

# **City of Lancaster, Pennsylvania**

Financial Statements and Required  
Supplementary Information

Year Ended December 31, 2015 with  
Independent Auditor's Report

# CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2015

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# CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2015

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### Independent Auditor's Report

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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Pennsylvania (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lancaster Industrial Development Authority, the Lancaster Recreation Commission, the Redevelopment Authority of the City of Lancaster, the Lancaster Downtown Investment District Authority, and the City of Lancaster City Revitalization and Improvement Zone Authority, which represent 68 percent, 30 percent, and 59 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The financial statements of the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," which requires the City to record its net pension liability and related items on the government-wide and proprietary fund financial statements. Our opinion is not modified with respect to that matter.

### **Change in Reporting Entity**

During the year ended December 31, 2015, the City determined that the City of Lancaster Office of Promotion qualifies as a component unit of the City. Therefore, the December 31, 2015 financial statements reflect the financial position and changes in financial position of the City of Lancaster Office of Promotion in the aggregate remaining fund information opinion unit. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the historical pension and other post-employment benefit (OPEB) information, and budgetary comparison information on pages i through xi and 125 through 138 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Maher Duessel*



MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the City of Lancaster, Pennsylvania ("the City") provides this narrative overview and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2015 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. While the Lancaster Industrial Development Authority, Lancaster Recreation Commission, the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, the Lancaster Downtown Investment District Authority, and the City of Lancaster City Revitalization and Improvement Zone Authority are all separate legal entities, they are shown in the financial statements as discretely presented component units. This overview, however, focuses on the primary government and, unless otherwise noted, these component units are not included in this discussion. The City encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- At the end of fiscal year 2015, the assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by \$34.628 million. The City's net position decreased \$6.085 million (14.946 percent) during the fiscal year. The governmental activities net position decreased by \$5.032 million (12.535 percent) and the business-type activities net position decreased by \$1.053 million (1.303 percent).
- The City restated its 2014 net position significantly downward due to mandated accounting procedures now in effect. The 2015 City financial statements incorporated for the first time the requirements of Statements No. 68 and 71 from the Governmental Accounting Standards Board (GASB) that requires the long-term costs of employee pensions to be included in determining the net position of the City. The new GASB standards require a current estimate of outstanding pension liability. The restated net position clearly reveals the long-term cost of providing pension benefits to City employees and their families.
- At the close of 2015, the City's governmental funds reported a combined ending fund balance of \$16.534 million, a decrease of \$.280 million (1.668 percent). Of this amount, approximately \$3.541 million is legally restricted and/or unavailable to spend, and \$9.004 million is committed and/or assigned for designated projects, leaving \$3.989 million available for spending at the government's discretion (unassigned fund balance).
- The City's total outstanding bonded debt decreased by \$2.454 million (.982 percent) during the current fiscal year to \$247.523 million.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Proprietary funds** account for services for which the City charges user fees to outside customers and internal City departments. Proprietary funds utilize full accrual accounting; the same method used by private sector businesses. Enterprise funds are used to report the same functions presented as



business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility operations, LOOP, stormwater management, and solid waste and recycling program. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water utility and sewer utility, and combine LOOP, stormwater management, and the solid waste and recycling program. The water and sewer utilities are considered to be major funds of the City. The Internal Service Fund accounts for financing of insurance services provided to other funds of the City.

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

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of December 31, 2015 by approximately \$34.628 million.

## Statement of Net Position

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$32,504	\$32,638	\$50,872	\$65,267	\$83,376	\$97,905
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	69,377	69,982	245,992	233,925	315,369	303,907
Total Assets	101,881	102,620	296,864	299,192	398,745	401,812
Deferred Outflows	7,044	707	2,490	2,553	9,534	3,260
Current and Other Liabilities	6,488	7,445	18,368	17,829	24,856	25,274
Long-Term Liabilities	146,513	136,021	201,107	203,064	347,620	339,085
Total Liabilities	153,001	143,466	219,475	220,893	372,476	364,359
Deferred Inflows	1,095	-	80	-	1,175	-
Net Position						
Net Investment in Capital Assets	36,769	39,661	97,653	92,521	134,422	132,182
Restricted	2,375	2,219	3,009	4,016	5,384	6,235
Unrestricted	(84,315)	(82,019)	(20,863)	(15,685)	(105,178)	(97,704)
Total Net Position	<u>(\$45,171)</u>	<u>(\$40,139)</u>	<u>\$79,799</u>	<u>\$80,852</u>	<u>\$34,628</u>	<u>\$40,713</u>

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

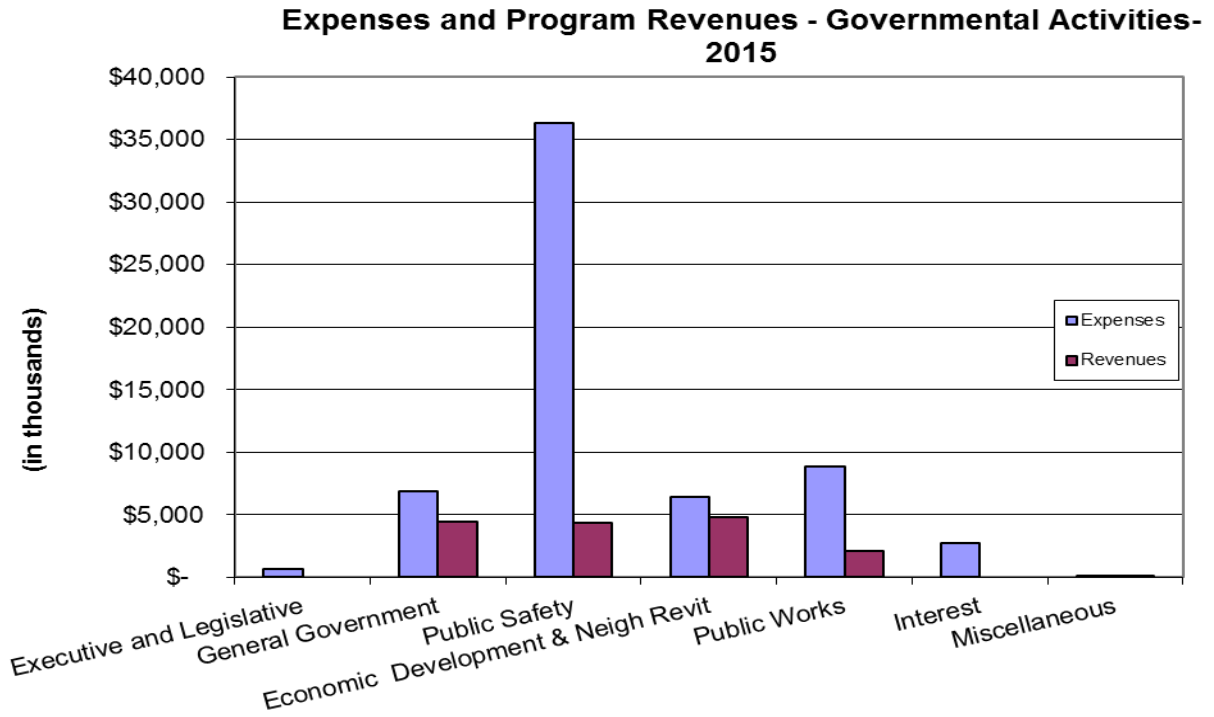
\*As restated due to implementation of GASB Statement No. 68. See Note 1 to the financial statements.

