution's department or agency, in the Parking Authority's name.

Concentration of credit risk. The Parking Authority places no limits on the amount it may invest in any one issuer. At December 31, 2013, more than five percent of the Parking Authority's investments were held with the following issuers:

	<u>Fair Value</u>	<u>Percent of Investments</u>
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	\$ 1,423,160	46.35%

Credit risk. The Parking Authority does not have a formal policy that would limit its investment choices with regard to credit risk. As of December 31, 2013, the Parking Authority's investments in U.S. Government Securities Fixed Income Securities were rated AAA. As of December 31, 2013, the Parking Authority's investments in U.S. Government Money Market Fund were rated AAA.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The Parking Authority is permitted to invest its funds as defined in the Pennsylvania Parking Authorities Law. 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.

Interest rate risk. 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 warrant a longer term. At December 31, 2013, the Parking Authority's U.S. Government Money Market Fund investments had maturities of less than one year and the U.S. Government Securities Fixed Income Securities had maturities greater than 10 years.

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.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

does not have a policy for custodial credit risk. As of December 31, 2013, \$1,098,375 of the Redevelopment Authority's bank balance of \$1,661,371 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>\$ 1,098,375</u>
Reconciliation to financial statements:	
Uninsured amount above	\$ 1,098,375
Insured amount	562,996
Outstanding checks	(1,150)
Money market fund shown as cash and cash equivalents	<u>366,126</u>
	<u>\$ 2,026,347</u>
Cash and cash equivalent - unrestricted per financial statements	\$ 202,081
Cash and cash equivalent - restricted per financial statements	<u>1,824,266</u>
Total cash per financial statements	<u>\$ 2,026,347</u>

B. Restrictions

Of the total cash and cash equivalents of \$2,026,347 at December 31, 2013, \$1,824,266 is restricted. \$1,126,965 is restricted for future redevelopment purposes, \$634,805 is restricted for future debt service requirements as per certain loan and bond documents, \$30,253 is restricted for capital improvements on behalf of a lessee, and \$32,243 is required to be used for parking garage construction costs as per the City.

C. Investments

As of December 31, 2013, the Redevelopment Authority held investments in the GS Financial Square Treasury Obligations money market fund with a fair market value of \$366,126, 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

risk. At December 31, 2013, 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, 2013.

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.

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, 2013, none of LDIDA's bank balance was exposed to custodial credit risk.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

3. RECEIVABLES

Primary Government

Governmental Activities

Receivables as of December 31, 2013, 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:

	<u>General</u>	<u>Capital Projects</u>	<u>Miscellaneous State Grants</u>	<u>Non-major funds</u>	<u>Governmental Activities</u>
Receivables:					
Taxes, gross	\$ 2,423,841	\$ -	\$ -	\$ -	\$ 2,423,841
Allowances for uncollectibles	-	-	-	-	-
Taxes, net	<u>2,423,841</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,423,841</u>
Accounts, gross	1,012,670	6,526	448,147	15,583	1,482,926
Allowances for uncollectibles	<u>(397,778)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(397,778)</u>
Accounts, net	<u>614,892</u>	<u>6,526</u>	<u>448,147</u>	<u>15,583</u>	<u>1,085,148</u>
Notes, gross	189,144	-	-	9,010,630	9,199,774
Allowances for uncollectibles	<u>(189,144)</u>	<u>-</u>	<u>-</u>	<u>(9,010,630)</u>	<u>(2,208,709)</u>
Notes, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,991,065</u>
Investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,722</u>	<u>121,722</u>
Total receivables	<u>\$ 3,038,733</u>	<u>\$ 6,526</u>	<u>\$ 448,147</u>	<u>\$ 137,305</u>	<u>\$ 10,621,776</u>

Notes Receivable

As of December 31, 2013, the City has outstanding program loans (notes receivable) aggregating \$9,199,774. These various program loans bear interest at rates ranging from 0% to 3%, maturing over terms of 1 to 30 years, through 2036.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

A summary of notes receivable activity for the year ended December 31, 2013 is as follows:

Balance January 1, 2013	New Loans Issued	Forgiveness/ Write-offs/ Principal Receipts	Balance December 31, 2013
\$ 6,734,001	\$ 746,019	\$ (488,955)	\$ 6,991,065

In addition, as of December 31, 2013, there were \$1,374,167 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	\$ 10,841,403	\$ 3,397,839	\$ 1,375,716	\$ 15,614,958
Allowances for uncollectibles	(7,606,209)	-	-	(7,606,209)
Accounts, net	3,235,194	3,397,839	1,375,716	8,008,749
Other, gross	74,332	32,880	42,452	149,664
Allowances for uncollectibles	-	-	-	-
Other, net	74,332	32,880	42,452	149,664
Total receivables	\$ 3,309,526	\$ 3,430,719	\$ 1,418,168	\$ 8,158,413

The Sewer Fund's allowance for uncollectible accounts totaling \$7,606,209 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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.

LIDA loaned \$100,000 to the Lancaster Housing Opportunity Partnership to further its activities in support of its goals as a nonprofit organization engaged in community economic development, at 1%, with all accrued interest and principal due November 1, 2018. The loan was made on November 1, 2013.

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, 2013 follows:

Delinquent taxes receivable	\$	590,821
Less: Allowance for doubtful accounts		<u>(15,532)</u>
Total receivables	\$	<u><u>575,289</u></u>

Annually, the Redevelopment Authority purchases the delinquent real estate tax claims of the City. During the year ended December 31, 2013, the Redevelopment Authority purchased the full amount of delinquent real estate tax claims from the City for the year 2012 with a total carrying value of \$1,011,872 for total consideration of \$995,185. 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

balances to the City. Therefore, the Redevelopment Authority has recorded a payable to the City in the amount of \$292,662 as of December 31, 2013, which reflects the cumulative positive results of the tax claim collections for the year ended December 31, 2013. 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. The City and the Redevelopment Authority may decide to repeat this transaction again as real estate taxes related to the City's tax years become delinquent.

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 interest rate 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 \$8,127,167 as of December 31, 2013 is presented as part of unearned revenue.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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Future Minimum Rental Payments:

The following schedule represents the future minimum rental payments due to the Redevelopment Authority as of December 31, 2013:

2014	\$ 2,030,848
2015	2,060,583
2016	2,092,468
2017	2,126,658
2018	2,163,319
2019 - 2023	11,466,273
2024 - 2028	3,246,153
2029 - 2031	100,000
Total	<u>\$ 25,286,302</u>

Commitments:

The Redevelopment Authority has committed portions of the minimum rental payments to be granted to the City's Mayor's Office of Special Events as follows:

2014	\$ 100,000
2015	100,000
2016	100,000
2017	100,000
2018	100,000
	<u>\$ 500,000</u>

The Redevelopment Authority has committed portions of the minimum rental payments to be granted to the Lancaster County Convention Center Authority as follows:

2014	\$ 100,000
2015	100,000
2016	100,000
2017	100,000
2018	100,000
2019 - 2020	200,000
	<u>\$ 700,000</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Due from Other Governments

A summary of the grant receivable due from other governmental units at December 31, 2013 follows:

Commonwealth of Pennsylvania:	
Redevelopment Assistance Capital Program Grant	\$ 2,799,607
Commonwealth of Pennsylvania:	
Infrastructure Facilities Improvement Program Grant	<u>8,561,236</u>
	11,360,843
Current portion	<u>3,257,225</u>
Long-term portion	<u><u>\$ 8,103,618</u></u>

Grant receivables related to the Infrastructure Facilities Improvement Program are 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 grants receivable has been discounted utilizing the interest rate underlying the associated bond series and is presented at its present value.

