City of Lancaster Sewer Fund

Financial Statements and Required Supplementary Information

Years Ended December 31, 2014 and 2013
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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CITY OF LANCASTER SEWER FUND

YEARS ENDED DECEMBER 31, 2014 AND 2013

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MaherDuessel
Certified Public Accountants
1990 | 2015 25 YEARS OF PROMOTING THE PUBLIC GOOD

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Sewer Fund of the City of Lancaster as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Fund of the City of Lancaster as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Lancaster, as of December 31, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the historical pension and other post-employment benefit (OPEB) information on pages 33 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sewer Fund's basic financial statements. The Schedules of Net Cost of Operations of the City Sewer System, Direct Expenses and Costs, and Cost of Treating Each 1,000 Gallons of Sewage (collectively, supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
June 30, 2015

CITY OF LANCASTER SEWER FUND

BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Assets:		
Current assets:		
Cash and cash equivalents	$ 200,300	$ 300
Cash and cash equivalents - restricted	32,501,876	29,667,195
Investments	265,366	467,593
Receivables:		
Regular	891,591	1,418,176
Bulk - net of allowance for uncollectible accounts of $3,859,491 and $7,606,209 in 2014 and 2013, respectively	4,102,282	1,012,937
Unbilled	752,800	804,081
Industrial waste surcharge	88,996	74,332
Prepaid expenses	4,439	93,804
Total current assets	38,807,650	33,538,418
Long-term assets:		
Due from other governments	140,638	153,554
Prepaid debt insurance	552,888	609,597
Capital assets, not being depreciated	3,325,566	1,926,014
Capital assets, being depreciated, net	88,427,656	87,627,960
Total long-term assets	92,446,748	90,317,125
Total Assets	131,254,398	123,855,543
Deferred Outflows of Resources:		
Deferred charge on refunding	799,853	918,600
Total Deferred Outflows of Resources	799,853	918,600
Total Assets and Deferred Outflows of Resources	$ 132,054,251	$ 124,774,143

(Continued)

Liabilities and Net Position	2014	2013
Liabilities:		
Current liabilities:		
Accounts payable	$ 1,988,613	$ 2,037,108
Accrued expenses	422,160	337,195
Due to City of Lancaster General Fund	3,599,905	2,342,599
Due to other governments	7,346,801	9,337,943
Unearned revenue	185,000	214,254
Compensated absences, current portion	17,582	15,055
Workers' compensation payable, current portion	606	127
Capital lease, current portion	276,091	164,041
Notes payable, current portion	895,000	870,000
Bonds payable, current portion	870,000	840,000
Total current liabilities	15,601,758	16,158,322
Long-term liabilities:		
Due to other governments	-	467,593
Compensated absences, net of current portion	58,844	66,455
Workers' compensation payable, net of current portion	1,225	859
Net other post-employment liability	3,345,755	2,884,793
Capital lease, net of current portion	407,240	317,843
Notes payable, net of current portion	9,238,129	10,392,781
Bonds payable, net of current portion	38,472,064	31,764,478
Total long-term liabilities	51,523,257	45,894,802
Total Liabilities	67,125,015	62,053,124
Net Position:		
Net investment in capital assets	63,418,759	61,709,827
Restricted for capital acquisition	4,016,346	5,218,942
Unrestricted	(2,505,869)	(4,207,750)
Total Net Position	64,929,236	62,721,019
Total Liabilities and Net Position	$ 132,054,251	$ 124,774,143

(Concluded)

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

CITY OF LANCASTER SEWER FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating Revenues:		
Sewage treatment revenue:		
Sewage treatment	$ 8,273,698	$ 8,357,748
Industrial waste surcharge	418,519	487,930
Bulk treatment	4,006,559	3,328,933
Maintenance fee income	178,940	183,021
Miscellaneous	109,241	96,421
Total operating revenues	12,986,957	12,454,053
Operating Expenses:		
Administration	3,804,979	3,330,533
Depreciation	2,940,303	2,878,714
Collection system	864,936	743,440
Sewage pumping station	1,110,371	1,088,048
Sewage treatment plants	4,199,630	4,116,587
Sewer grounds maintenance	163,619	139,120
Wastewater and green initiatives	-	824,299
Total operating expenses	13,083,838	13,120,741
Operating Loss	(96,881)	(666,688)
Non-Operating Revenue (Expenses):		
State pension contribution	113,371	104,586
Investment income	28,165	43,936
Amortization expense	(56,709)	(59,166)
Interest expense	(2,248,473)	(1,921,995)
Total non-operating revenue (expenses)	(2,163,646)	(1,832,639)
Loss before transfers and capital contributions	(2,260,527)	(2,499,327)
Transfers in	1,032,911	1,663,636
Capital contributions	1,002,290	5,801,862
Change in Net Position before Extraordinary Item	(225,326)	4,966,171
Extraordinary Item:		
Litigation Settlement (Note 12)	2,433,543	-
Change in Net Position	2,208,217	4,966,171
Net Position:		
Beginning of year	62,721,019	57,754,848
End of year	$ 64,929,236	$ 62,721,019