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

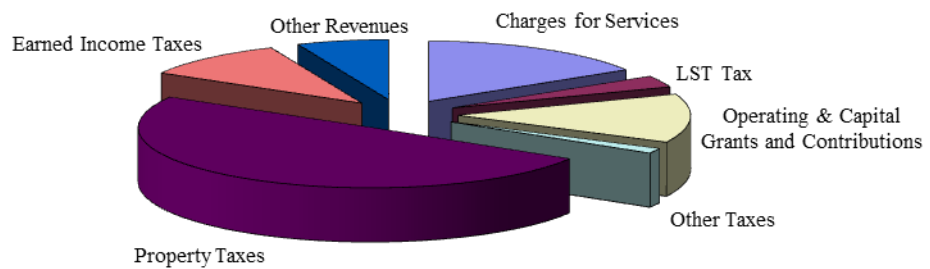
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$8,770	\$8,787	\$44,314	\$39,167	\$53,084	\$47,954
Operating & Capital Grants and Contributions	7,065	8,917	3,430	1,958	10,495	10,875
General Revenues:						
Property Taxes	26,918	24,925	-	-	26,918	24,925
Earned Income Tax	5,524	5,192	-	-	5,524	5,192
LST Tax	1,684	1,700	-	-	1,684	1,700
Other Taxes	727	539	-	-	727	539
Miscellaneous	3,463	2,619	62	43	3,525	2,662
<b>Total Revenues</b>	<b>54,151</b>	<b>52,679</b>	<b>47,806</b>	<b>41,168</b>	<b>101,957</b>	<b>93,847</b>
<b>Expenses</b>						
Governmental Activities:						
Executive and Legislative	671	641	-	-	671	641
General Government	6,867	11,204	-	-	6,867	11,204
Public Safety	36,278	35,577	-	-	36,278	35,577
Economic Development & Neigh Revit	6,414	6,657	-	-	6,414	6,657
Public Works	8,870	7,931	-	-	8,870	7,931
Interest	2,699	2,453	-	-	2,699	2,453
Miscellaneous	81	96	-	-	81	96
Business-Type Activities	-	-	-	-	-	-
Sewer	-	-	15,575	15,457	15,575	15,457
Water	-	-	23,428	22,759	23,428	22,759
Solid Waste and Recycling, LOOP, and Stormwater Mgmt	-	-	7,159	5,656	7,159	5,656
<b>Total Expenses</b>	<b>61,880</b>	<b>64,559</b>	<b>46,162</b>	<b>43,872</b>	<b>108,042</b>	<b>108,431</b>
Excess (Deficiency) Before Transfers and						
Extraordinary Item	(7,729)	(11,880)	1,644	(2,704)	(6,085)	(14,584)
<b>Extraordinary item - legal settlement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,434</b>	<b>-</b>	<b>2,434</b>
<b>Transfers</b>	<b>2,697</b>	<b>2,595</b>	<b>(2,697)</b>	<b>(2,595)</b>	<b>-</b>	<b>-</b>
Increase (Decrease) in Net Position	(5,032)	(9,285)	(1,053)	(2,865)	(6,085)	(12,150)
Net Position - Beginning of Year	(40,139)	14,793	80,852	85,559	40,713	100,352
Adjustment due to implementation of						
GASB Statement Nos. 68 and 71	-	(45,647)	-	(1,847)	-	(47,494)
Adjustment for inclusion of blended						
component unit	-	-	-	5	-	5
<b>Net Position - End of Year</b>	<b>(\$45,171)</b>	<b>(\$40,139)</b>	<b>\$79,799</b>	<b>\$80,852</b>	<b>\$34,628</b>	<b>\$40,713</b>

The City's total net position decreased by \$6.085 million in 2015.

## Governmental Activities



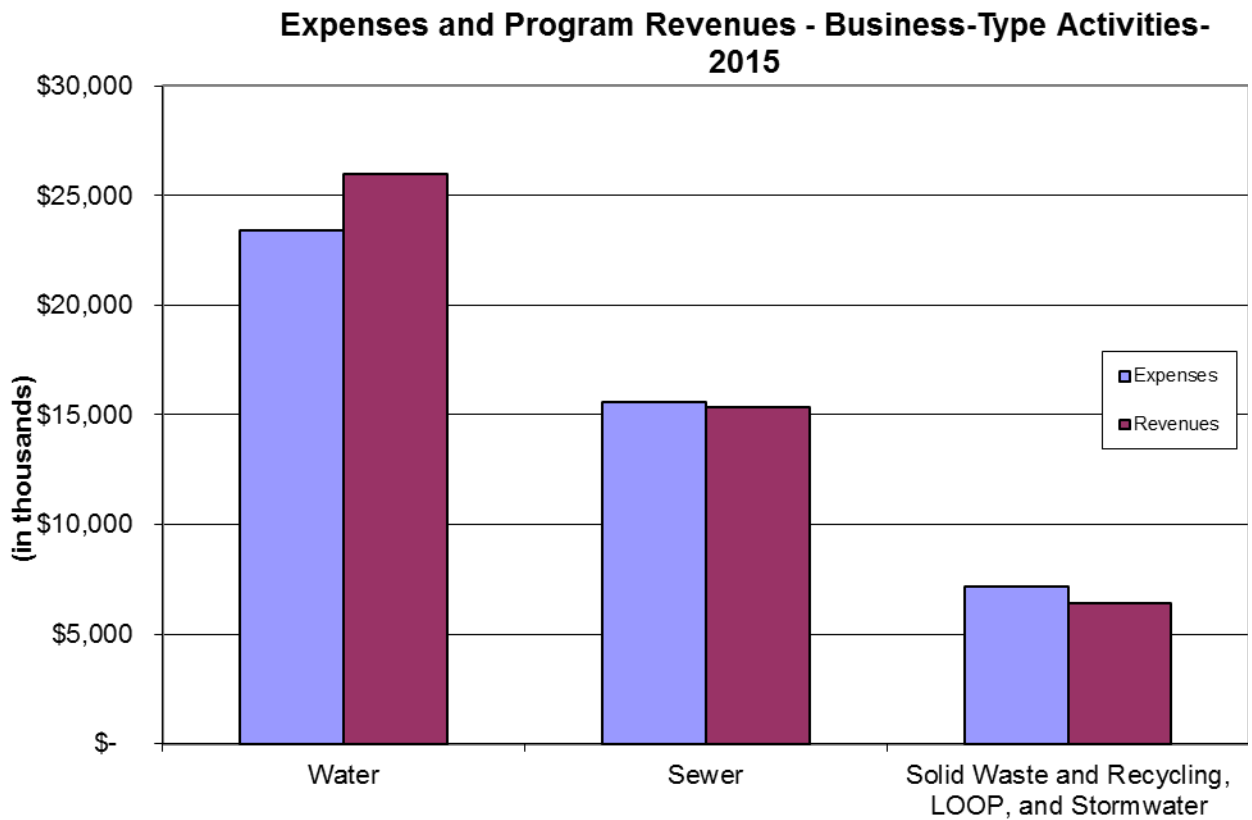
## Revenues by Source - Governmental Activities- 2015



