City of Lancaster Water 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 WATER FUND

YEARS ENDED DECEMBER 31, 2014 AND 2013

TABLE OF CONTENTS

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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 Water 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 Water 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

Reporting Entity

As discussed in Note 1, the financial statements present only the Water 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.

Change in Accounting Principle

As discussed in Note 1, management has elected to change its policy for determining depreciation expense during the year ended December 31, 2014. Our opinion is not modified with respect to that 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 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maher Duessel

Harrisburg, Pennsylvania
June 30, 2015

CITY OF LANCASTER WATER FUND

BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

Assets and Deferred Outflows of Resources	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents	$ 550	$ 550
Cash and cash equivalents - restricted	33,121,023	10,583,976
Receivables:		
Water rents	1,566,911	1,561,936
Unbilled water rents	1,735,536	1,835,903
Other	11,514	32,880
Due from other governments	-	63,723
Prepaid expenses	1,407	7,253
Total current assets	36,436,941	14,086,221
Long-term assets:		
Prepaid debt insurance	906,264	979,537
Capital assets, not being depreciated	3,531,483	2,930,555
Capital assets, being depreciated, net	137,590,499	135,910,178
Total long-term assets	142,028,246	139,820,270
Total Assets	178,465,187	153,906,491
Deferred Outflows of Resources:		
Deferred charge on refunding	1,752,715	1,968,143
Total Deferred Outflows of Resources	1,752,715	1,968,143
Total Assets and Deferred Outflows of Resources	$180,217,902	$155,874,634

(Continued)

Liabilities and Net Position	2014	2013
Liabilities:		
Current liabilities:		
Accounts payable	$ 1,400,126	$ 1,685,559
Accrued expenses	1,189,476	975,495
Due to City of Lancaster General Fund	9,209,243	6,795,046
Compensated absences, current portion	19,498	14,441
Workers' compensation payable, current portion	-	33,128
Capital lease, current portion	88,986	82,440
Notes payable, current portion	1,022,027	990,767
Bonds payable, current portion	1,007,000	981,600
Total current liabilities	13,936,356	11,558,476
Long-term liabilities:		
Compensated absences, net of current portion	65,258	63,742
Workers' compensation payable, net of current portion	-	223,570
Net other post-employment liability	3,302,186	3,196,592
Capital lease, net of current portion	142,040	176,776
Notes payable, net of current portion	10,410,675	11,432,702
Bonds payable, net of current portion	133,701,790	106,980,156
Total long-term liabilities	147,621,949	122,073,538
Total Liabilities	161,558,305	133,632,014
Net Position:		
Net investment in capital assets	29,995,105	30,791,724
Unrestricted	(11,335,508)	(8,549,104)
Total Net Position	18,659,597	22,242,620
Total Liabilities and Net Position	$180,217,902	$155,874,634

(Concluded)

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

CITY OF LANCASTER WATER FUND

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

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating Revenues:		
Water rents	$ 20,052,600	$ 20,098,781
Meter labor reimbursement	216,065	226,709
Miscellaneous revenue	482,186	478,838
Total operating revenues	20,750,851	20,804,328
Operating Expenses:		
Susquehanna treatment plant	2,641,726	2,307,776
Conestoga treatment plant	2,107,372	2,242,765
Transmission and distribution	1,414,533	1,306,020
Meters and meter labor	617,327	647,740
Laboratory	205,176	262,587
Depreciation	2,878,242	3,542,853
Administration	5,546,059	5,310,231
Grounds maintenance	365,042	393,036
Total operating expenses	15,775,477	16,013,008
Operating Income	4,975,374	4,791,320
Non-Operating Revenues (Expenses):		
State pension contribution	182,707	168,044
Investment income	15,022	20,186
Insurance recovery	230,829	-
Amortization expense	(73,274)	(75,813)
Interest expense	(6,563,804)	(5,471,564)
Total non-operating revenues (expenses)	(6,208,520)	(5,359,147)
Loss before transfers and capital contributions	(1,233,146)	(567,827)
Transfers out	(2,743,751)	(2,499,999)
Capital contributions	393,874	117,928
Change in Net Position	(3,583,023)	(2,949,898)
Net Position:		
Beginning of year	22,242,620	25,192,518
End of year	$ 18,659,597	$ 22,242,620