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

CITY OF LANCASTER SEWER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash received from users	$ 12,907,273	$ 12,453,946
Cash paid to suppliers	(7,661,133)	(8,978,721)
Cash paid to employees	(2,506,209)	(2,327,097)
Net cash provided by operating activities	2,739,931	1,148,128
Cash Flows From Investing Activities:		
Net sale of investments	202,227	1,018,051
Investment income	28,165	43,936
Net cash provided by investing activities	230,392	1,061,987
Cash Flows From Capital and Related Financing Activities:		
Principal payments on note payable	(870,000)	(840,000)
Proceeds from bond payable	7,663,284	-
Principal payments on capital lease	(358,077)	(170,503)
Proceeds from note payable	333,129	592,781
Principal payments on bonds payable	(840,000)	(535,000)
Interest paid	(2,215,821)	(1,917,708)
Acquisition of capital assets	(4,002,519)	(10,499,167)
Net change in escrow deposits	(1,456,445)	8,428,819
Net cash used in capital and related financing activities	(1,746,449)	(4,940,778)
Cash Flows From Non-Capital Financing Activities:		
Transfers in	440,130	1,663,636
Due to the City of Lancaster General Fund	1,257,306	(863,888)
State pension contribution	113,371	104,586
Net cash provided by non-capital financing activities	1,810,807	904,334
Net Increase (Decrease) in Cash and Cash Equivalents	3,034,681	(1,826,329)
Cash and Cash Equivalents:		
Beginning of year	29,667,495	31,493,824
End of year	$ 32,702,176	$ 29,667,495

(Continued)

CITY OF LANCASTER SEWER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013
(Continued)

	2014	2013
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	$ (96,881)	$ (666,688)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	2,940,303	2,878,714
Changes in assets and liabilities:		
Receivables	(92,600)	99,958
Due from other governments	12,916	(100,065)
Prepaid expenses	89,365	(85,982)
Accounts payable	(582,393)	(1,388,182)
Accrued expenses	12,498	6,012
Compensated absences	(5,084)	15,829
Workers' compensation payable	845	(1,018)
Net other post-employment liability	460,962	389,550
Total adjustments	2,836,812	1,814,816
Net cash provided by operating activities	$ 2,739,931	$ 1,148,128
Noncash Capital Financing Activities:		
Issuance of capital lease	$ 559,524	$ 334,665
Debt transferred to Stormwater Fund	$ (592,781)	$ -

(Concluded)

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

1. Summary of Significant Accounting Policies

The accompanying financial statements include the transactions of the Sewer Fund of the City of Lancaster, Pennsylvania (Sewer Fund). It does not include any other funds of the City of Lancaster (City) and, therefore, does not present fairly the financial position and the changes in financial position of the City in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation and Accounting

The Sewer Fund's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. All activities of the Sewer Fund are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 revenue of the Sewer Fund is charges for sewer services. Operating expenses 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.

The accounting and financial reporting treatment applied to the Sewer Fund is determined by its measurement focus. The transactions of the Sewer Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, and liabilities associated with the operations are included on the balance sheets. Net position (i.e., total assets and deferred outflows of resources, net of total liabilities) is segregated into "net investment in capital assets," "restricted for capital acquisition," and "unrestricted" components.

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.

Cash and Cash Equivalents

For the purposes of reporting cash flows, the Sewer Fund considers money market funds and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair value.

Capital Assets

The sewer system's capital assets are recorded at their estimated historical cost.

Depreciation is computed on using the composite remaining life method using the average life term of group assets. The following are the estimated useful lives used for capitalization of sewer system capital assets:

Sewer systems	55 - 65 years
Equipment and vehicles	4 - 40 years

The Sewer Fund capitalizes all assets valued over $10,000 with a useful life longer than one year.

Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest capitalized for the years ended December 31, 2014 and 2013 totaled $43,609 and $58,891, respectively.

Prepaid Debt Insurance/Deferred Charge on Refunding

Prepaid debt insurance and deferred charge on refunding are amortized on the effective interest method over the life of the bonds.

Restricted Assets

Certain cash accounts are classified as restricted assets on the balance sheets because these accounts withhold shared money to which a certain percentage is owed to various municipalities. This is due to agreements with the City and other municipalities, to share costs associated with sewer projects. These amounts owed to the municipalities are included in Due to Other Governments.

The unexpended 2007, 2011, and 2014 bond proceeds as of December 31, 2014 and 2013 are also included in the restricted assets.

Net Position

Net position is classified in the following categories:

> ***Net Investment in Capital Assets*** – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category. Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this category. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
>
> ***Restricted Net Position*** – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
>
> ***Unrestricted Net Position*** – This category represents the net position of the Sewer Fund that is not restricted for any project or other purpose.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, deferred outflows of resources, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Pension Plans

The City sponsors and administers a defined benefit plan and defined contribution plan, which cover the Sewer Fund employees.