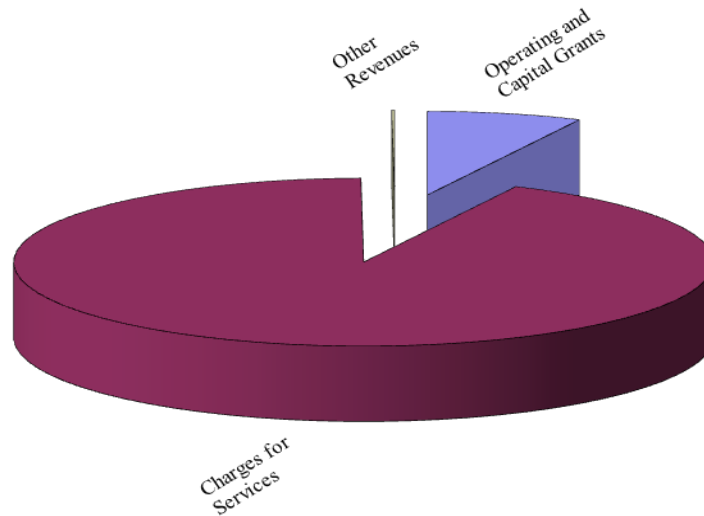
**Governmental activities.** Governmental activities decreased the City's net position by \$5.032 million. In 2015, total revenues for governmental activities were \$54.151 million, \$1.472 million or 2.794 percent higher than 2014. Total expenses for governmental activities, which were \$61.880 million, were \$2.679 million or 4.150 percent lower than 2014. The decrease in net position is mainly due to the net change in the other post-employment benefit obligation, as discussed in Note 13 to the financial statements.

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

**Business-Type Activities**



## Revenues by Source - Business-Type Activities-2015



**Business-Type activities.** Business-type activities decreased the City's net position by \$1.053 million to \$79.799 million, a decrease of 1.303 percent. Charges for services in the business-type activities increased \$5.147 million from the prior year due to a full year of fees charged for stormwater management in 2015 and a PUC approved water rate increase that went into effect on March 5, 2015. Operating and Capital Grants and Contribution revenue increased by \$1.472 million, an increase of 75.179 percent, primarily due to increased capital grants and construction project activity from 2014. Expenses for water, sewer, LOOP, solid waste and recycling, and stormwater management operations increased \$2.290 million from 2014 due primarily to water and green initiatives expense costs.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$16.534 million. Approximately \$3.989 million of that amount constitutes unassigned fund balance, which is available for discretionary spending. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (\$.017), 2) restricted for particular purposes (\$3.524), 3) committed for particular purposes (\$.663), or 4) assigned for particular purposes (\$8.341).

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

Net position of the Water, Sewer, LOOP, Stormwater, and Solid Waste and Recycling Funds at the end of the year amounted to \$80.729 million. Net position of the LOOP, Stormwater, and Solid Waste and Recycling Funds increased \$.259 million. Net position of the Water and Sewer Funds decreased \$.200 million and \$.540 million, respectively.

**Fiduciary Funds.** The City maintains fiduciary funds for the assets of City of Lancaster Cash Balance Pension Plan, Defined Contribution Plan, the Police Pension Plan, the Fire Pension Plan, OPEB trust, and various agency and private-purpose trust funds. The total net position of the combined fiduciary funds is \$122.775 million. The City's employee pension plans and OPEB trusts represent 99.787 percent of that amount. During 2015, the net position of the Pension Trust Funds decreased by \$.758 million to \$119.127 million. The change is related to the depreciation of the retirement plans' investments compared to 2014. Additionally, the OPEB Trust Funds increased by \$1.012 to \$3.386 million.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund budget contained \$53.727 million in appropriations, and \$52.185 in estimated revenues, with \$1.542 of required resources coming from the unassigned fund balance. Overall, revenues were higher than anticipated by \$0.319 million. Key factors for the increase are as follows:

- Real estate and real estate transfer taxes were \$.173 and \$.217 higher than the budgeted amounts.
- Earned income taxes collected by the Lancaster County Tax Collection Bureau were higher than the budgeted amount by \$0.274.
- Anticipated state aid for pension was \$.335 under budget.

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

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of December 31, 2015 amounts to \$315.369 million (net of accumulated depreciation). This investment includes land, buildings, improvements, infrastructure, vehicles, machinery and equipment. More detail about the City's capital assets is presented in Note 6 to the financial statements.

During 2015, the City sold 2 land parcels for \$997,282. This land had a book value of \$61,200.

During 2015, the business-type activities had the following additions:

- \$11.412 million in sewer system additions
- \$ 5.732 million in water system additions
- \$ 0.870 million in stormwater system additions
- \$ 0.120 million in solid waste and recycling system additions

**Debt administration.** At the end of 2015, the City had \$247.523 million outstanding bonded debt, compared to \$249.977 million in 2014. More detailed information about the City's long-term debt is presented in Note 10 to the financial statements.

In 2015, the City issued general obligation bonds, Series of 2015, in the aggregate amount of \$11,840,000. The bond proceeds were used to advance refund the General Obligation Bonds, Series of 2006. The debt service on these bonds is paid by the General Fund.

In 2015, the City issued a general obligation note in the amount of \$6,950,000. The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series of 2010. The debt service on this note is paid by the General Fund and Water Fund.

During 2004, the City entered into derivative agreements in connection with the 1998 General Obligation Bonds, Series A. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap. More detailed information about the City's derivative agreements is presented in Note 11 to the financial statements.

## **ECONOMIC CONDITION AND OUTLOOK**

The City continues to face fiscal challenges common to many urban communities across Pennsylvania and the nation; a low-growth tax base due to the lack of open and developable land, inflationary pressures on labor costs and benefits and a high number of tax-exempt properties (28% of all assessed property value) which reduces the revenue available to support City services. Despite these and pressures, the City was able to weather the economic storm in recent years better than many areas by starting fiscal restraint efforts before the beginning of the economic downturn. As a result, the City's bond rating (Moody's A1) is the highest among all Pennsylvania cities. Indicators of local economic health such as Real Estate Transfer taxes have begun to rebound, and Earned Income tax revenues paid by City residents have also been rising. Despite the national economy's impact on City revenues, a renewed focus on city living and strong private investment has allowed the City to maintain a vibrant downtown business, retail, and arts environment, as well as strong neighborhoods.

A new economic development plan, titled Building on Strength, recently released by the Lancaster City Alliance (available at <http://www.lancastercityalliance.org/building-on-strength>) noted the City's strong development and business activity since 2007. During the eight year period from 2007 through 2014, the City saw \$1.5 billion in economic investment, a net increase of 100 new businesses and expansion of an additional 60 businesses. The City also continued to experience high levels of construction and renovation activity in 2015 with 1,953 building permits issued for projects worth a total of just over \$111,000,000. Lancaster also saw a population increase in the past decade with the 2010 U.S. Census showing a population increase of 5.3% since 2000. While challenges for cities will always be present, the City of Lancaster continues to thrive as the economic, arts, and entertainment hub of Lancaster County and the surrounding region.