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

CITY OF LANCASTER WATER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash received from users	$ 20,867,609	$ 20,763,465
Cash paid to suppliers	(7,824,980)	(7,475,885)
Cash paid to employees	(4,804,096)	(4,687,171)
Net cash provided by operating activities	8,238,533	8,600,409
Cash Flows From Investing Activities:		
Investment income received	15,022	20,186
Net cash provided by investing activities	15,022	20,186
Cash Flows From Capital and Related Financing Activities:		
Proceeds from bonds payable	27,798,139	-
Principal payments on capital lease	(97,156)	(102,665)
Principal payments on notes payable	(990,767)	(959,549)
Principal payments on bonds payable	(981,600)	(956,200)
Interest paid	(6,325,197)	(5,372,611)
Acquisition of capital assets	(4,973,080)	(2,976,003)
Net cash provided by (used in) capital and related financing activities	14,430,339	(10,367,028)
Cash Flows From Non-Capital Financing Activities:		
Transfers out	(2,743,751)	(2,499,999)
Due to City of Lancaster General Fund	2,414,197	1,607,003
State pension contribution	182,707	168,044
Net cash used in non-capital financing activities	(146,847)	(724,952)
Net Increase (Decrease) in Cash and Cash Equivalents	22,537,047	(2,471,385)
Cash and Cash Equivalents:		
Beginning of year	10,584,526	13,055,911
End of year	$ 33,121,573	$ 10,584,526

(Continued)

CITY OF LANCASTER WATER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013
(Continued)

	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 4,975,374	$ 4,791,320
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,878,242	3,542,853
Loss on disposal of capital assets	14,023	-
Changes in assets and liabilities:		
Receivables	116,758	(40,863)
Prepaid expenses	5,846	(185)
Accounts payable	116,430	194,613
Accrued expenses	45,562	18,919
Compensated absences	6,573	1,523
Workers' compensation payable	(25,869)	235,066
Net other post-employment liability	105,594	(142,837)
Total adjustments	3,263,159	3,809,089
Net cash provided by operating activities	$ 8,238,533	$ 8,600,409
Noncash Capital Financing Activities:		
Issuance of capital lease	$ 68,966	$ 134,521
Developer contributions	$ 393,874	$ 117,928

(Concluded)

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

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the transactions of the Water Fund of the City of Lancaster, Pennsylvania (Water 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 Water 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 Water 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 Water Fund is charges for water. 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 Water Fund is determined by its measurement focus. The transactions of the Water 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," 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 Water 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.

Capital Assets

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

During the year ended December 31, 2014, the City prospectively changed the Water Fund's depreciation method for the calculation of depreciation expense, as well as estimated useful lives of capital assets. For the year ended December 31, 2014, depreciation was computed using the composite remaining life method using the average life term of group assets. For the year ended December 31, 2013, depreciation was computed on a straight-line basis.

The following are the estimated useful lives used for capitalization of water system capital assets:

For the year ended December 31, 2014:		
	Water systems	20 - 110 years
	Equipment and vehicles	3 - 40 years
For the year ended December 31, 2013:		
	Water systems	50 years
	Equipment and vehicles	5 - 30 years

The Water Fund capitalizes system 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 $75,735 and $55,451, respectively.

Restricted Assets

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

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.

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, or 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 Water 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 Water 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.

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

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 Water Fund does not have a deposit policy for custodial credit risk.

The Water 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 Water Fund's position in the pooled deposits was $33,121,023 and $10,583,976 at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the entire balance 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.

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	$ 2,564,600	$ -	$ -	$ 2,564,600
Construction-in-progress	365,955	700,258	(99,330)	966,883
Total capital assets, not being depreciated	2,930,555	700,258	(99,330)	3,531,483
Capital assets being depreciated:				
Water system	181,310,233	4,473,168	(29,153)	185,754,248
Equipment and vehicles	2,715,117	99,418	(14,895)	2,799,640
Total capital assets, being depreciated	184,025,350	4,572,586	(44,048)	188,553,888
Less accumulated depreciation for:				
Water system	(46,444,497)	(2,719,423)	15,129	(49,148,791)
Equipment and vehicles	(1,670,675)	(158,819)	14,896	(1,814,598)
Total accumulated depreciation	(48,115,172)	(2,878,242)	30,025	(50,963,389)
Capital assets being depreciated, net	135,910,178	1,694,344	(14,023)	137,590,499
Capital assets, net	$ 138,840,733	$ 2,394,602	$ (113,353)	$ 141,121,982