Grants receivables related to the Redevelopment Assistance Capital Program Grant are restricted for debt service payments on the Redevelopment Authority's line of credit related to the construction of the parking garage.

A summary of interest due from other governmental units which has been accrued on grants at December 31, 2013 follows:

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Notes Receivable

Notes receivable at December 31, 2013 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.	\$ 16,733
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>1,521,679</u>
Current portion	1,538,412
Long-term portion	<u>164,642</u>
	<u>\$ 1,373,770</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, 2013, the City sold the full amount of delinquent real estate tax lien receivables for the 2012 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 2012 delinquent tax lien receivables at the date of sale was \$1,016,671, which is the total assessed

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

value of real estate taxes, plus any applicable penalties, less collections received from the County. The total received in 2013 by the City for this sale was \$938,091.

In February 2014, the City sold the full amount of delinquent real estate tax lien receivables for the 2013 tax year. The full amount received by the City for this sale was \$806,907 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.

434 E. Strawberry Street	\$	22,000
451-453 E. Mifflin Street		9,000
138 Stevens Avenue		31,500
346 South Prince Street		50,000
416 Howard Avenue		24,000
428 East Strawberry Street		12,000
526 East King Street		95,000
548 Beaver Street		26,000
318 Beaver Street		17,500
219 Juniata Street		30,000
459 Manor Street		19,000
308 Coral Street		11,000
		<u>347,000</u>
	\$	<u>347,000</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

6. CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended December 31, 2013 is as follows:

	December 31, 2012	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2013
Governmental activities				
Capital assets not being depreciated:				
Land, easements, right of ways	\$ 7,985,999	\$ 11,211	\$ -	\$ 7,997,210
Construction in progress	1,984,042	768,730	(1,784,042)	968,730
Total capital assets not being depreciated	9,970,041	779,941	(1,784,042)	8,965,940
Capital assets being depreciated:				
Land improvements	11,194,353	1,469,218	-	12,663,571
Buildings	34,800,469	9,229,722	-	44,030,191
Machinery and equipment	2,792,728	576,951	-	3,369,679
Vehicles	6,980,330	454,314	(372,290)	7,062,354
Infrastructure	36,332,679	1,582,490	-	37,915,169
Total capital assets being depreciated	92,100,559	13,312,695	(372,290)	105,040,964
Less accumulated depreciation for:				
Land improvements	(2,711,206)	(528,217)	-	(3,239,423)
Buildings	(7,603,172)	(681,250)	-	(8,284,422)
Machinery and equipment	(1,932,074)	(195,437)	-	(2,127,511)
Vehicles	(4,160,511)	(395,947)	280,545	(4,275,913)
Infrastructure	(25,369,041)	(879,450)	-	(26,248,491)
Total accumulated depreciation	(41,776,004)	(2,680,301)	280,545	(44,175,760)
Total capital assets being depreciated, net	50,324,555	10,632,394	(91,745)	60,865,204
Governmental activities, capital assets, net	\$ 60,294,596	\$ 11,412,335	\$ (1,875,787)	\$ 69,831,144

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

Governmental Activities:

General government	\$ 26,043
Public safety	666,252
Economic development and neighborhood revitalization	44,374
Public works	<u>1,943,632</u>

Total depreciation expense - governmental activities \$ 2,680,301

	<u>December 31,</u> <u>2012</u>	<u>Increase/ Transfers In</u>	<u>Decrease/ Transfers Out</u>	<u>December 31,</u> <u>2013</u>
Business-type activities:				
Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction in progress	<u>976,115</u>	<u>441,190</u>	<u>(976,115)</u>	<u>441,190</u>
Total capital assets not being depreciated	<u>2,460,939</u>	<u>441,190</u>	<u>(976,115)</u>	<u>1,926,014</u>
Capital assets being depreciated:				
Sewer system	131,990,707	10,934,100	-	142,924,807
Equipment and vehicles	<u>10,138,391</u>	<u>379,695</u>	<u>(30,480)</u>	<u>10,487,606</u>
Total capital assets being depreciated	<u>142,129,098</u>	<u>11,313,795</u>	<u>(30,480)</u>	<u>153,412,413</u>
Less accumulated depreciation for:				
Sewer system	(55,096,714)	(2,595,955)	-	(57,692,669)
Equipment and vehicles	<u>(7,839,505)</u>	<u>(282,759)</u>	<u>30,480</u>	<u>(8,091,784)</u>
Total accumulated depreciation	<u>(62,936,219)</u>	<u>(2,878,714)</u>	<u>30,480</u>	<u>(65,784,453)</u>
Total capital assets being depreciated, net	<u>79,192,879</u>	<u>8,435,081</u>	<u>-</u>	<u>87,627,960</u>
Sewer Fund capital assets, net	<u>81,653,818</u>	<u>8,876,271</u>	<u>(976,115)</u>	<u>89,553,974</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	<u>December 31, 2012</u>	<u>Increase/ Transfers In</u>	<u>Decrease/ Transfers Out</u>	<u>December 31, 2013</u>
Water Fund:				
Capital assets not being depreciated:				
Land	2,564,600	-	-	2,564,600
Construction in progress	157,143	365,955	(157,143)	365,955
Total capital assets not being depreciated	<u>2,721,743</u>	<u>365,955</u>	<u>(157,143)</u>	<u>2,930,555</u>
Capital assets being depreciated:				
Water system	176,781,344	2,960,506	-	179,741,850
Equipment and vehicles	4,104,896	214,534	(35,930)	4,283,500
Total capital assets being depreciated	<u>180,886,240</u>	<u>3,175,040</u>	<u>(35,930)</u>	<u>184,025,350</u>
Less accumulated depreciation for:				
Water system	(42,173,058)	(3,291,522)	-	(45,464,580)
Equipment and vehicles	(2,435,191)	(251,331)	35,930	(2,650,592)
Total accumulated depreciation	<u>(44,608,249)</u>	<u>(3,542,853)</u>	<u>35,930</u>	<u>(48,115,172)</u>
Total capital assets being depreciated, net	<u>136,277,991</u>	<u>(367,813)</u>	<u>-</u>	<u>135,910,178</u>
Water Fund capital assets, net	<u>138,999,734</u>	<u>(1,858)</u>	<u>(157,143)</u>	<u>138,840,733</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