## **REQUESTS FOR INFORMATION**

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



BASIC  
FINANCIAL  
STATEMENTS

# CITY OF LANCASTER, PENNSYLVANIA

## STATEMENT OF NET POSITION

DECEMBER 31, 2015

	Primary Government			Component	
	Governmental Activities	Business-type Activities	Total	Units	Total
<b>Assets and Deferred Outflows of Resources</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 566,622	\$ 2,112	\$ 568,734	\$ 3,083,476	\$ 3,652,210
Cash and cash equivalents - restricted	1,097,274	54,659,609	55,756,883	7,127,783	62,884,666
Investments	370,259	-	370,259	702,942	1,073,201
Investments - restricted	697	-	697	3,452,556	3,453,253
Receivables (net of allowance for uncollectibles):					
Taxes	2,593,497	-	2,593,497	-	2,593,497
Accounts	501,922	10,745,898	11,247,820	775,081	12,022,901
Notes	7,440,263	-	7,440,263	2,305,949	9,746,212
Investment income	141,116	-	141,116	-	141,116
Note due from component unit	320,000	-	320,000	-	320,000
Other	-	202,381	202,381	60,639	263,020
Internal balances	16,469,633	(16,469,633)	-	-	-
Accrued interest	-	-	-	574,744	574,744
Prepaid expenses	16,824	259,886	276,710	74,809	351,519
Lease rental receivable	-	-	-	21,194,871	21,194,871
Due from other governments	1,829,933	136,878	1,966,811	7,745,335	9,712,146
Prepaid debt insurance	301,942	1,334,595	1,636,537	-	1,636,537
Properties held for resale	-	-	-	538,488	538,488
Embedded derivative instrument	854,421	-	854,421	-	854,421
Capital assets, not being depreciated	8,130,015	17,316,151	25,446,166	4,794,852	30,241,018
Capital assets, being depreciated, net	61,246,745	228,676,159	289,922,904	23,235,407	313,158,311
Net pension asset	-	-	-	190,100	190,100
<b>Total Assets</b>	<b>101,881,163</b>	<b>296,864,036</b>	<b>398,745,199</b>	<b>75,857,032</b>	<b>474,602,231</b>
<b>Deferred Outflows of Resources:</b>					
Deferred outflows of resources for pensions	5,648,970	250,026	5,898,996	7,580	5,906,576
Deferred charge on refunding	1,395,373	2,240,026	3,635,399	6,518	3,641,917
<b>Total Deferred Outflows of Resources</b>	<b>7,044,343</b>	<b>2,490,052</b>	<b>9,534,395</b>	<b>14,098</b>	<b>9,548,493</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 108,925,506</b>	<b>\$ 299,354,088</b>	<b>\$ 408,279,594</b>	<b>\$ 75,871,130</b>	<b>\$ 484,150,724</b>

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
<b>Liabilities:</b>					
Accounts payable	\$ 1,911,210	\$ 5,740,134	\$ 7,651,344	\$ 306,607	\$ 7,957,951
Due to other governments	499	-	499	-	499
Accrued salaries and benefits	724,426	151,521	875,947	35,947	911,894
Accrued expenses	343,118	1,372,044	1,715,162	345,015	2,060,177
Line of credit	-	-	-	425,525	425,525
Due to primary government	-	-	-	372,965	372,965
Unearned revenue	793,991	273,738	1,067,729	8,565,916	9,633,645
Contingent liability from property resettlements	-	-	-	131,000	131,000
Other liabilities	54,199	-	54,199	-	54,199
<b>Long-term liabilities:</b>					
Portion due or payable within one year:					
Long-term obligation	2,660,941	5,473,121	8,134,062	-	8,134,062
Due to other governments	-	5,357,946	5,357,946	-	5,357,946
Due to lessee	-	-	-	407,132	407,132
Loans payable	-	-	-	150,000	150,000
LCCCA obligation	-	-	-	700,000	700,000
Notes payable	-	-	-	170,000	170,000
Bonds payable	-	-	-	2,498,073	2,498,073
Portion due or payable after one year:					
Long-term obligation	55,372,809	191,375,268	246,748,077	-	246,748,077
Net pension liability	38,032,948	2,055,267	40,088,215	-	40,088,215
Net other post-employment liability	53,107,131	7,676,293	60,783,424	-	60,783,424
Due to lessee	-	-	-	1,000,226	1,000,226
Loans payable	-	-	-	300,000	300,000
LCCCA obligation	-	-	-	3,300,000	3,300,000
Notes payable	-	-	-	3,987,981	3,987,981
Note payable due to primary government	-	-	-	320,000	320,000
Bonds payable	-	-	-	50,017,120	50,017,120
<b>Total Liabilities</b>	<b>153,001,272</b>	<b>219,475,332</b>	<b>372,476,604</b>	<b>73,033,507</b>	<b>445,510,111</b>
<b>Deferred Inflows of Resources:</b>					
Deferred inflows of resources for pensions	1,095,012	80,063	1,175,075	20,067	1,195,142
<b>Total Deferred Inflows of Resources</b>	<b>1,095,012</b>	<b>80,063</b>	<b>1,175,075</b>	<b>20,067</b>	<b>1,195,142</b>
<b>Net Position:</b>					
Net investment in capital assets	36,769,179	97,652,926	134,422,105	2,505,681	136,927,786
Restricted for:					
Capital acquisition	-	3,008,650	3,008,650	-	3,008,650
Housing and neighborhood development	279,673	-	279,673	-	279,673
Economic and community development	1,585,860	-	1,585,860	-	1,585,860
Public works	339,051	-	339,051	-	339,051
Parks and recreation	170,210	-	170,210	-	170,210
Debt service	746	-	746	937,155	937,901
Unrestricted	(84,315,497)	(20,862,883)	(105,178,380)	(625,280)	(105,803,660)
<b>Total Net Position</b>	<b>(45,170,778)</b>	<b>79,798,693</b>	<b>34,627,915</b>	<b>2,817,556</b>	<b>37,445,471</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 108,925,506</b>	<b>\$ 299,354,088</b>	<b>\$ 408,279,594</b>	<b>\$ 75,871,130</b>	<b>\$ 484,150,724</b>

(Concluded)

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

# CITY OF LANCASTER, PENNSYLVANIA

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

<u>Functions/Programs:</u>	Program Revenues			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
Executive department	\$ 528,171	\$ -	\$ -	\$ -
Legislative department	126,012	-	-	-
Office of the City Treasurer/Controller	17,000	-	-	-
General government	6,867,049	2,667,712	1,794,444	-
Public safety	36,278,282	3,718,712	675,631	-
Economic development and neighborhood revitalization	6,413,544	2,314,158	2,502,320	-
Public works	8,870,498	69,698	1,325,314	741,661
Miscellaneous	80,822	-	25,894	-
Interest	2,699,022	-	-	-
Total governmental activities	61,880,400	8,770,280	6,323,603	741,661
Business-type activities:				
Sewer	15,575,221	12,801,062	141,570	2,397,321
Water	23,428,221	25,501,913	231,929	253,410
Other enterprise funds	7,158,934	6,010,844	405,986	-
Total business-type activities	46,162,376	44,313,819	779,485	2,650,731
<b>Total Primary Government</b>	<b>\$ 108,042,776</b>	<b>\$ 53,084,099</b>	<b>\$ 7,103,088</b>	<b>\$ 3,392,392</b>
<b>Component Units:</b>				
Lancaster Industrial Development Authority	\$ 22,595	\$ 21,740	\$ -	\$ -
Lancaster Recreation Commission	3,506,110	3,176,689	475,025	-
The Parking Authority of the City of Lancaster	4,516,345	5,564,983	-	-
Redevelopment Authority of the City of Lancaster	3,442,264	1,236,934	808,460	-
Lancaster Downtown Investment District Authority	416,722	371,387	74,965	-
City of Lancaster City Revitalization and Improvement Zone Authority	233,203	2,500	129,857	-
<b>Total Component Units</b>	<b>\$ 12,137,239</b>	<b>\$ 10,374,233</b>	<b>\$ 1,488,307</b>	<b>\$ -</b>

General revenues:

Taxes:

Property taxes for general purposes

Real estate transfer tax

Earned income tax

Local services tax

Grants not restricted to specific programs

Gain on disposal of capital assets

Investment earnings

Transfers

Total general revenues and transfers

**Change in Net Position**

**Net Position:**

Beginning of year - restated

End of year

Net (Expenses) Revenue and  
Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
\$ (528,171)	\$ -	\$ (528,171)	\$ -	\$ (528,171)
(126,012)	-	(126,012)	-	(126,012)
(17,000)	-	(17,000)	-	(17,000)
(2,404,893)	-	(2,404,893)	-	(2,404,893)
(31,883,939)	-	(31,883,939)	-	(31,883,939)
(1,597,066)	-	(1,597,066)	-	(1,597,066)
(6,733,825)	-	(6,733,825)	-	(6,733,825)
(54,928)	-	(54,928)	-	(54,928)
(2,699,022)	-	(2,699,022)	-	(2,699,022)
(46,044,856)	-	(46,044,856)	-	(46,044,856)
-	(235,268)	(235,268)	-	(235,268)
-	2,559,031	2,559,031	-	2,559,031
-	(742,104)	(742,104)	-	(742,104)
-	1,581,659	1,581,659	-	1,581,659
(46,044,856)	1,581,659	(44,463,197)	-	(44,463,197)
-	-	-	(855)	(855)
-	-	-	145,604	145,604
-	-	-	1,048,638	1,048,638
-	-	-	(1,396,870)	(1,396,870)
-	-	-	29,630	29,630
-	-	-	(100,846)	(100,846)
-	-	-	(274,699)	(274,699)
26,918,299	-	26,918,299	-	26,918,299
726,696	-	726,696	-	726,696
5,523,750	-	5,523,750	-	5,523,750
1,684,523	-	1,684,523	-	1,684,523
2,336,130	-	2,336,130	-	2,336,130
173,646	62,092	235,738	1,425,997	1,661,735
953,163	-	953,163	-	953,163
2,697,062	(2,697,062)	-	-	-
41,013,269	(2,634,970)	38,378,299	1,425,997	39,804,296
(5,031,587)	(1,053,311)	(6,084,898)	1,151,298	(4,933,600)
(40,139,191)	80,852,004	40,712,813	1,666,258	42,379,071
<u>\$ (45,170,778)</u>	<u>\$ 79,798,693</u>	<u>\$ 34,627,915</u>	<u>\$ 2,817,556</u>	<u>\$ 37,445,471</u>

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

# CITY OF LANCASTER, PENNSYLVANIA

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	General Fund	Capital Projects	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 4,500	\$ 15,129	\$ -	\$ 546,993	\$ 566,622
Cash and cash equivalents - restricted	100,000	997,274	-	-	1,097,274
Investments	-	-	5,746	364,513	370,259
Investments - restricted	697	-	-	-	697
Receivables (net of allowance for uncollectibles):					
Taxes	2,593,497	-	-	-	2,593,497
Accounts	496,271	5,031	-	620	501,922
Investment income	-	-	-	141,116	141,116
Note due from component unit	320,000	-	-	-	320,000
Due from other funds	10,973,666	1,162,717	-	2,111,630	14,248,013
Due from other governments	348,348	-	-	1,481,585	1,829,933
Prepaid expenditures	16,824	-	-	-	16,824
<b>Total Assets</b>	<b>\$ 14,853,803</b>	<b>\$ 2,180,151</b>	<b>\$ 5,746</b>	<b>\$ 4,646,457</b>	<b>\$ 21,686,157</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 377,447	\$ 32,658	\$ 5,000	\$ 226,004	\$ 641,109
Due to other funds	1,162,717	-	-	603,815	1,766,532
Due to other governments	-	-	-	499	499
Accrued salaries and benefits	724,426	-	-	-	724,426
Unearned revenue	17,778	-	-	776,213	793,991
Other liabilities	52,247	-	-	1,952	54,199
Workers' compensation liability	250,144	-	-	-	250,144
<b>Total Liabilities</b>	<b>2,584,759</b>	<b>32,658</b>	<b>5,000</b>	<b>1,608,483</b>	<b>4,230,900</b>
<b>Deferred Inflows of Resources:</b>					
Unavailable revenue - taxes	920,877	-	-	-	920,877
<b>Fund Balance:</b>					
<b>Nonspendable:</b>					
Prepaid expenditures	16,824	-	-	-	16,824
<b>Restricted for:</b>					
Capital acquisition	-	1,148,725	-	-	1,148,725
Housing and neighborhood development	-	-	-	279,673	279,673
Economic and community development	-	-	-	1,585,860	1,585,860
Public works	-	-	-	339,051	339,051
Parks and recreation	-	-	-	170,210	170,210
Debt service	-	-	746	-	746
<b>Committed for:</b>					
Economic and community development	-	-	-	663,180	663,180
<b>Assigned for:</b>					
2016 budget	1,992,544	-	-	-	1,992,544
Capital project	-	998,768	-	-	998,768
Debt service	4,600,000	-	-	-	4,600,000
Excess workers' compensation expenditures	750,000	-	-	-	750,000
Unassigned	3,988,799	-	-	-	3,988,799
<b>Total Fund Balance</b>	<b>11,348,167</b>	<b>2,147,493</b>	<b>746</b>	<b>3,037,974</b>	<b>16,534,380</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 14,853,803</b>	<b>\$ 2,180,151</b>	<b>\$ 5,746</b>	<b>\$ 4,646,457</b>	<b>\$ 21,686,157</b>

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

**CITY OF LANCASTER, PENNSYLVANIA**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2015**

**Total Fund Balance - Governmental Funds** \$ 16,534,380

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 69,376,760

Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds. 920,877

Notes receivable are long-term in nature and are not available to pay current period expenditures and, therefore, are not reported in the funds. 7,440,263

Prepaid debt insurance resulting from insurance paid with the issuance of debt is not a financial resource and, therefore, is not reported in the funds. 301,942

Deferred charges on refunding resulting from the issuance of debt are not financial resources and, therefore, are not reported in the funds. 1,395,373

Embedded derivative instrument is not a financial resource and, therefore, is not reported in the funds. 854,421

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

General obligation bonds	\$ (39,128,092)	
General obligation notes	(15,599,000)	
Accrued interest on general obligation bonds and notes	(343,118)	
Capital leases	(223,576)	
Borrowing payable - basis swap	(1,112,801)	
Compensated absences payable	(1,240,572)	
Workers' compensation liability	(479,565)	
Net pension liability, net of related deferred outflows and inflows of resources	(33,478,990)	
Net other post-employment liability	<u>(53,107,131)</u>	(144,712,845)

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

Internal service fund net position	1,788,079	
Adjustment related to proprietary funds	<u>929,972</u>	<u>2,718,051</u>