	December 31, 2012	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2013
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	2,721,743	365,955	(157,143)	2,930,555
Capital assets being depreciated:				
Water system	178,349,727	2,960,506	-	181,310,233
Equipment and vehicles	2,536,513	214,534	(35,930)	2,715,117
Total capital assets, being depreciated	180,886,240	3,175,040	(35,930)	184,025,350
Less accumulated depreciation for:				
Water system	(43,152,975)	(3,291,522)	-	(46,444,497)
Equipment and vehicles	(1,455,274)	(251,331)	35,930	(1,670,675)
Total accumulated depreciation	(44,608,249)	(3,542,853)	35,930	(48,115,172)
Capital assets being depreciated, net	136,277,991	(367,813)	-	135,910,178
Capital assets, net	$ 138,999,734	$ (1,858)	$ (157,143)	$ 138,840,733

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
2007/2046	$ 96,460,000	General Obligation Bonds, 4.00% - 5.00%	$ 95,210,000
2002/2022	692,533	Note Payable to Financing Agency, 2.77%	307,702
2009/2030	15,875,000	General Obligation Notes, 2.50% - 4.875%	11,125,000
2010/2028	690,800	General Obligation Bonds, 2.00% - 4.00%	552,000
2011/2041	11,260,000	General Obligation Bonds, 1.75% - 5.00%	10,210,000
2014/2044	27,235,000	General Obligation Bonds, 3.00% - 5.00%	27,235,000
			$ 144,639,702

Bonds Payable

In 1998, the City issued $61,915,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $26,185,000, 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. 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. The portion allocable to the Water Fund amounted to $800,000, bearing interest at rates ranging from 2.00% to 4.45%. The proceeds of the bond issuance were used to fund transmission and distribution projects. These bonds were currently refunded through the issuance of General Obligation Bonds, Series of 2010.

In 2007, the City issued $125,315,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $96,460,000, bearing interest at rates ranging from 4.00% to 5.00%. The proceeds of the bond issuance were used to fund the construction of the membrane filtration plant and refund the City’s 2004 note payable.

In 2010, the City issued $8,635,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $690,800. The bonds bear interest at rates ranging from 2.00% to 4.00%. The proceeds of the bond issuance were used to currently refund the General Obligation Bonds, Series of 2003.

In 2011, the City issued $38,860,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $11,260,000, bearing interest rates ranging from 1.75% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the water plant and various miscellaneous capital projects.

In 2014, City Council issued $42,490,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $27,235,000. Bond proceeds will be used for the purposes of financing improvements and upgrades to the water treatment and distribution facilities. The bonds bear interest at rates ranging from 3.00% to 5.00%.

Notes Payable

In 2002, the City issued $692,533 of notes, bearing interest at 2.77%. The proceeds of the note issuance were used to construct a water main in Manor Township and to reinforce the water supply to the Borough of Millersville.

In 2009, the City issued $43,990,000 of general obligation notes. The portion allocable to the Water Fund amounted to $15,875,000, 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.

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

Year Ended December 31,	Principal Maturity	Interest Maturity	Total
2015	$ 2,029,027	$ 6,285,111	$ 8,314,138
2016	2,631,132	6,217,189	8,848,321
2017	2,753,283	6,101,764	8,855,047
2018	2,870,881	5,979,190	8,850,071
2019	3,008,128	5,848,245	8,856,373
2020-2024	17,176,651	27,104,874	44,281,525
2025-2029	21,160,600	23,133,045	44,293,645
2030-2034	22,890,000	18,419,797	41,309,797
2035-2039	26,055,000	13,268,125	39,323,125
2040-2044	32,295,000	7,024,825	39,319,825
2045-2046	11,770,000	800,325	12,570,325
	$ 144,639,702	$ 120,182,490	$ 264,822,192

Capital Lease

In 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 Water Fund includes these vehicles and equipment at a cost of $481,333 and $412,367, respectively, with accumulated depreciation of $129,062 and $97,355, 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	$ 98,099
2016	91,611
2017	43,775
2018	14,723
Total minimum lease payments	248,208
Less amount representing interest	(17,182)
Present value of future minimum lease payments	$ 231,026

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

	December 31, 2013	Increase	Decrease	December 31, 2014	Amount Due Within One Year
Bonds payable	$ 106,953,600	$ 27,235,000	$ (981,600)	$ 133,207,000	$ 1,007,000
Unamortized premium	1,008,156	553,252	(59,618)	1,501,790	-
Notes payable	12,423,469	-	(990,767)	11,432,702	1,022,027
Capital lease	259,216	68,966	(97,156)	231,026	88,986
Compensated absences	78,183	562,822	(556,249)	84,756	19,498
Workers' compensation payable	256,698	-	(256,698)	-	-
	$ 120,979,322	$ 28,420,040	$ (2,942,088)	$ 146,457,274	$ 2,137,511