	December 31, 2012	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2013
Other enterprise fund:				
Capital assets being depreciated:				
Buildings	281,016	-	-	281,016
Equipment and vehicles	162,804	-	-	162,804
Total capital assets being depreciated	443,820	-	-	443,820
Less accumulated depreciation for:				
Buildings	(50,332)	(4,614)	-	(54,946)
Equipment and vehicles	(12,443)	(12,079)	-	(24,522)
Total accumulated depreciation	(62,775)	(16,693)	-	(79,468)
Total other enterprise fund capital assets, net	381,045	(16,693)	-	364,352
Business-type activities capital assets, net	\$ 221,034,597	\$ 8,857,720	\$ (1,133,258)	\$ 228,759,059

Component Units

Commission

Major classifications of capital assets and their respective depreciable lives consist of the following as of December 31, 2013:

	December 31, 2012	Additions	Deletions	December 31, 2013	Depreciable Lives
Capital assets being depreciated:					
Furniture and equipment	\$ 282,330	\$ 2,835	\$ (71,028)	\$ 214,137	3 - 10 years
Project improvements	135,935	25,886	(21,953)	139,868	5 - 15 years
Vehicles	125,774	-	(35,856)	89,918	5 - 10 years
Total capital assets being depreciated	544,039	28,721	(128,837)	443,923	
Accumulated depreciation	(379,375)	(49,126)	128,837	(299,664)	
Capital assets being depreciated, net	\$ 164,664	\$ (20,405)	\$ -	\$ 144,259	

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Parking Authority

Capital asset activity for the year ended December 31, 2013 is as follows:

	<u>December 31,</u> <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2013</u>
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, and rental complex	32,291,679	504,025	-	32,795,704
Office furnishings and equipment	93,424	-	-	93,424
Equipment	3,350,416	17,385	-	3,367,801
Vehicles	88,843	-	-	88,843
Total capital assets being depreciated	<u>35,824,362</u>	<u>521,410</u>	<u>-</u>	<u>36,345,772</u>
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	(18,102,759)	(669,954)	-	(18,772,713)
Office furnishings and equipment	(71,513)	(4,664)	-	(76,177)
Equipment	(1,478,697)	(292,718)	-	(1,771,415)
Vehicles	(44,990)	(14,470)	-	(59,460)
Total accumulated depreciation	<u>(19,697,959)</u>	<u>(981,806)</u>	<u>-</u>	<u>(20,679,765)</u>
Total capital assets being depreciated, net	<u>16,126,403</u>	<u>(460,396)</u>	<u>-</u>	<u>15,666,007</u>
Total capital assets	<u>\$ 19,822,274</u>	<u>\$ (460,396)</u>	<u>\$ -</u>	<u>\$ 19,361,878</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Redevelopment Authority

A summary of changes in capital assets for the year ended December 31, 2013 is as follows:

	December 31, 2012	Increases	Decreases	December 31, 2013
Capital assets not being depreciated:				
Land and improvements	\$ 897,583	\$ -	\$ -	\$ 897,583
Construction in progress	799,191	7,190,923	-	7,990,114
Capital assets not being depreciated	<u>\$ 1,696,774</u>	<u>\$ 7,190,923</u>	<u>\$ -</u>	<u>\$ 8,887,697</u>

LDIDA

A summary of changes in capital assets for the year ended April 30, 2013 is as follows:

	May 1, 2012	Increases	Decreases	April 30, 2013
Capital assets being depreciated:				
Equipment	\$ 44,708	\$ -	\$ (21,750)	\$ 22,958
Leasehold improvements	1,840	-	(1,840)	-
Total capital assets being depreciated	46,548	-	(23,590)	22,958
Less accumulated depreciation	(34,999)	(2,099)	23,590	(13,508)
Capital assets, net	<u>\$ 11,549</u>	<u>\$ (2,099)</u>	<u>\$ -</u>	<u>\$ 9,450</u>

7. LINE OF CREDIT

Component Units

Commission

The Commission renewed the \$250,000 line of credit agreement with PNC Bank, National Association during 2013. The line expires on October 6, 2014 and bears interest at a variable rate, which was 4.25% at December 31, 2013. 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, 2013

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 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 rate shall not exceed 8.0% per annum for the year ended December 31, 2013. The rate shall not fall below 4.75% per annum for the year ended December 31, 2013. The interest rate was 4.75% as of December 31, 2013. 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 March 1, 2017. During the year ended December 31, 2013, the Redevelopment Authority borrowed \$995,185 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 \$549,060 as of December 31, 2013.

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, 2013 was 2.2%. 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 \$17,220 was capitalized for the year ended December 31, 2013. The outstanding balance on the line was \$2,939,619 as of December 31, 2013.

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, 2013 was as follows:

	January 1, 2013	Increases	Decreases	December 31, 2013
Line of credit - delinquent real estate taxes	\$ 617,222	\$ 995,185	\$ 1,063,347	\$ 549,060
Line of credit - parking garage construction	50,001	2,889,618	-	2,939,619
	<u>\$ 667,223</u>	<u>\$ 3,884,803</u>	<u>\$ 1,063,347</u>	<u>\$ 3,488,679</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

8. DUE TO THE PRIMARY GOVERNMENT

Component Unit

Redevelopment Authority

The following amounts are due to the primary government at December 31, 2013:

Grant Payment to the City of Lancaster's Mayor's Office of Special Events	\$ 25,000
Accumulated gain on tax claim collection (Note 3)	292,662
	<u>\$ 317,662</u>

9. UNEARNED REVENUES

Component Unit

Redevelopment Authority

A summary of unearned revenues at December 31, 2013 follows:

Unearned rent	\$ 16,667
Unearned grant revenue	2,648,655
Unearned interest income - capital lease (Note 3)	8,127,167
	<u>10,792,489</u>
Current portion	977,458
Long-term portion	<u>\$ 9,815,031</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, 2013

10. LONG-TERM OBLIGATIONS

Primary Government

A summary of bonds and notes payable outstanding as of December 31, 2013 is as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2013
2006/2034	\$ 13,455,000	General Obligation Bonds, 5.00%-5.59%	\$ 11,740,000
2007/2046	125,315,000	General Obligation Bonds, 4.00%-5.00%	120,590,000
2002/2022	692,533	Note Payable to Financing Agency, 2.77%	343,469
2009/2030	43,990,000	General Obligation Notes, 2.50%-4.875%	33,660,000
2010/2028	8,635,000	General Obligation Bonds, 2.00%-4.00%	7,295,000
2011/2041	38,860,000	General Obligation Bonds, 1.75%-5.00%	38,155,000
2013/2035	7,000,000	Note Payable to Financing Agency, 1.495%-2.965%	592,781
			<u>\$ 212,376,250</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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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.