**Total Net Position - Governmental Activities** \$ (45,170,778)

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



# CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2015

	General Fund	Capital Projects	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 34,776,787	\$ -	\$ -	\$ -	\$ 34,776,787
Intergovernmental revenues	2,525,144	-	-	4,915,889	7,441,033
Licenses and permits	2,175,967	-	-	-	2,175,967
Fines and forfeitures	2,140,449	-	-	-	2,140,449
Rents and charges for services	1,405,836	-	-	45,280	1,451,116
Program income	-	-	-	251,212	251,212
Investment income (loss)	226	4,476	-	(17,862)	(13,160)
Miscellaneous	2,369,734	1,288	-	25,895	2,396,917
Total revenues	45,394,143	5,764	-	5,220,414	50,620,321
<b>Expenditures:</b>					
Executive department	528,171	-	-	-	528,171
Legislative department	126,012	-	-	-	126,012
Office of the City Treasurer/Controller	17,000	-	-	-	17,000
General government	5,551,295	123,275	-	-	5,674,570
Public safety	31,709,975	-	-	383,353	32,093,328
Economic development and neighborhood revitalization	2,480,175	1,295,624	-	2,602,481	6,378,280
Public works	5,186,068	-	-	1,537,867	6,723,935
Miscellaneous	-	-	-	90,343	90,343
Capital outlay	-	1,366,728	-	-	1,366,728
Debt service:					
Principal	116,725	-	8,173,000	98,148	8,387,873
Interest	10,842	-	2,708,847	5,896	2,725,585
Total expenditures	45,726,263	2,785,627	10,881,847	4,718,088	64,111,825
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(332,120)</b>	<b>(2,779,863)</b>	<b>(10,881,847)</b>	<b>502,326</b>	<b>(13,491,504)</b>
<b>Other Financing Sources (Uses):</b>					
Interfund reimbursements	2,576,546	-	-	-	2,576,546
Refunding bonds issued	-	-	11,840,000	-	11,840,000
Refunding note issued	-	-	6,394,000	-	6,394,000
Capital leases	44,098	-	-	44,098	88,196
Sale of general capital assets	1,032,987	-	-	-	1,032,987
Premium on refunding of bonds issued	-	-	87,809	-	87,809
Payment to refunded escrow agent	-	-	(11,682,771)	-	(11,682,771)
Transfers in	3,500,000	1,079,993	4,242,809	81,225	8,904,027
Transfers out	(5,396,046)	(162,450)	-	(471,269)	(6,029,765)
Total other financing sources (uses)	1,757,585	917,543	10,881,847	(345,946)	13,211,029
<b>Net Change in Fund Balance</b>	<b>1,425,465</b>	<b>(1,862,320)</b>	<b>-</b>	<b>156,380</b>	<b>(280,475)</b>
<b>Fund Balance:</b>					
Beginning of year	9,922,702	4,009,813	746	2,881,594	16,814,855
End of year	\$ 11,348,167	\$ 2,147,493	\$ 746	\$ 3,037,974	\$ 16,534,380

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

# CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2015

<b>Net Change in Fund Balance - Governmental Funds</b>	\$	(280,475)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$ (3,249,476)	
Capital outlay	<u>2,901,056</u>	(348,420)
When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported with the governmental activities.		
		(79,824)
Capital assets were transferred to business-type activities/enterprise funds. Governmental funds do not report capital assets.		
		(177,200)
Bond, note, and capital lease proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.		
Payment of long-term liabilities	19,467,873	
Issuance of refunding bonds	(11,840,000)	
Issuance of refunding note	(6,394,000)	
Original issue premium	87,809	
Issuance of capital leases	<u>(88,196)</u>	1,233,486
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Change in borrowing payable - basis swap	137,015	
Change in compensated absences payable	(88,242)	
Change in workers' compensation liability	226,789	
Change in net pension liability, net of related deferred outflows and inflows of resources	(109,451)	
Change in other post-employment liability	(6,626,641)	
Change in accrued interest on debt	14,209	
Amortization of prepaid debt insurance	(34,488)	
Amortization of debt premium	50,052	
Deferred charge on refunding incurred	434,370	
Amortization of deferred charge on refunding	(147,442)	
Change in value of embedded derivative instrument	<u>185,518</u>	(5,958,311)
The issuance of notes receivable are reported as expenditures in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing notes receivable increases assets and does not affect the statement of activities. Similarly, repayment of principal is program income in the governmental funds, but reduces the assets in the statement of net position.		
Notes receivable issued	1,402,536	
Principal payments received	(259,751)	
Change in allowance	<u>(854,361)</u>	288,424
Under the modified accrual basis of accounting used in the governmental funds, certain revenues are not recognized unless they are both available to pay current year expenditures and measurable. In the statement of activities, however, which is presented on the accrual basis, revenues and assets are reported regardless of when financial resources are available.		
Change in unavailable tax revenue		75,954
Internal service funds are used by management to charge the costs of insurance services to individual funds. The net revenue of certain activities of the internal service fund is reported within governmental activities.		
Internal service fund change in net position	(356,898)	
Adjustment related to proprietary funds	<u>571,677</u>	<u>214,779</u>
<b>Change in Net Position - Governmental Activities</b>		<u><u>\$ (5,031,587)</u></u>

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

# CITY OF LANCASTER, PENNSYLVANIA

## BALANCE SHEET PROPRIETARY FUNDS

DECEMBER 31, 2015

Assets and Deferred Outflows of Resources	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 300	\$ 550	\$ 1,262	\$ 2,112	\$ -
Cash and cash equivalents - restricted	26,068,653	28,091,306	499,650	54,659,609	-
Receivables (net of allowance for uncollectibles):					
Accounts	4,760,684	4,237,999	1,747,215	10,745,898	-
Other	106,476	17,071	78,834	202,381	-
Due from other funds	-	-	-	-	3,058,180
Prepaid expenses	4,480	254,317	1,089	259,886	-
Total current assets	30,940,593	32,601,243	2,328,050	65,869,886	3,058,180
Long-term assets:					
Due from other governments	136,878	-	-	136,878	-
Prepaid debt insurance	498,894	835,701	-	1,334,595	-
Capital assets, not being depreciated	12,522,842	4,481,596	311,713	17,316,151	-
Capital assets, being depreciated, net	87,467,470	139,362,052	1,846,637	228,676,159	-
Total long-term assets	100,626,084	144,679,349	2,158,350	247,463,783	-
Total Assets	131,566,677	177,280,592	4,486,400	313,333,669	3,058,180
<b>Deferred Outflows of Resources:</b>					
Deferred outflows of resources for pension	81,635	129,883	38,508	250,026	-
Deferred charge on refunding	689,118	1,550,908	-	2,240,026	-
Total Deferred Outflows of Resources	770,753	1,680,791	38,508	2,490,052	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 132,337,430</b>	<b>\$ 178,961,383</b>	<b>\$ 4,524,908</b>	<b>\$ 315,823,721</b>	<b>\$ 3,058,180</b>

(Continued)

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>					
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	\$ 3,890,387	\$ 1,140,789	\$ 708,958	\$ 5,740,134	\$ -
Claims payable	-	-	-	-	1,270,101
Accrued salaries and benefits	45,346	77,286	28,889	151,521	-
Accrued expenses	332,961	1,035,044	4,039	1,372,044	-
Due to other funds	4,162,394	10,453,239	924,028	15,539,661	-
Due to other governments	5,357,946	-	-	5,357,946	-
Unearned revenue	185,000	-	88,738	273,738	-
Compensated absences, current portion	16,373	21,614	5,318	43,305	-
Capital lease, current portion	197,245	141,809	110,343	449,397	-
Notes payable, current portion	410,000	467,200	348,219	1,225,419	-
Bonds payable, current portion	1,595,000	2,120,000	40,000	3,755,000	-
Total current liabilities	16,192,652	15,456,981	2,258,532	33,908,165	1,270,101
Long-term liabilities:					
Compensated absences	54,781	72,320	26,141	153,242	-
Workers' compensation liability	-	4,397	-	4,397	-
Net pension liability	673,621	1,109,944	271,702	2,055,267	-
Net other post-employment liability	3,811,392	3,381,698	483,203	7,676,293	-
Capital lease	247,847	234,056	58,889	540,792	-
Notes payable	10,764,611	10,228,800	1,499,924	22,493,335	-
Bonds payable	36,783,041	130,974,145	426,316	168,183,502	-
Total long-term liabilities	52,335,293	146,005,360	2,766,175	201,106,828	-
Total Liabilities	68,527,945	161,462,341	5,024,707	235,014,993	1,270,101
Deferred Inflows of Resources:					
Deferred inflows of resources for pension	26,141	41,591	12,331	80,063	-
Total Deferred Inflows of Resources	26,141	41,591	12,331	80,063	-
Net Position:					
Net investment in capital assets	68,077,378	29,900,889	(325,341)	97,652,926	-
Restricted	3,008,650	-	-	3,008,650	-
Unrestricted	(7,302,684)	(12,443,438)	(186,789)	(19,932,911)	1,788,079
Total Net Position	63,783,344	17,457,451	(512,130)	80,728,665	1,788,079
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 132,337,430</b>	<b>\$ 178,961,383</b>	<b>\$ 4,524,908</b>	<b>\$ 315,823,721</b>	<b>\$ 3,058,180</b>
Total net position of enterprise funds				\$ 80,728,665	
Adjustment to reflect the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time.				(929,972)	
Net position of business-type activities				<u>\$ 79,798,693</u>	