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 67, *"Financial Reporting for Pension Plans."* This Statement enhances note disclosures and required supplementary information (RSI) for the City's Defined Benefit Plan.

Pending Pronouncements

In June 2012, the GASB issued Statement No. 68, *"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."* These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the City's December 31, 2015 financial statements.

In February of 2015, the GASB issued Statement No. 72, *"Fair Value Measurement and Application."* This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the City's December 31, 2016 financial statements.

The effect of these statements has not yet been determined.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

2. DEPOSITS AND INVESTMENTS

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.

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

A. ***Deposits***

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Sewer Fund does not have a deposit policy for custodial credit risk. As of December 31, 2014 and 2013, the Sewer Fund's non-pooled book balances were $11,363,447 and $14,557,185, respectively, and the bank balances were $11,363,147 and $14,556,885, respectively. At December 31, 2014 and 2013, $250,000 and $250,000, respectively, was covered by federal depository insurance and $11,113,147 and $14,306,885, respectively, 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.

The Sewer Fund pools certain of its deposits and investments with the City. At December 31, 2014 and 2013, the book balance of the pooled deposits was $60,340,669 and $31,351,770, respectively, and the bank balance was $61,980,426 and $31,421,424, respectively. The Sewer Fund's position in the pooled deposits was $21,338,729 and $15,110,310 at December 31, 2014 and 2013, respectively. At December 31, 2014, $500,000 was insured by federal depository insurance and the remaining balance of $20,838,729 was collateralized under Act No. 72. At December 31, 2013, $750,000 was insured by federal depository insurance and the remaining balance of $14,360,310 was collateralized under the Act.

B. ***Investments***

The fair value of the investments of the Sewer Fund at December 31, 2014 and 2013 is as follows:

December 31, 2014	Fair Value
Money market funds	$ 265,366

December 31, 2013	Fair Value
Money market funds	$ 467,593

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 Sewer Fund does not have an investment policy for custodial credit risk. At December 31, 2014 and 2013, all investments of the Sewer Fund are held by the financial institution's trust department, in the Sewer Fund's name.

Concentration of credit risk. The Sewer Fund places no limits on the amount the Sewer Fund may invest in any one issuer. At December 31, 2014 and 2013, more than five percent of the Sewer Fund investments were held with the following issuers:

December 31, 2014	Fair Value	Percent of Investments
Goldman Sachs Financial Square Treasury Obligation Money Market	$ 265,366	100.00%
December 31, 2013		
Goldman Sachs Financial Square Treasury Obligation Money Market	$ 467,593	100.00%

Credit risk. The Sewer Fund does not have a formal policy that would limit its investment choices with regard to credit risk. At December 31, 2014 and 2013, the Sewer Fund's investments in money market funds were rated AAA.

Interest rate risk. The Sewer Fund does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2014 and 2013, the Sewer Fund's investments had maturities of less than one year.

3. Capital Assets

Capital asset activity for the years ended December 31, 2014 and 2013 is as follows:

	December 31, 2013	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2014
Capital assets not being depreciated:				
Land	$ 1,484,824	$ -	$ -	$ 1,484,824
Construction-in-progress	441,190	1,840,742	(441,190)	1,840,742
Total capital assets, not being depreciated	1,926,014	1,840,742	(441,190)	3,325,566
Capital assets being depreciated:				
Sewer system	151,067,133	3,127,242	-	154,194,375
Equipment and vehicles	2,345,280	612,757	(13,490)	2,944,547
Total capital assets, being depreciated	153,412,413	3,739,999	(13,490)	157,138,922
Less accumulated depreciation for:				
Sewer system	(65,164,451)	(2,811,036)	-	(67,975,487)
Equipment and vehicles	(620,002)	(129,267)	13,490	(735,779)
Total accumulated depreciation	(65,784,453)	(2,940,303)	13,490	(68,711,266)
Capital assets being depreciated, net	87,627,960	799,696	-	88,427,656
Capital assets, net	$ 89,553,974	$ 2,640,438	$ (441,190)	$ 91,753,222

	December 31, 2012	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2013
Capital assets not being depreciated:				
Land	$ 1,484,824	$ -	$ -	$ 1,484,824
Construction-in-progress	976,115	441,190	(976,115)	441,190
Total capital assets, not being depreciated	2,460,939	441,190	(976,115)	1,926,014
Capital assets being depreciated:				
Sewer system	140,133,033	10,934,100	-	151,067,133
Equipment and vehicles	1,996,065	379,695	(30,480)	2,345,280
Total capital assets, being depreciated	142,129,098	11,313,795	(30,480)	153,412,413
Less accumulated depreciation for:				
Sewer system	(62,568,496)	(2,595,955)	-	(65,164,451)
Equipment and vehicles	(367,723)	(282,759)	30,480	(620,002)
Total accumulated depreciation	(62,936,219)	(2,878,714)	30,480	(65,784,453)
Capital assets being depreciated, net	79,192,879	8,435,081	-	87,627,960
Capital assets, net	$ 81,653,818	$ 8,876,271	$ (976,115)	$ 89,553,974