In 2013, the City issued \$7,000,000 Guaranteed Revenue Note of 2012. This is a Pennvest drawdown 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. This Note bears interest at a rate of 1.495% for the first five years and 2.965% thereafter. As of December 31, 2013, \$592,781 was drawn down on this Note.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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>
2014	\$ 2,098,400	\$ 2,242,567	\$ 4,340,967
2015	2,168,000	2,173,437	4,341,437
2016	2,237,200	2,100,951	4,338,151
2017	2,331,400	2,003,282	4,334,682
2018	2,440,200	1,897,738	4,337,938
2019-2023	13,984,200	7,708,516	21,692,716
2024-2028	16,372,000	4,328,154	20,700,154
2029-2033	7,300,000	978,027	8,278,027
2034-2037	795,000	44,440	839,440
	<u>\$ 49,726,400</u>	<u>\$ 23,477,112</u>	<u>\$ 73,203,512</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>
2014	\$ 3,682,367	\$ 7,186,906	\$ 10,869,273
2015	3,808,240	7,079,198	10,887,438
2016	3,949,879	6,953,632	10,903,511
2017	4,132,463	6,774,086	10,906,549
2018	4,320,500	6,582,899	10,903,399
2019-2023	24,875,983	29,664,238	54,540,221
2024-2028	23,071,187	24,172,150	47,243,337
2029-2033	23,376,040	19,248,424	42,624,464
2034-2038	25,573,191	13,925,118	39,498,309
2039-2043	28,580,000	7,663,403	36,243,403
2044-2046	17,280,000	1,577,922	18,857,922
	<u>\$ 162,649,850</u>	<u>\$ 130,827,976</u>	<u>\$ 293,477,826</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Capital Leases

Governmental Activities

In 2011 through 2013, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. The assets were purchased from the General Fund. As of December 31, 2013, the assets are included as governmental activities in the government-wide financial statements at a cost of \$1,395,028 and accumulated depreciation of \$288,984.

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2013 are as follows:

<u>Year Ended December 31,</u>	<u>Total</u>
2014	\$ 280,687
2015	268,678
2016	112,248
2017	<u>57,200</u>
Total minimum lease payments	718,813
Less amount representing interest	<u>(55,213)</u>
Present value of future minimum lease payments	<u><u>\$ 663,600</u></u>

Business-type Activities

In 2008 through 2013, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. A majority of 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. As of December 31, 2013, the assets are included as business-type activities in the government-wide financial statements at a cost of \$1,516,312 and accumulated depreciation of \$315,866.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2013 are as follows:

Year Ended December 31,	Total
2014	\$ 307,158
2015	294,049
2016	186,041
2017	101,759
Total minimum lease payments	889,007
Less amount representing interest	(74,883)
Present value of future minimum lease payments	\$ 814,124

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, 2013, the borrowing had an outstanding balance of \$1,401,230, 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 \$712,867 at December 31, 2013.

A summary of principal and interest maturities on the borrowing at December 31, 2013 is as follows:

Year Ending December 31,	Principal	Interest	Total
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	110,586	33,453	144,039
2019-2023	499,751	99,264	599,015
2024-2028	260,694	9,031	269,725
Total	\$ 1,401,230	\$ 326,414	\$ 1,727,644

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Changes in long-term obligations for the year ended December 31, 2013 are as follows:

	December 31, 2012	Increase	Decrease	December 31, 2013	Amount Due Within One Year
Governmental activities:					
Bonds payable	\$ 40,030,200	\$ -	\$ (1,213,800)	\$ 38,816,400	\$ 1,258,400
Unamortized premium	473,541	-	(46,149)	427,392	-
Notes payable	11,725,000	-	(815,000)	10,910,000	840,000
Borrowing payable - basis swap	1,565,850	62,607	(227,227)	1,401,230	152,758
Compensated absences	1,088,882	3,004,378	(2,865,848)	1,227,412	226,703
Capital leases	648,585	263,166	(248,151)	663,600	251,825
Workers' compensation payable	1,017,300	310,587	(110,864)	1,217,023	157,062
Total governmental activities	<u>\$ 56,549,358</u>	<u>\$ 3,640,738</u>	<u>\$ (5,527,039)</u>	<u>\$ 54,663,057</u>	<u>\$ 2,886,748</u>

	December 31, 2012	Increase	Decrease	December 31, 2013	Amount Due Within One Year
Business-type activities:					
Bonds payable	\$ 140,454,800	\$ -	\$ (1,491,200)	\$ 138,963,600	\$ 1,821,600
Unamortized premium	1,746,688	-	(144,054)	1,602,634	-
Notes payable	24,893,018	592,781	(1,799,549)	23,686,250	1,860,767
Compensated absences	148,622	1,029,933	(1,012,597)	165,958	29,496
Capital leases	641,837	469,187	(296,900)	814,124	271,234
Workers' compensation payable	23,636	257,522	(23,474)	257,684	33,255
Total business-type activities	<u>\$ 167,908,601</u>	<u>\$ 2,349,423</u>	<u>\$ (4,767,774)</u>	<u>\$ 165,490,250</u>	<u>\$ 4,016,352</u>

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

Component Units

Parking Authority

Long-term Debt

The Parking Revenue Bonds of 1992, Parking Revenue Bonds of 1993, and 2003 Note were 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 were payable out of revenue derived

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, the 1992 and 1993 Series Bonds 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, 2012	Increase	Decrease	December 31, 2013	Amount Due Within One Year
2007 Series A Parking Revenue Bonds	\$ 18,105,000	\$ -	\$ (645,000)	\$ 17,460,000	\$ 675,000
2007 Series B Parking Revenue Bonds	8,540,000	-	(10,000)	8,530,000	15,000
	<u>\$ 26,645,000</u>	<u>\$ -</u>	<u>\$ (655,000)</u>	<u>\$ 25,990,000</u>	<u>\$ 690,000</u>

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
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	830,000	1,193,395	2,023,395
2019-2023	4,935,000	5,314,558	10,249,558
2024-2028	6,485,000	3,706,570	10,191,570
2029-2033	8,275,000	1,914,000	10,189,000
2034-2035	2,530,000	157,500	2,687,500
Total	<u>\$ 25,990,000</u>	<u>\$ 17,536,924</u>	<u>\$ 43,526,924</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Elevator Loan

During the year ended December 31, 2010, the Parking Authority obtained 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, 2012	Increase	Decrease	December 31, 2013	Amount Due Within One Year
Elevator loan payable	<u>\$ 1,200,000</u>	<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ 1,050,000</u>	<u>\$ 150,000</u>

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2014	\$ 150,000	\$ 42,545	\$ 192,545
2015	150,000	36,080	186,080
2016	150,000	29,704	179,704
2017	150,000	23,150	173,150
2018	150,000	16,685	166,685
2019-2020	300,000	13,993	313,993
Total	<u>\$ 1,050,000</u>	<u>\$ 162,157</u>	<u>\$ 1,212,157</u>

Interest Expense

Interest expense on all bonds totaled \$1,381,573 for the year ended December 31, 2013. Interest expense on the elevator loan totaled \$47,344 for the year ended December 31, 2013.

Defeased Debt

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 statements of net position. The Trustee retired \$1,745,000 of this debt in 2013.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

A summary of outstanding funded bonds at December 31, 2013 is as follows:

Series of 1992 and 1993:

Bonded debt outstanding	\$	5,235,000
Funds on deposit with Trustee at fair value	\$	4,830,994

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, 2013, the amount due is \$1,000,273.