(Concluded)

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

# CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2015

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
<b>Operating Revenues:</b>					
Charges for services	\$ 12,539,213	\$ 24,988,115	\$ 5,937,013	\$ 43,464,341	\$ 11,397,722
Miscellaneous	261,849	513,798	73,831	849,478	-
Total operating revenues	<u>12,801,062</u>	<u>25,501,913</u>	<u>6,010,844</u>	<u>44,313,819</u>	<u>11,397,722</u>
<b>Operating Expenses:</b>					
Sewage pumping stations	1,118,761	-	-	1,118,761	-
Susquehanna treatment plant	-	2,741,640	-	2,741,640	-
Conestoga treatment plant	-	2,159,844	-	2,159,844	-
Collection system	997,536	-	614,490	1,612,026	-
Hauling and tipping	-	-	2,995,582	2,995,582	-
Transmission and distribution	-	1,358,857	-	1,358,857	-
Meters and meter labor	-	605,044	-	605,044	-
Laboratory	-	262,503	-	262,503	-
Sewage treatment plant	4,439,130	-	-	4,439,130	-
Administration	3,844,851	5,632,830	1,300,867	10,778,548	-
Grounds maintenance	35,887	395,669	252,083	683,639	-
Street cleaning	-	-	582,430	582,430	-
Wastewater and green initiatives	-	-	547,833	547,833	-
Health insurance claims	-	-	-	-	10,936,793
Insurance premiums	-	-	-	-	817,933
Special events	-	-	547,765	547,765	-
Depreciation expense	3,082,197	2,942,230	75,559	6,099,986	-
Total operating expenses	<u>13,518,362</u>	<u>16,098,617</u>	<u>6,916,609</u>	<u>36,533,588</u>	<u>11,754,726</u>
<b>Operating Income (Loss)</b>	<u>(717,300)</u>	<u>9,403,296</u>	<u>(905,765)</u>	<u>7,780,231</u>	<u>(357,004)</u>
<b>Nonoperating Revenues (Expenses):</b>					
State pension contribution	141,570	231,929	44,605	418,104	-
Investment income	20,460	40,869	763	62,092	106
Intergovernmental revenue	-	-	361,381	361,381	-
Economic development contribution	-	(266,120)	-	(266,120)	-
Amortization expense	(53,994)	(70,562)	-	(124,556)	-
Bad debt expense	(254,923)	-	-	(254,923)	-
Interest expense	(2,065,653)	(6,301,219)	(40,488)	(8,407,360)	-
Loss on disposal of capital assets	(4,152)	-	-	(4,152)	-
Total nonoperating revenues (expenses)	<u>(2,216,692)</u>	<u>(6,365,103)</u>	<u>366,261</u>	<u>(8,215,534)</u>	<u>106</u>
Income (loss) before transfers and capital contributions	(2,933,992)	3,038,193	(539,504)	(435,303)	(356,898)
Transfers in (out)	(3,605)	(3,492,002)	798,545	(2,697,062)	-
Capital contributions	2,397,321	253,410	-	2,650,731	-
<b>Change in Net Position</b>	(540,276)	(200,399)	259,041	(481,634)	(356,898)
<b>Net Position:</b>					
Beginning of year - restated	64,323,620	17,657,850	(771,171)		2,144,977
End of year	<u>\$ 63,783,344</u>	<u>\$ 17,457,451</u>	<u>\$ (512,130)</u>		<u>\$ 1,788,079</u>
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds				<u>(571,677)</u>	
Changes in net position of business-type activities				<u>\$ (1,053,311)</u>	

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

# CITY OF LANCASTER, PENNSYLVANIA

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2015

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
<b>Cash Flows From Operating Activities:</b>					
Cash received from users	\$ 13,518,408	\$ 24,560,804	\$ 5,918,231	\$ 43,997,443	\$ 11,397,722
Cash paid to suppliers	(5,780,633)	(8,244,209)	(4,260,670)	(18,285,512)	(11,312,422)
Cash paid to employees	(2,453,352)	(5,078,686)	(2,505,805)	(10,037,843)	-
Net cash provided by (used in) operating activities	5,284,423	11,237,909	(848,244)	15,674,088	85,300
<b>Cash Flows From Investing Activities:</b>					
Investment income received	20,460	40,869	763	62,092	106
Net sale of investments	265,366	-	-	265,366	-
Net cash provided by investing activities	285,826	40,869	763	327,458	106
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Principal payments on capital leases	(273,055)	(88,985)	(121,700)	(483,740)	-
Principal payments on notes payable	(895,000)	(1,292,702)	-	(2,187,702)	-
Principal payments on bonds payable	(870,000)	(1,527,000)	(40,000)	(2,437,000)	-
Proceeds from note payable	1,936,482	556,000	697,106	3,189,588	-
Interest paid	(2,116,895)	(6,291,684)	(64,428)	(8,473,007)	-
Acquisition of capital assets	(11,106,892)	(5,381,927)	(990,290)	(17,479,109)	-
Net change in escrow deposits	408,466	-	-	408,466	-
Net cash used in capital and related financing activities	(12,916,894)	(14,026,298)	(519,312)	(27,462,504)	-
<b>Cash Flows From Noncapital Financing Activities:</b>					
Transfer in (out)	9,363	(3,492,002)	634,313	(2,848,326)	-
Due to (from) other funds	562,489	1,243,996	328,491	2,134,976	(85,406)
Economic development contribution	-	(266,120)	-	(266,120)	-
State pension contribution	141,570	231,929	44,605	418,104	-
Intergovernmental revenue	-	-	361,381	361,381	-
Net cash provided by (used in) noncapital financing activities	713,422	(2,282,197)	1,368,790	(199,985)	(85,406)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(6,633,223)	(5,029,717)	1,997	(11,660,943)	-
<b>Cash and Cash Equivalents:</b>					
Beginning of year	32,702,176	33,121,573	498,915	66,322,664	-
End of year	\$ 26,068,953	\$ 28,091,856	\$ 500,912	\$ 54,661,721	\$ -

(Continued)

# CITY OF LANCASTER, PENNSYLVANIA

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2015  
(Continued)