4. LONG-TERM LIABILITIES

A summary of long-term liabilities for the year ended December 31, 2014 is as follows:

Date of Issue/ Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2014
2007/2022	$ 12,150,000	General Obligation Bonds, 4.00% - 5.00%	$ 8,995,000
2009/2025	14,030,000	General Obligation Notes, 2.50% - 4.875%	9,800,000
2011/2041	22,460,000	General Obligation Bonds, 1.75% - 5.00%	22,175,000
2014/2034	7,415,000	General Obligation Bonds, 3.00% - 5.00%	7,415,000
2014/2037	333,129	Note Payable to Financing Agency, 1.00% - 1.74%	333,129
			$ 48,718,129

Bonds Payable

In 1998, the City issued $61,915,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to $27,390,000, bearing interest at rates ranging from 3.2% to 5.25%. The proceeds of the bond issuance were used 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. These bonds were currently refunded through the issuance of General Obligation Notes, Series of 2009.

In 2007, the City issued $125,315,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to $12,150,000, bearing interest at rates ranging 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, and the current refunding of the 2004 note payable.

In 2011, the City issued $38,860,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to $22,460,000, bearing interest rates ranging from 1.75% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the wastewater treatment plant and various miscellaneous capital projects.

In 2014, the City issued $42,490,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to $7,415,000, bearing interest rates ranging from 3.00% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the wastewater treatment plant and various miscellaneous capital projects.

Notes Payable

In 2009, the City issued $43,990,000 of general obligation notes. The portion allocable to the Sewer Fund amounted to $14,030,000, 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.

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. During the year ended December 31, 2014, the Guaranteed Revenue Note of 2012 was transferred to the City's Stormwater Fund.

In 2014, the City issued $5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest drawdown loan that is for the construction of the North Pump Station Preliminary Treatment Facility and Diversion Chamber. This Note bears interest at a rate of 1.00% for the first five years and 1.74% thereafter. As of December 31, 2014, $333,129 was drawn down on the Guaranteed Revenue Note of 2014.

Principal and interest maturities on the bonds and notes payable are as follows:

Year Ended December 31,	Principal Maturity	Interest Maturity	Total
2015	$ 1,765,000	$ 2,092,560	$ 3,857,560
2016	2,005,000	2,031,269	4,036,269
2017	2,147,951	1,940,952	4,088,903
2018	2,216,022	1,843,030	4,059,052
2019	2,316,182	1,740,069	4,056,251
2020-2024	13,344,007	6,955,070	20,299,077
2025-2029	7,325,791	4,743,179	12,068,970
2030-2034	8,148,128	3,271,468	11,419,596
2035-2039	6,450,048	1,616,909	8,066,957
2040-2041	3,000,000	210,878	3,210,878
	$ 48,718,129	$ 26,445,384	$ 75,163,513

Capital Lease

From 2011 through 2014, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. As of December 31, 2014 and 2013, the Sewer Fund includes these vehicles and equipment at a cost of $1,475,167 and $915,643, respectively, with accumulated depreciation of $148,701 and $165,982, respectively.

The future minimum payments under these capital leases and the present value of the minimum lease payments at December 31, 2014 are as follows:

Year Ended December 31,	Total
2015	$ 305,778
2016	206,376
2017	194,250
2018	34,156
Total minimum lease payments	740,560
Less amount representing interest	(57,229)
Present value of future minimum lease payments	$ 683,331

Changes in long-term liabilities for the years ended December 31, 2014 and 2013 are as follows:

	December 31, 2013	Increase	Decrease	Transfer Out	December 31, 2014	Amount Due Within One Year
Bonds payable	$32,010,000	$ 7,415,000	$ (840,000)	$ -	$38,585,000	$ 870,000
Unamortized premium	594,478	248,284	(85,698)	-	757,064	-
Notes payable	11,262,781	333,129	(870,000)	(592,781)	10,133,129	895,000
Capital lease	481,884	559,524	(358,077)	-	683,331	276,091
Compensated absences	81,510	367,438	(372,522)	-	76,426	17,582
Workers' compensation payable	986	4,900	(4,055)	-	1,831	606
	$44,431,639	$ 8,928,275	$ (2,530,352)	$ (592,781)	$50,236,781	$ 2,059,279

	December 31, 2012	Increase	Decrease	December 31, 2013	Amount Due Within One Year
Bonds payable	$ 32,545,000	$ -	$ (535,000)	$ 32,010,000	$ 840,000
Unamortized premium	677,610	-	(83,132)	594,478	-
Notes payable	11,510,000	592,781	(840,000)	11,262,781	870,000
Capital lease	317,722	334,665	(170,503)	481,884	164,041
Compensated absences	65,681	387,208	(371,379)	81,510	15,055
Workers' compensation payable	2,004	-	(1,018)	986	127
	$ 45,118,017	$ 1,314,654	$ (2,001,032)	$ 44,431,639	$ 1,889,223

In conjunction with the Basis Swap transaction described in Note 5, 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, 2014 and 2013, the borrowing had an outstanding balance of $1,249,816 and $1,401,230, respectively, which is reflected in the governmental activities portion of the City’s financial statement. 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 $768,775 and $712,867 at December 31, 2014 and 2013, respectively.