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 \$9,556 was capitalized for the year ended December 31, 2013. The outstanding balance as of December 31, 2013 was \$1,262,955, of which \$39,000 is due within one year.

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 bonds mature in December 2025. The outstanding balance at December 31, 2013 is \$5,164,442, of which \$286,746 is due within one year.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 bonds mature in December 2025. The outstanding balance at December 31, 2013 is \$2,963,510, of which \$170,871 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 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. During the year ended June 30, 2011, the Federally Taxable Hotel Lease Revenue Bonds, Series A of 2005 was paid in full, which triggered a change in this bond issue's interest rate from the initial rate to an adjusted 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, 2013. 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 bonds mature in December 2024. The outstanding balance as of December 31, 2013 was \$17,095,739, of which \$1,070,058 is due within one year.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Aggregate maturities required on bonds and notes payable at December 31, 2013 are as follows:

	Principal	Interest	Total
2014	\$ 1,566,675	\$ 1,344,851	\$ 2,911,526
2015	1,744,494	1,264,480	3,008,974
2016	1,923,073	1,176,222	3,099,295
2017	2,075,964	1,079,908	3,155,872
2018	2,215,765	976,236	3,192,001
2019-2023	12,968,666	3,074,492	16,043,158
2024-2027	3,992,009	254,144	4,246,153
Total	\$ 26,486,646	\$ 9,170,333	\$ 35,656,979

Long-term obligation activity for the year ended December 31, 2013 can be summarized as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
Due to lessee	\$ 1,000,243	\$ 30	\$ -	\$ 1,000,273
Notes payable	129,022	1,133,933	-	1,262,955
Bonds payable	26,649,790	-	(1,426,099)	25,223,691
	\$ 27,779,055	\$ 1,133,963	\$ (1,426,099)	\$ 27,486,919

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) with PNC Bank, N.A., as the counterparty in connection with the Series A Bonds through the final maturity of the Series A Bonds (May 1, 2028).

Terms. 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,

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013, the Basis Swap had a fair value of (\$929,079). 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 \$316,395 during the year ended December 31, 2013 is recorded as a component of general government expense 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, 2013. 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.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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, 2013, the interest rate the City is paying under the Basis Swap was 0.06%, whereas the interest the City is receiving at 67% of the one-month LIBOR rate was 0.11%.

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, 2013, 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.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013, 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	138	147
Terminated employees entitled to benefits	3	3
Active plan participants	<u>55</u>	<u>142</u>
Total	<u><u>196</u></u>	<u><u>292</u></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, 2013, none of the FPP's and PPP's investments were more than five percent of the total asset value for each plan.

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

	<u>FPP</u>	<u>PPP</u>
Annual required contribution	\$ 1,623,453	\$ 2,427,282
Interest on net pension asset	(435,374)	(580,787)
Adjustment to annual required contribution	<u>544,218</u>	<u>725,984</u>
Annual pension cost	1,732,297	2,572,479
Contributions made	<u>1,623,453</u>	<u>2,427,282</u>
Change in net pension asset	108,844	145,197
Net pension asset, beginning of year	<u>(5,442,181)</u>	<u>(7,259,832)</u>
Net pension asset, end of year	<u><u>\$ (5,333,337)</u></u>	<u><u>\$ (7,114,635)</u></u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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:						
1/1/2013	\$ 39,814,691	\$ 49,376,555	\$ 9,561,864	80.6%	\$ 3,669,545	260.6%
Police Pension Plan:						
1/1/2013	\$ 60,520,074	\$ 72,813,781	\$ 12,293,707	83.1%	\$ 10,605,553	115.9%

CBPP

The CBPP does not issue stand-alone financial reports.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

B. Plan Description and Contribution Information

Membership

Membership of CBPP consisted of the following at January 1, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	45
Terminated employees entitled to benefits	34
	<hr/>
	79
	<hr/>
Active plan participants:	
Fully-vested	198
Non-vested	105
	<hr/>
	303
	<hr/>
Total	382
	<hr/> <hr/>

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 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 \$658,898 to the CBPP for the year ended December 31, 2013.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

C. Annual Pension Cost and Net Pension Obligation

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

Annual required contribution	\$ 658,895
Interest on net pension asset	(6,199)
Adjustment to annual required contribution	8,264
Annual pension cost	<u>660,960</u>
Contributions made	<u>658,898</u>
Change in net pension asset	2,062
Net pension asset, beginning of year	<u>(82,637)</u>
Net pension asset, end of year	<u><u>\$ (80,575)</u></u>

The January 1, 2013 actuarial valuation used the entry age normal actuarial cost method. The actuarial assumptions included a) 6.50% - 7.50% investment rate of return, b) a projected salary increase of 5%, c) level dollar closed amortization method, and d) 15-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 120% or less than 80% of market value.

Three-Year Information:

CBPP:

<u>Calendar Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
2011	\$ 506,453	99.60%	\$ (84,756)
2012	518,631	99.60%	(82,637)
2013	660,960	99.70%	(80,575)

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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)
1/1/2013	\$ 10,106,397	\$ 12,781,267	\$ 2,674,870	79.1%	\$ 12,661,626	21.1%

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, 2013, there were 192 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, 2013, plan participants and the City made contributions of \$396,314 and \$86,420, 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, 2013

Pension Financial Statements

Financial statements for the individual pension plans are presented below:

Statement of Net Position December 31, 2013

	FPP	PPP	CBPP	SPP
Assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 39,711
Investments	36,874,084	57,773,398	9,782,155	6,883,052
Receivables:				
Investment income	120,061	187,340	31,008	-
Total Assets	36,994,145	57,960,738	9,813,163	6,922,763
Liabilities:				
Other	10,438	14,966	5,613	2,000
Net position restricted for pension benefits	\$ 36,983,707	\$ 57,945,772	\$ 9,807,550	\$ 6,920,763

Statement of Changes in Net Position Year Ended December 31, 2013

	FPP	PPP	CBPP	SPP
Additions:				
Contributions:				
Employees	\$ 277,848	\$ 695,341	\$ -	\$ 396,314
Employer	1,623,453	2,427,282	658,898	86,420
Total contributions	1,901,301	3,122,623	658,898	482,734
Investment income:				
Net appreciation in fair value of investments	4,175,659	6,442,247	1,054,730	667,133
Interest and dividends	948,866	1,468,169	242,200	154,087
Total investment income	5,124,525	7,910,416	1,296,930	821,220
Less: investment expenses	(150,199)	(232,737)	-	-
Net investment income	4,974,326	7,677,679	1,296,930	821,220
Total additions	6,875,627	10,800,302	1,955,828	1,303,954
Deductions:				
Benefits	3,047,354	3,643,869	698,013	334,461
Administrative expenses	23,475	24,045	69,198	44,389
Total deductions	3,070,829	3,667,914	767,211	378,850
Change in net position	3,804,798	7,132,388	1,188,617	925,104
Net position restricted for pension benefits:				
Beginning of year	33,178,909	50,813,384	8,618,933	5,995,659
End of year	\$ 36,983,707	\$ 57,945,772	\$ 9,807,550	\$ 6,920,763

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 \$40,302 for the year ended December 31, 2013.