	December 31, 2012	Increase	Decrease	December 31, 2013	Amount Due Within One Year
Bonds payable	$ 107,909,800	$ -	$ (956,200)	$ 106,953,600	$ 981,600
Unamortized premium	1,069,078	-	(60,922)	1,008,156	-
Notes payable	13,383,018	-	(959,549)	12,423,469	990,767
Capital lease	227,360	134,521	(102,665)	259,216	82,440
Compensated absences	76,660	541,550	(540,027)	78,183	14,441
Workers' compensation payable	21,632	258,450	(23,384)	256,698	33,128
	$ 122,687,548	$ 934,521	$ (2,642,747)	$ 120,979,322	$ 2,102,376

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 Water 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 Water Fund contributed $29,304 and $28,656 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 of life insurance ($15,000 for disability) 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 Water Fund contributed

$1,073,363 and $1,155,723 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 $726,204 and $726,203, respectively, was made directly to the City's OPEB trust fund by the City's Water 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	7.5% 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 Water Fund 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	$ 1,231,354	$ 1,067,625
Interest on net OPEB obligation	143,847	150,274
Adjustment to annual required contribution	(196,244)	(205,013)
Annual OPEB cost	1,178,957	1,012,886
Contribution made	(1,073,363)	(1,155,723)
Change in Net OPEB obligation	105,594	(142,837)
Net OPEB obligation, beginning	3,196,592	3,339,429
Net OPEB obligation, ending	$ 3,302,186	$ 3,196,592

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2012	$ 1,012,227	104.0%	$ 3,339,429
2013	1,012,886	114.1%	3,196,592
2014	1,178,957	91.0%	3,302,186

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	$ 1,459,923	$ 12,043,238	$ 10,583,315	12.12%	$ 3,312,344	319.51%

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 Water Fund for the years ended December 31, 2014 and 2013 is as follows:

Unpaid claims as of January 1, 2013	$ 21,632
Incurred claims during 2013	258,450
Payments during 2013	(23,384)
Unpaid claims as of January 1, 2014	256,698
Incurred claims during 2014	-
Payments during 2014	(256,698)
Unpaid claims as of December 31, 2014	$ -

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 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 $5,262,107. At December 31, 2014, $534,361 was included in accounts payable. The commitment remaining on the contracts at December 31, 2014 was $2,889,300.

11. NEGATIVE UNRESTRICTED NET POSITION

A series of inside City rate increases, as well as a nearly 75% increase in rates for outside City customers approved by the Pennsylvania Public Utility Commission (PUC) in July 2011, improved cash flow. However, the need for cash borrowing from the General Fund increased again in 2014 due to the continued delay of rate increase approvals through the PUC process. 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 have increase Water Fund revenues by $6.46 million dollars on an annualized basis. Following the lengthy PUC review process for this rate increase proposal, the City settled with the State parties for a $4.2 million revenue increase applied to outside City customers. This increase, paired with a City Council approved rate increase for inside City customers of $1.3 million, went into effect on March 5, 2015 per the PUC approved settlement agreement.

12. SUBSEQUENT EVENT

On April 13, 2015, the City issued a General Obligation Note, Series of 2015, in the aggregate amount of $6,950,000. The portion allocable to the Water Fund amounted to $556,000. Note proceeds are to be used to currently refund the General Obligation Bonds, Series of 2010. The note bears interest at a fixed rate of 2.41% until its maturity on May 1, 2028.

Required Supplementary Information

CITY OF LANCASTER WATER 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 WATER 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 WATER 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 CONTRIBUTONS - 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 WATER 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	$ -	$ 8,834,931	$ 8,834,931	0.0%	$ 2,914,972	303.1%
1/1/2010	-	11,365,848	11,365,848	0.0%	3,814,064	298.0%
1/1/2012	-	10,700,060	10,700,060	0.0%	3,079,389	347.5%
1/1/2014	1,459,923	12,043,238	10,583,315	12.1%	3,312,344	319.5%

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
2009	$ 1,019,581	14.3%
2010	1,191,735	26.8%
2011	1,191,735	32.2%
2012	1,067,625	98.6%
2013	1,067,625	108.3%
2014	1,231,354	87.2%