A summary of principal and interest maturities on the borrowing at December 31, 2014 is as follows:

Year Ended December 31,	Principal	Interest	Total
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	114,444	28,509	142,953
2020-2024	466,436	73,065	539,501
2025-2028	180,909	5,377	186,286
	$ 1,249,816	$ 270,506	$ 1,520,322

As noted above, this borrowing is reflected in the governmental activities section of the City's financial statement and, as such, the Sewer Fund does not report a portion of the City's borrowing.

5. DERIVATIVE AGREEMENTS

Objective of the interest rate swap agreement and terms. 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 date of the Series A Bonds (May 1, 2028). Beginning on May 1, 2009 and ending on the final maturity date of May 1, 2028, the City was to pay a variable interest rate equal to the SIFMA index based on the notional amount remaining on the Series A Bonds and receive a variable interest rate equal to 67% of the 1-Month LIBOR rate. The Basis Swap agreement contains an embedded interest rate cap, providing that the floating rate to be paid by the City shall not exceed 25%. PNC Bank, N.A. paid a premium to the City in the amount of $1,715,700 for the Basis Swap. The Basis Swap became effective on May 1, 2009 and has been assigned to a proportionate share of the City's General Obligation Notes, Series of 2009 which refunded the Series A Bonds. The final maturity date of May 1, 2028 remains unchanged.

Fair value. As of December 31, 2014, the Basis Swap had a fair value of ($580,913). 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 market value of $196,752 during the year ended December 31, 2014 is recorded as a component of investment income on the City's government-wide statement of activities. The fair value is calculated using the zero-coupon method.

Credit risk. The City solicited competitive bids in connection with the Basis Swap agreement. The City solicited bids only from counterparties with an excellent credit rating (see – The City's Interest Rate Management Plan). PNC Bank, N.A. is rated A+ by Fitch Ratings, A by Standard & Poor's, and A2 by Moody's Investors Service as of December 31, 2014. 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 transactions 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 Agreement is terminated and has a negative fair value, the City would be liable to the counterparty for the termination payment. If the Basis Swap Agreement is terminated and has a positive fair value, the counterparty would be liable to the City for the termination payment.

Basis risk. The City is subject to basis risk because the interest index on the variable rate receipt arm of the swap is based on one-month LIBOR and the variable interest rate payment arm is based on a different index. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the City's calculated payments and, as a result, cost savings or synthetic interest rates may not be realized. As of December 31, 2014, the interest rate the City is paying under the Basis Swap was 0.03%, 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, 2014, the City's rating is not below the rating threshold and, therefore, the City had not posted any collateral due to a ratings trigger.

6. PENSION PLANS

The City administers a single-employer defined benefit pension plan for its nonuniformed employees – the Cash Balance Pension Plan (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 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.

Method Used to Value Investments

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

B. Plan Description and Contribution Information

Plan Participants

At December 31, 2014, employee membership data related to the CBPP was as follows:

Inactive plan members or beneficiaries currently receiving benefits	49
Inactive plan members entitled to but not yet receiving benefits	33
Active members	307
Total	389

Plan Description and Administration

The CBPP is a single-employer defined benefit pension plan that covers all full-time, nonuniformed employees of the City. The CBPP provides retirement, disability, and death benefits to plan members and their beneficiaries. The CBPP provisions are established and may be amended by the Nonuniformed Pension Board (Board). The Nonuniformed Pension Board consists of the Mayor, City Controller, the superintendent of finance, two nonuniformed employees and a member of City Council.

Retirement Benefit

A participant is eligible for normal retirement at age 65 and completion of ten years of service. The normal retirement pension is payable monthly during the participant's lifetime. Payments cease upon the participant's death.

The amount of monthly pension is equal to the greater of (a) or (b) where (a) equals 0.8% of average monthly compensation times credited service after December 1, 1986, plus accrued benefit on December 1, 1986, and (b) equals the actuarial equivalent of the participant benefit account balance. The participant benefit account balance is equal to the sum of (1) the accrued benefit on November 30, 1986, plus (2) for each plan year beginning on or after January 1, 1987, an annual benefit credit equal to 4% of earnings for a participant who accrues credited service plus (3) after January 1, 1987, interest credited to the account balance equal to 5.5% compounded annually.

Average monthly compensation is based upon the five consecutive plan years of highest compensation out of the last ten years preceding retirement.