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 8.97% 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 \$2,736 for the year ended December 31, 2013, 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, closed level dollar actuarial cost method. The actuarial assumptions include: (a) 5.5% 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 three years of service), including inflation at 3.0%, and (c) disability rates equal to 40% of the rates set forth in the 1964 OASPI (Social Security) experience.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The following is a summary of the last three years:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed
2011	\$ 13,372	100%
2012	14,139	100%
2013	2,736	100%

The funded status of the Parking Authority's pension plan as of January 1, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	AAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/2013	\$ 1,527,779	\$ 1,355,760	\$ 172,019	112.7%	\$ 370,246	46.5%

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 2% to 10% 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, hired on or before November 30, 2012, 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. If the retiree dies, his or her surviving spouse will be provided coverage to age 65 or until such time as the spouse becomes eligible for Medicare due to disability or other reason. Any firefighter hired after November 30, 2012, excluding cadets currently in the Academy, the City will provide

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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employee-only medical insurance to those employees who retire and are under the age of 65 and not Medicare eligible. The coverage shall be the same employee-only medical insurance provided to then active Firefighters. Eligible retirees shall be given the option of purchasing coverage for their spouses through the City. If the retiree dies, their spouse will be provided coverage to age 65 or until such time the spouse becomes eligible for Medicare due to disability or other reason. If the surviving spouse of the retiree remarries, the new spouse will not be eligible for coverage. If the regular Medicare eligibility age is increased by federal legislation, this entitlement to coverage shall continue beyond age 65 until the newly established age of Medicare eligibility. Eligibility for post-retirement medical insurance coverage paid for by the City ends at Medicare eligibility.

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 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. Eligibility for post-retirement medical insurance coverage paid for by the City ends at Medicare eligibility.

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.

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2013

As of December 31, 2013, 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, 2013, the City's net cost of providing health benefits and life insurance for retired employees was approximately \$4,824,000. A portion of the contribution made during the year ended December 31, 2013, in the amount of \$726,203, was made directly to the City's OPEB trust fund by the City's Water Fund. Plan members receiving benefits contributed \$71,692, as required by the cost sharing provisions of the plans for the year ended December 31, 2013.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013 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	1,532,500	264,294	1,796,794
Adjustment to annual required contribution	(2,090,723)	(360,565)	(2,451,288)
Annual OPEB cost	9,076,115	1,673,933	10,750,048
Contribution made	(3,440,891)	(1,382,858)	(4,823,749)
Change in Net OPEB obligation	5,635,224	291,075	5,926,299
Net OPEB obligation, beginning	34,055,577	5,873,199	39,928,776
Net OPEB obligation, ending	<u>\$ 39,690,801</u>	<u>\$ 6,164,274</u>	<u>\$ 45,855,075</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2011	\$ 10,708,642	34%	\$ 33,522,354
2012	10,855,062	41%	39,928,776
2013	10,750,048	45%	45,855,075

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%

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Financial statements for the OPEB Trust Fund are presented below:

Statement of Net Position December 31, 2013

Assets:	
Investments	\$ 1,459,923
Total Assets	<u>1,459,923</u>
Net position restricted for other post-employment benefits	<u>\$ 1,459,923</u>

Statement of Changes in Net Position Year Ended December 31, 2013

Additions:	
Contributions:	
Employees	\$ 30,567
Employer	726,203
Total contributions	<u>756,770</u>
Investment income:	
Interest and dividends	108
Total investment income	<u>108</u>
Total additions	<u>756,878</u>
Deductions:	
Administrative expenses	3,037
Total deductions	<u>3,037</u>
Increase in net position	753,841
Net position restricted for other post-employment benefits:	
Beginning of year	<u>706,082</u>
End of year	<u>\$ 1,459,923</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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Insurance contracts cover public officials, law enforcement, automobile, excess workers' compensation, excess health claims, and umbrella liabilities. The contracts also provide 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 2013, the City was limited to \$650,000 per each accident and \$650,000 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, 2013 and 2012 is as follows:

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 January 1, 2013	1,040,936
Incurred claims and change in estimates during 2013	568,109
Payments during 2013	<u>(134,338)</u>
Unpaid claims as of December 31, 2013	<u>\$ 1,474,707</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, 2013

Changes in the balance of claims liability (net of excess insurance) during the year ended December 31, 2013 were as follows:

Unpaid claims as of January 1, 2013	\$ 366,843
Incurred claims and change in estimates during 2013	10,126,703
Payments during 2013	<u>(9,549,990)</u>
Unpaid claims as of December 31, 2013	<u>\$ 943,556</u>

15. PROPERTY SALES AND CAPITAL CONTRIBUTION FROM THE CITY

Component Unit

Redevelopment Authority

During the year ended December 31, 2013, eighteen 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, 2013

Properties sold during the year ended December 31, 2013:

Property	Net Proceeds from Property Sales	Cost of Property Sold	Gain (Loss)
12 South Mary Street	\$ 750	\$ 33,000	\$ (32,250)
23 West Strawberry Street	-	21,000	(21,000)
339 Beaver Street	-	11,000	(11,000)
344 South Queen Street	14,000	12,500	1,500
457 South Prince Street	8,500	7,000	1,500
504 South Shippen Street	46,500	45,000	1,500
533 Poplar Street	17,500	17,000	500
542 Lafayette Treet	11,000	9,500	1,500
542 Pershing Avenue	16,500	15,000	1,500
545 West Vine Street	18,500	15,000	3,500
554 West Beaver Street	18,000	16,000	2,000
627 Olive Street	14,256	12,500	1,756
673 St. Joseph's Street	15,000	44,000	(29,000)
678 Columbia Avenue	35,000	33,500	1,500
639 Hebrank Street	22,500	19,000	3,500
230 North Franklin Street	39,500	38,000	1,500
611 High Street	8,500	7,000	1,500
726 Columbia Avenue	19,500	18,000	1,500
Additional allocated costs	-	12,378	(12,378)
	<u>\$ 305,506</u>	<u>\$ 386,378</u>	<u>\$ (80,872)</u>

During the year ended December 31, 2013, the City contributed \$559,193 to the Redevelopment Authority for the construction of a parking garage.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 \$593,000 under this grant agreement during the year ended December 31, 2013.

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, 2013, \$1,000,000 was received under this grant agreement to offset debt service requirements.

Receipt of annual grant funding 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 Commonwealth as a result of the Penn Square Hotel project 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 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, 2013, 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The Redevelopment Authority has been granted a \$3,000,000 Redevelopment Assistance Capital Program (RACP) grant from the Commonwealth of Pennsylvania as a flow-through grant via the City to reimburse a portion of construction costs related to the Redevelopment Authority's parking garage project (Note 19). Under this grant agreement, the Redevelopment Authority will receive \$2,799,607 for construction costs incurred during the year ended December 31, 2013. The Redevelopment Authority has recorded a receivable of equal amount as of December 31, 2013 (Note 3). The Redevelopment Authority pays construction costs from a temporary line of credit (Note 7) prior to receiving grant reimbursement. Upon receipt of the accrued grant proceeds, the Redevelopment Authority is required to use those funds for debt service payments on the line of credit.