If a participant continues working after his/her normal retirement date, his/her pension would not start until retirement, subject to minimum distribution rules at age 70 ½ or later. The late retirement benefit is the pension accrued to the late retirement date.

A participant is eligible for early retirement after attainment of age 55 and completion of ten years of service. The early retirement benefit is the actuarial equivalent of the pension accrued to the date of early retirement. The reduction is 7.2% for each of the first five years prior to normal retirement, and 3.6% for each of the next five years.

If a participant who has completed ten years of service becomes totally and permanently disabled, he/she is eligible for disability retirement after six months of disability. The disability retirement benefit is the greater of the accrued pension or 30% of the participant's average monthly compensation as of his/her date of disability.

Disability payments will be made until the earlier of recovery, death or normal retirement age. At normal retirement age, the participant shall receive the normal retirement pension.

The death benefit for an active vested participant who has completed five years of service is a 50% survivor pension for his beneficiary. Payment of the survivor benefit would begin on the date on which the participant would first have been eligible for retirement. The amount of survivor benefit would be the 50% survivor benefit payable under a joint and 50% survivor pension option, based upon the pension accrued to the date of death and reduced for early commencement of benefits, if applicable. The death benefit cannot be less than the participant's benefit account balance or the lump sum value of the vested accrued benefit.

Contributions

The CBPP is funded by the City on an annual basis pursuant to the provisions of the Act 205 of 1984 of the Commonwealth of Pennsylvania. The CBPP 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 $697,517 to the CBPP for the year ended December 31, 2014.

Net Pension Liability

The components of the net pension liability for the CBPP at December 31, 2014 were as follows:

Total pension liability	$ 14,733,676
Plan fiduciary net position	(10,740,515)
Net pension liability	$ 3,993,161
Plan fiduciary net position as a percentage of the total pension liability	72.90%

The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.00%
Underlying inflation rate	3.00%
RP2000 mortality table	

Investment Policy - The CBPP's policies in regard to the allocation of invested assets are established and may be amended by the Board. The Board seeks to optimize the total return of the CBPP's portfolio through a policy of balanced investments, structured to achieve the maximum returns possible, as measured on the total portfolio, consistent with a policy that emphasizes the prudent management of risk.

Long-Term Expected Rate of Return - The long-term expected rate of return on CBPP investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	61.0%	7.0%
Fixed income	29.0%	2.5%
Cash	10.0%	0.0%
	100.0%	

Rate of Return – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2014, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 8.98%.

Concentrations – The CBPP had investments in Goldman Sachs Financial Square Federal Fund Money Market Fund that were approximately 10% of the CBPP's fiduciary net position at December 31, 2014.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2014 was 7.50%. The CBPP's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability Changes in the Discount Rate – The following presents the net pension liability of the CBPP calculated using the discount rate described above, as well as what the CBPP's net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
$ 5,684,083	$ 3,993,161	$ 2,182,649

Additional Employer Disclosures Required by GASB Statements No. 27 and 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013, as required by Act 205.

The January 1, 2013 actuarial valuation used the entry age normal actuarial cost method. The actuarial assumptions included a) 7.50% investment rate of return, b) a projected salary increase of 5%, c) level dollar closed amortization method, and d) 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 trend information:

CBPP:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2012	$ 518,631	99.60%	$ (82,637)
2013	660,960	99.70%	(80,575)
2014	699,532	99.71%	(78,560)

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

Annual required contribution	$ 697,516
Interest on net pension asset	(6,043)
Adjustment to annual required contribution	8,059
Annual pension cost	699,532
Contributions made	697,517
Change in net pension asset	2,015
Net pension asset, beginning of year	(80,575)
Net pension asset, end of year	$ (78,560)

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, 2014 and 2013, there were 188 and 192 plan participants, respectively. The SSP 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, 2014, plan participants and the City made contributions of $433,362 and $92,954, respectively. During the year ended December 31, 2013, plan participants and the City made contributions of $396,314 and $86,420, respectively. Of the amount contributed by the City, the Sewer Fund contributed $14,939 and $14,023 for the years ended December 31, 2014 and 2013, respectively.

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

7. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to the retirement benefits described in Note 6, 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.

Nonuniformed employees are eligible to retire after completion of 10 years of service and attainment of age 55 or upon disability after completion of 10 years of service.

Any nonuniformed 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.

A nonuniformed employee will be eligible for $7,000 ($15,000 for disability) of life insurance upon 10 years of service and attainment age of 55 or upon disability after completion of 10 years of service.

The union labor contract establishes the post-retirement health care plan provisions for nonuniformed union employees. The union contract does 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 years ended December 31, 2014 and 2013, respectively, the City's net cost of providing health benefits and life insurance for retired employees was $5,039,896 and $4,823,749. Of the amount contributed by the City, the Sewer Fund contributed $314,797 and $222,037 for the years ended December 31, 2014 and 2013, respectively. A portion of the contributions made during the years ended December 31, 2014 and 2013, in the amount of $132,677 and zero, respectively, was made directly to the City's OPEB trust fund by the City's Sewer Fund. Plan members receiving benefits contributed $62,719 and $71,692, through their contributions as required by the cost sharing provisions of the plans for the years ended December 31, 2014 and 2013, respectively.

The nonuniformed union labor contract and the City's human resource policies establish and amend the obligations of the plan members and the City to contribute to the plan.

Any nonuniformed employee who elects coverage will make monthly contributions. For eligible nonuniformed 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 nonuniformed 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 costs (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Actuarial Methods and Assumptions

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

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2014
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5% per year
Medical inflation	6.5% in 2014, decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later
Amortization period	30 years, open period

Annual OPEB Cost and Net OPEB Obligation

The Sewer Fund's portion of the City's annual OPEB costs and net OPEB obligations to the plan for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Annual required contribution	$ 823,045	$ 652,488
Interest on net OPEB obligation	129,816	112,286
Adjustment to annual required contribution	(177,102)	(153,187)
Annual OPEB cost	775,759	611,587
Contribution made	(314,797)	(222,037)
Change in Net OPEB obligation	460,962	389,550
Net OPEB obligation, beginning	2,884,793	2,495,243
Net OPEB obligation, ending	$ 3,345,755	$ 2,884,793

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2012	$ 618,150	35.2%	$ 2,495,243
2013	611,587	36.3%	2,884,793
2014	775,759	40.6%	3,345,755

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)
1/1/2014	$ -	$ 7,063,327	$ 7,063,327	0.00%	$ 2,085,629	338.67%

8. Risk Management

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

Insurance contracts cover public officials, law enforcement, automobile, excess workers' compensation, excess health claims, and umbrella liabilities. The contracts also provide 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 2014, 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 Sewer Fund for the years ended December 31, 2014 and 2013 is as follows:

Unpaid claims as of January 1, 2013	$ 2,004
Incurred claims during 2013	-
Payments during 2013	(1,018)
Unpaid claims as of January 1, 2014	986
Incurred claims during 2014	4,055
Payments during 2014	(3,210)
Unpaid claims as of December 31, 2014	$ 1,831

9. Contingencies

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, on 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 2014.

10. CONTRACT COMMITMENTS

During the year ended December 31, 2014, 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 $22,624,348. At December 31, 2014, $734,360 was included in accounts payable. The commitment remaining on the contracts at December 31, 2014 was $16,623,865.

11. NEGATIVE UNRESTRICTED NET POSITION

In addition to sewer rate increases for inside City customers in 2010 (10%) and 2011 (20%), City Council approved a 35% rate increase for inside City customers effective in January 2012. The Pennsylvania Public Utility Commission (PUC) approved a rate increase for outside City sewer customers in April 2013 for an annualized revenue increase of $399,000. In 2014, the City also created the Stormwater Fund as a new enterprise fund with its own dedicated revenue source (stormwater management fees). The creation of the Stormwater Fund removed stormwater related expenses from the Sewer Fund. The additional revenues to the Sewer Fund generated by the series of rate increases and the movement of stormwater related expenses to the Stormwater Fund had improved the Sewer Fund's cash flow. However, at year-end 2014, the City's bulk sewer treatment expense disputes with East Lampeter Township and with the Lancaster Area Sewer Authority were still unresolved and continued to be a drag on Sewer Fund revenues and cash flow.

In March 2015, following a binding arbitration decision favorable to the City in 2014, East Lampeter Township made a payment to the City of $1.685 million. In mid-June 2015 another payment on the amount due from East Lampeter Township was made in the amount of $171,000.

Also in March 2015, the City initiated the process to begin binding arbitration with the Lancaster Area Sewer Authority to resolve this bulk sewer treatment expense dispute. The City's demand, based on the East Lampeter Township arbitration award, included a demand of $2.186 million in past due bulk sewer payments from 2008 through 2013.

12. Extraordinary Item - Litigation Settlement

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. During the year ended December 31, 2014, the City won a litigation settlement regarding outstanding bulk treatment receivables due from another municipality in the amount of $2,433,543. The settlement revenue has been presented on the statement of revenues, expenses, and changes in fund net position as an extraordinary item for the year ended December 31, 2014.

Required Supplementary Information

CITY OF LANCASTER SEWER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CHANGES IN THE CASH BALANCE PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	$ 533,032
Interest	1,048,689
Benefit payments, including refunds of member contributions	(595,063)
Net Changes in Total Pension Liability	986,658
Total Pension Liability - Beginning	13,747,018
Total Pension Liability - Ending (a)	$ 14,733,676
Plan Fiduciary Net Position:	
Contributions - employer	$ 697,517
Net investment income	854,651
Benefit payments, including refunds of member contributions	(595,063)
Administrative expense	(24,140)
Net Change in Plan Fiduciary Net Position	932,965
Plan Fiduciary Net Position - Beginning	9,807,550
Plan Fiduciary Net Position - Ending (b)	$ 10,740,515
Net Pension Liability - Ending (a-b)	$ 3,993,161
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.90%
Covered Employee Payroll	$ 13,618,505
Net Pension Liability as a Percentage of Covered Employee Payroll	29.32%