The Redevelopment Authority has been granted a \$500,000 RACP grant from the Commonwealth of Pennsylvania for the purpose of redeveloping the Montgomery House located within the Penn Square Hotel leased to Penn Square Partners under a capital direct financing lease (Note 17). To facilitate the project, the Redevelopment Authority has incurred construction costs in 2013 on behalf of the lessee in the amount of \$1,960,494 which the Redevelopment Authority offset on its books by payments received from the lessee. The Redevelopment Authority does not receive any additional net economic benefit as a result of the grant revenue and construction project and accounts for the grant revenue as a flow through grant as payments are received and forwarded to the project user. The Redevelopment Authority recognized grant revenue of \$84,738 for the year ended December 31, 2013 and recorded a transfer of grant proceeds to project users of equal amount. As of December 31, 2013, the Redevelopment Authority has accounts payable due to contractors for this project of \$183,063, which it intends to settle from restricted cash balances of \$30,253 and expected reimbursements from the lessee in the amount of \$152,810. The Redevelopment Authority does not have any further construction commitments as of December 31, 2013 related to this project and expects to receive additional flow through grant proceeds in 2014 of up to the full grant amount.

17. PENN SQUARE HOTEL PROJECT

Component Unit

Redevelopment Authority

Acquisition, Construction, and Project Financing

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 \$13,000,000 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 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. For the year ended December 31, 2013, the Redevelopment Authority recognized interest income from the underlying capital lease in the amount of \$980,210 and received base rent cash flow in the amount of \$1,778,654. These funds were utilized to make

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

principal payments in the amount of \$997,918 and interest payments in the amount of \$780,736.

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.

A reconciliation of the interfund receivables and payables at December 31, 2013 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ 9,134,487	\$ -
Capital Projects Fund	175,868	-
Miscellaneous State Grants Fund	-	1,019,905
Non-major governmental funds	1,318,999	-
Proprietary funds:		
Sewer Fund	-	2,342,599
Water Fund	-	6,795,046
Other Enterprise Fund	-	728,109
Internal Service Fund	256,305	-
	<u>\$ 10,885,659</u>	<u>\$ 10,885,659</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Interfund transfers for the year ended December 31, 2013 are as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,500,000	\$ 4,280,868
Debt Service Fund	4,341,240	-
Miscellaneous State Grants Fund	-	1,566,358
Non-major governmental funds	-	157,651
Proprietary funds:		
Sewer Fund	1,663,636	-
Water Fund	-	2,499,999
	<u>\$ 8,504,876</u>	<u>\$ 8,504,876</u>

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.

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 2013.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Contract Commitments

During the year ended December 31, 2013, the City, through the Capital Projects Fund, entered into contracts with construction contractors totaling \$14,078,859. At December 31, 2013, \$1,457,390 was included in accounts payable. The commitment remaining on the contracts at December 31, 2013 was \$3,584,144.

During the year ended December 31, 2013, 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 \$9,624,170. At December 31, 2013, \$574,701 was included in accounts payable. The commitment remaining on the contracts at December 31, 2013 was \$2,983,521.

During the year ended December 31, 2013, 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 \$2,409,986. At December 31, 2013, \$936,224 was included in accounts payable. The commitment remaining on the contracts at December 31, 2013 was \$1,876,571.

Guarantee

The City is guarantor of the outstanding revenue bonds of the Parking Authority. As of December 31, 2013, the outstanding bonds amounted to \$25,990,000.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The City was not required to make payments under either of the above guarantees during the year ended December 31, 2013.

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, 2013, there were bonds and notes issued and outstanding of \$170,534,496.

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 lessee. In the event of lease termination or cancellation, the lessee is responsible for all expenses required to revert the Penn Square Garage to its original form that existed prior to the lease agreement.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Redevelopment Authority

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, 2013:

<u>Property</u>	<u>Accrued Loss</u>
230 North Franklin Street	\$ 38,000
611 High Street	7,000
416 Howard Avenue	24,000
428 East Strawberry Street	12,000
434 East Strawberry Street	10,000
451 - 453 East Mifflin Street	9,000
548 Beaver Street	26,000
318 Beaver Street	17,500
219 Juniata Street	30,000
459 Manor Street	19,000
308 Coral Street	11,000
	<u>\$ 203,500</u>

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

The Redevelopment Authority owns the property at 400 North Market Street and is building 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, properties adjacent to 400 North Market Street were also purchased, existing structures on the lots were demolished, and the design phase of the garage was substantially completed. During the year ended December 31, 2013, a significant portion of the construction phase was completed. The Redevelopment Authority expects to complete the construction phase of the project in 2014.

The Redevelopment Authority has entered into construction contracts and has remaining commitments at December 31, 2013 of approximately \$470,000.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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

- \$3.8 million capital contribution from the City, of which \$2,900,006 has been received as of December 31, 2013.
- The Redevelopment Authority has been awarded a \$3.0 million Commonwealth of Pennsylvania 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) while awaiting grant reimbursements.
- In 2012, the Redevelopment Authority has issued a \$5,075,000 million tax increment financing (TIF), non-revolving, multi-advance note payable (Note 10).

During the year ended December 31, 2013, the Redevelopment Authority Board approved the pursuit of purchasing three properties located adjacent to the parking garage with the intention of demolishing the structures to create a public urban park area. Two property owners have accepted the Redevelopment Authority's purchase offers totaling \$198,000. The purchase of the third property, as well as any construction contracts, are not yet finalized. The Redevelopment Authority's total project scope estimate is \$315,000. The Redevelopment Authority expects to receive funding for this project from the City and a private developer.

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. 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 additional revenues to the Sewer Fund generated by this series of rate increases eliminated the Sewer Fund's need for additional cash borrowing from the General Fund in 2013, though not enough to allow the Sewer Fund to make a repayment of cash borrowing from prior years.

In early 2014, a binding arbitration decision favorable to the City was issued in a dispute with East Lampeter Township seeking settlement of nearly \$3.7 million in disputed bulk sewer charges dating back as far as 1992. The resolution of the final dollar value of the award is ongoing, but the award due to the City is estimated at approximately \$2.4 million.

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 improved cash flow. However, the need for cash borrowing from the General Fund increased in 2013 by

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

\$1.7 million at year end. On June 6, 2014, the City filed a water rate increase request to the PUC for outside City customers that, if approved in whole, would increase Water Fund revenues by \$6.46 million on an annualized basis. Following the conclusion of the City's PUC rate case, an increase in inside City water rates will be presented to City Council. Together, these rate increases would significantly improve cash flow in the Water Fund and eliminate the need for cash borrowing.