CITY OF LANCASTER SEWER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

CASH BALANCE PENSION PLAN:

Schedule of City Contributions	
Actuarially determined contribution under Act 205	$ 697,516
Contributions in relation to the actuarially determined contributions	697,517
Contribution deficiency (excess)	$ (1)
Covered employee payroll	$ 13,618,505
Contributions as a percentage of covered employee payroll	5.12%
Investment Returns	
Annual money-weighted rate of return, net of investment expense	8.98%

CITY OF LANCASTER SEWER FUND

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - PENSION PLAN (UNAUDITED)

Cash Balance Pension Plan:

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)
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%

The following changes affect the comparability of costs:

Actuarial Valuation Date	Reason	Change in Unfunded Actuarial Accrued Liability
1/1/2009	Assumption change	$ (2,031,339)
1/1/2011	Assumption change	252,898
1/1/2013	Assumption change and actuarial amendment	787,655

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions	
Investment rate of return	7.50%
Projected salary increases	5.00%
Underlying inflation rate	3.00%
RP2000 mortality table	

SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION PLAN (UNAUDITED)

Calendar Year	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2009	$ 475,248	$ 475,248	100.0%
2010	499,125	499,125	100.0%
2011	504,280	504,280	100.0%
2012	516,512	516,512	100.0%
2013	658,895	658,898	100.0%
2014	697,516	697,517	100.0%

Note: Contributions include state pension aid.

CITY OF LANCASTER SEWER FUND

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	$ -	$ 4,496,765	$ 4,496,765	0.0%	$ 1,897,820	236.94%
1/1/2010	-	4,715,588	4,715,588	0.0%	1,761,965	267.63%
1/1/2012	-	5,703,505	5,703,505	0.0%	1,899,710	300.23%
1/1/2014	-	7,063,327	7,063,327	0.0%	2,085,629	338.67%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB (UNAUDITED)

Year	Annual Required Contribution	Percentage Contributed
2009	$ 621,535	7.9%
2010	574,517	4.3%
2011	574,517	22.9%
2012	652,488	33.4%
2013	652,488	34.0%
2014	823,045	38.2%

Supplementary Information

CITY OF LANCASTER SEWER FUND

SCHEDULE OF NET COST OF OPERATIONS OF THE CITY SEWER SYSTEM

YEAR ENDED DECEMBER 31, 2014

Direct Expenses and Costs:	
Collection system	$ 864,936
Sewage treatment plants	3,983,565
Sewage pumping station	1,110,371
City Bureau of Sewers	2,351,152
Sewage grounds maintenance	39,010
	8,349,034
Allowance per contracts for indirect expenses and costs ($8,349,034 x 5.0%)	417,452
	8,766,486
Less reimbursements (as defined in agreements):	
Miscellaneous	222,909
Industrial waste surcharge	418,519
Management and operation service fee	178,940
	820,368
Net Cost of Operations of the City Sewer System	$ 7,946,118

CITY OF LANCASTER SEWER FUND

SCHEDULE OF DIRECT EXPENSES AND COSTS

YEAR ENDED DECEMBER 31, 2014

Collection System:	
Salaries and wages	$ 510,999
Vehicle maintenance	61,985
Gasoline and oil	49,319
Miscellaneous expenses	242,633
	864,936
Sewage Treatment Plants:	
Salaries and wages	759,946
Chemicals and laboratory supplies	454,015
Equipment maintenance	320,977
Vehicle maintenance	16,867
Gasoline, oil, and fuel	80,968
Water utility expense	59,997
Power	1,165,819
Building maintenance	24,847
Sludge disposal	1,039,862
Miscellaneous expenses	60,267
	3,983,565
Sewage Pumping Station:	
Salaries and wages	614,108
Equipment maintenance	49,281
Building maintenance	1,258
Fuel	14,324
Power	430,808
Miscellaneous expenses	592
	1,110,371
City Bureau of Sewers:	
Salaries and wages	208,651
Consultant and contract services	698,175
Special training	17,747
Uniforms	7,228
Telephone	26,579
Miscellaneous expense	81,181
Fringe benefits	1,311,591
	2,351,152
Sewer Grounds Maintenance:	
Salaries and wages	11,587
Operating equipment	21,021
Fringe benefits	6,402
	39,010
Total Direct Expenses and Costs	$ 8,349,034

CITY OF LANCASTER SEWER FUND

SCHEDULE OF COST OF TREATING EACH 1,000 GALLONS OF SEWAGE

YEAR ENDED DECEMBER 31, 2014

Net cost of operation of the City of Lancaster sewer system	$	7,946,118
Number of units of 1,000 gallons of sewage treated per records of the City of Lancaster (unaudited)		7,912,299
Net Cost of Treating 1,000 Gallons of Sewage	$	1.0043