21. SUBSEQUENT EVENTS

In January 2014, the City issued \$5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest loan for the construction of a preliminary treatment facility and diversion chamber.

In June 2014, City Council approved the issuance of General Obligation Bonds, Series of 2014, in the aggregate amount of \$42,490,000. Bond proceeds will be used for the purposes of financing improvements and upgrades to water treatment facilities, improving and upgrading wastewater treatment and collection facilities, and other miscellaneous capital projects. The new bonds bear interest at rates ranging from 3.0% to 5.0%.

Component Units

Redevelopment Authority

The Redevelopment Authority entered into a \$900,000 note receivable with Lancaster Press Partners, L.P. on April 15, 2014 which it funded from its cash balances that are restricted for making loans to fund redevelopment projects. The note accrues interest at 1.50% per annum. Principal and accrued interest is due to the Redevelopment Authority on October 15, 2015 but prepayments are permitted. The developer is only permitted to use the loan proceeds to commence the construction of a residential housing development project as further specified in the note. The note is secured with a first priority lien on the property being redeveloped.



REQUIRED
SUPPLEMENTARY
INFORMATION

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:							
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%
2013		10,106,397	12,781,267	2,674,870	79.1%	12,661,626	21.1%
Fire Pension Plan:							
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%
2012		39,377,784	-	-	-	-	-
2013		39,814,691	49,376,555	9,561,864	80.6%	3,669,545	260.6%
Police Pension Plan:							
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%
2012		57,992,567	-	-	-	-	-
2013		60,520,074	72,813,781	12,293,707	83.1%	10,605,553	115.9%

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>
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%
2013	658,895	658,898	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, 2013

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
	1/1/2013	Assumption change/ actuarial amendment	787,655
Fire Pension Plan:	1/1/2009	Assumption change/ plan amendment	\$ (2,364,437)
	1/1/2011	Assumption change	2,280,365
Police Pension Plan:	1/1/2009	Assumption change	\$ (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%
2013	11,404,542	42.30%

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
Real estate taxes, net of discount	\$ 24,406,950	\$ 24,406,950	\$ 24,875,823	\$ 468,873
Real estate transfer tax	500,000	500,000	531,810	31,810
Penalties, interest, and costs on delinquent real estate taxes	92,500	92,500	107,841	15,341
Earned income tax	4,200,000	4,900,000	5,068,230	168,230
Local services tax	1,625,000	1,625,000	1,612,612	(12,388)
Per capita taxes	-	-	440	440
Total taxes	30,824,450	31,524,450	32,196,756	672,306
Intergovernmental revenues:				
Grants	335,102	335,102	119,875	(215,227)
Pension state aid	2,425,381	2,425,381	2,382,254	(43,127)
Public utility reality tax	39,044	39,044	38,437	(607)
Alcohol beverage tax	34,000	34,000	35,900	1,900
Total intergovernmental revenues	2,833,527	2,833,527	2,576,466	(257,061)
Licenses and permits	2,105,000	2,105,000	1,778,055	(326,945)
Fines and forfeitures	2,600,000	2,600,000	2,256,065	(343,935)
Rents and charges for services	1,616,400	1,616,400	1,598,930	(17,470)
Investment income	200	200	277	77
Miscellaneous	2,159,650	2,159,650	2,281,636	121,986
Other financing sources:				
Interfund reimbursements	2,667,977	2,667,977	3,132,846	464,869
Sale of general capital assets	8,000	8,000	28,110	20,110
Transfers in	2,500,000	2,500,000	2,500,000	-
Total other financing sources	5,175,977	5,175,977	5,660,956	484,979
Total revenues and other financing sources	\$ 47,315,204	\$ 48,015,204	\$ 48,349,141	\$ 333,937

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Executive department:				
Office of the Mayor	\$ 206,193	\$ 206,193	\$ 204,949	\$ 1,244
Office of the City Solicitor	350,000	350,000	426,352	(76,352)
	<u>556,193</u>	<u>556,193</u>	<u>631,301</u>	<u>(75,108)</u>
Legislative department:				
Office of the City Council	57,000	57,000	56,982	18
Office of the City Clerk	60,735	60,685	58,835	1,850
	<u>117,735</u>	<u>117,685</u>	<u>115,817</u>	<u>1,868</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	647,685	679,465	656,846	22,619
Bureau of Procurement and Collections	137,848	138,414	134,995	3,419
Bureau of Human Resources	261,994	284,716	261,381	23,335
Bureau of Information Services	429,852	405,373	361,592	43,781
Community Involvement	459,754	461,913	574,068	(112,155)
Insurance	563,500	742,354	741,651	703
Fringe benefits	2,622,031	3,292,604	3,061,886	230,718
	<u>5,122,664</u>	<u>6,004,839</u>	<u>5,792,419</u>	<u>212,420</u>
Public safety:				
Bureau of Police	21,518,848	21,428,321	20,876,578	551,743
Bureau of Fire	10,096,804	9,955,207	9,930,015	25,192
	<u>31,615,652</u>	<u>31,383,528</u>	<u>30,806,593</u>	<u>576,935</u>
Economic development and neighborhood revitalization:				
Office of the Director	940,087	935,815	942,425	(6,610)
Bureau of Housing and Structural Inspection	989,264	989,625	927,972	61,653
Bureau of Neighborhood Revitalization	117,366	117,366	117,534	(168)
Bureau of Planning	252,687	256,598	246,332	10,266
	<u>2,299,404</u>	<u>2,299,404</u>	<u>2,234,263</u>	<u>65,141</u>
Public works:				
Office of the Director	1,049,929	1,006,492	1,006,617	(125)
Bureau of Engineering	322,226	404,611	403,905	706
Bureau of Streets:				
Administration	155,515	202,410	199,227	3,183
Cleaning	436,665	430,865	418,110	12,755
Maintenance	477,237	910,550	898,199	12,351
Traffic	958,393	964,338	959,644	4,694
Motor Vehicles	199,720	201,320	200,520	800
Bureau of Parks:				
Administration	145,019	169,488	168,052	1,436
Buildings	1,035,447	1,043,672	932,071	111,601
Parks	348,160	346,986	341,030	5,956
Trees	184,752	175,752	168,928	6,824
Central Market building	112,925	103,115	94,121	8,994
Southern Market building	167,402	173,790	167,408	6,382
	<u>5,593,390</u>	<u>6,133,389</u>	<u>5,957,832</u>	<u>175,557</u>
Other financing uses:				
Transfers out	4,300,223	4,300,223	4,280,868	19,355
Total expenditures and other financing uses	<u>\$ 49,622,261</u>	<u>\$ 50,812,261</u>	<u>\$ 49,836,093</u>	<u>\$ 976,168</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, 2013

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 City Solicitor	\$ 350,000	\$ 426,352
Administrative services:		
Community involvement	\$ 461,913	\$ 574,068
Economic development and neighborhood revitalization:		
Office of the Director	\$ 935,815	\$ 942,425
Bureau of Neighborhood Revitalization	117,366	117,534
Public works:		
Office of the Director	\$ 1,006,492	\$ 1,006,617

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