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>					
Operating income (loss)	\$ (717,300)	\$ 9,403,296	\$ (905,765)	\$ 7,780,231	\$ (357,004)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	3,082,197	2,942,230	75,559	6,099,986	-
Amortization	18,231	29,000	8,599	55,830	-
Loss on disposal of capital assets	-	12,592	-	12,592	-
(Increase) decrease in assets and deferred outflows of resources:					
Receivables	713,586	(941,109)	(109,793)	(337,316)	-
Due from other governments	3,760	-	-	3,760	-
Deferred outflows of resources for pension	(102,044)	(162,354)	(48,135)	(312,533)	-
Prepaid expenses	(41)	(252,910)	(70)	(253,021)	-
Increase (decrease) in liabilities and deferred inflows of resources:					
Accounts payable	1,763,924	20,360	(120,883)	1,663,401	-
Claims payable	-	-	-	-	442,304
Accrued expenses	(32,748)	(59,542)	(3,429)	(95,719)	-
Unearned revenue	-	-	17,180	17,180	-
Compensated absences	(5,272)	9,178	6,083	9,989	-
Workers' compensation liability	(1,831)	4,397	-	2,566	-
Net pension liability	68,005	108,197	32,078	208,280	-
Net other post-employment liability	465,637	79,512	186,973	732,122	-
Deferred inflows of resources for pension	28,319	45,062	13,359	86,740	-
Total adjustments	6,001,723	1,834,613	57,521	7,893,857	442,304
Net cash provided by (used in) operating activities	\$ 5,284,423	\$11,237,909	\$ (848,244)	\$15,674,088	\$ 85,300
<b>Noncash Capital Financing Activities:</b>					
Issuance of capital lease	\$ 47,784	\$ 233,824	\$ -	\$ 281,608	\$ -
Developers' contribution	\$ -	\$ 253,410	\$ -	\$ 253,410	\$ -
Debt transferred between enterprise funds	\$ (12,968)	\$ -	\$ 12,968	\$ -	\$ -
Capital assets transferred from governmental activities	\$ -	\$ -	\$ 177,200	\$ 177,200	\$ -

(Concluded)

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

# CITY OF LANCASTER, PENNSYLVANIA

## STATEMENT OF NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2015

	Pension and OPEB Trust Funds	Private- Purpose Trust Funds	Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 45,485	\$ -	\$ 387,303
Investments	122,946,236	261,519	-
Receivables:			
Accounts	-	-	25,921
Investment income	284,063	-	-
Other	-	-	4,090
<b>Total Assets</b>	<b>123,275,784</b>	<b>261,519</b>	<b>417,314</b>
<b>Liabilities</b>			
Benefits payable	-	-	5,803
Unsettled investment purchases	761,984	-	411,511
<b>Total Liabilities</b>	<b>761,984</b>	<b>-</b>	<b>\$ 417,314</b>
<b>Net Position</b>			
Restricted for pension and OPEB benefits and other purposes	<b>\$122,513,800</b>	<b>\$ 261,519</b>	

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



# CITY OF LANCASTER, PENNSYLVANIA

## STATEMENT OF CHANGES IN NET POSITION FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2015

	Pension and OPEB Trust Funds	Private- Purpose Trust Funds
<b>Additions:</b>		
<hr/>		
Contributions:		
Employees	\$ 1,494,080	\$ -
Employer	6,778,954	-
	8,273,034	-
Total contributions		
Investment income:		
Net depreciation in fair value of investments	(1,162,803)	(29,935)
Interest and dividends	3,082,153	24,680
	1,919,350	(5,255)
Total investment income		
Less: investment expenses	(487,725)	-
	1,431,625	(5,255)
Net investment income		
Total additions	9,704,659	(5,255)
<b>Deductions:</b>		
<hr/>		
Benefits	9,315,013	5,102
Administrative expenses	135,493	-
	9,450,506	5,102
Total deductions		
Change in Net Position	254,153	(10,357)
<b>Net Position:</b>		
<hr/>		
Beginning of year	122,259,647	271,876
End of year	\$ 122,513,800	\$ 261,519

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

# CITY OF LANCASTER, PENNSYLVANIA

## BALANCE SHEET COMPONENT UNITS

DECEMBER 31, 2015

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	City of Lancaster City Revitalization and Improvement Zone Authority	Total Component Units
<b>Assets and Deferred Outflows of Resources</b>							
<b>Assets:</b>							
Current assets:							
Cash and cash equivalents	\$ 343,247	\$ 776,782	\$ 1,315,481	\$ 371,971	\$ 141,138	\$ 134,857	\$ 3,083,476
Cash and cash equivalents - restricted	-	-	-	2,109,983	-	5,017,800	7,127,783
Investments	-	-	702,942	-	-	-	702,942
Investments - restricted	-	-	3,452,556	-	-	-	3,452,556
Receivables (net of allowance for uncollectibles)							
Accounts	-	172,456	80,620	522,005	-	-	775,081
Other	-	-	-	28,385	32,254	-	60,639
Accrued interest	-	-	-	551,444	-	-	551,444
Current portion:							
Lease rental receivable	-	-	-	2,092,468	-	-	2,092,468
Due from other governments	-	-	-	564,082	-	-	564,082
Notes receivable	200,000	-	-	166,282	-	-	366,282
Properties held for resale	-	-	-	538,488	-	-	538,488
Prepaid expenses	-	-	65,454	-	9,355	-	74,809
Total current assets	543,247	949,238	5,617,053	6,945,108	182,747	5,152,657	19,390,050
Long-term assets:							
Lease rental receivable	-	-	-	19,102,403	-	-	19,102,403
Due from other governments	-	-	-	7,181,253	-	-	7,181,253
Notes receivable	-	-	-	1,939,667	-	-	1,939,667
Accrued interest	-	-	-	23,300	-	-	23,300
Capital assets, not being depreciated	-	-	3,695,871	1,098,981	-	-	4,794,852
Capital assets, being depreciated, net	-	147,871	14,852,931	8,229,355	5,250	-	23,235,407
Net pension asset	-	-	190,100	-	-	-	190,100
Total long-term assets	-	147,871	18,738,902	37,574,959	5,250	-	56,466,982
Total Assets	543,247	1,097,109	24,355,955	44,520,067	187,997	5,152,657	75,857,032
Deferred Outflows of Resources:							
Deferred charge on refunding	-	-	6,518	-	-	-	6,518
Deferred outflows of resources for pension	-	-	7,580	-	-	-	7,580
Total Deferred Outflows of Resources	-	-	14,098	-	-	-	14,098
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 543,247</b>	<b>\$ 1,097,109</b>	<b>\$ 24,370,053</b>	<b>\$ 44,520,067</b>	<b>\$ 187,997</b>	<b>\$ 5,152,657</b>	<b>\$ 75,871,130</b>

(Continued)

\* - As of April 30, 2015

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	City of Lancaster City Revitalization and Improvement Zone Authority	Total Component Units
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>							
<u>Liabilities:</u>							
Current liabilities:							
Accounts payable	\$ -	\$ 67,777	\$ 168,705	\$ 70,125	\$ -	\$ -	\$ 306,607
Accrued salaries and benefits	-	-	35,947	-	-	-	35,947
Accrued expenses	-	103,950	117,182	111,630	-	12,253	345,015
Line of credit	-	-	-	425,525	-	-	425,525
Due to primary government	-	-	-	372,965	-	-	372,965
Unearned revenue	-	9,413	48,634	1,008,846	4,975	-	1,071,868
Contingent liability from property resettlements	-	-	-	131,000	-	-	131,000
Due to lessee, current portion	-	-	-	407,132	-	-	407,132
Loans payable, current portion	-	-	150,000	-	-	-	150,000
LCCCA obligation, current portion	-	-	-	-	-	700,000	700,000
Notes payable, current portion	-	-	-	170,000	-	-	170,000
Bonds payable, current portion	-	-	745,000	1,753,073	-	-	2,498,073
<b>Total current liabilities</b>	<b>-</b>	<b>181,140</b>	<b>1,265,468</b>	<b>4,450,296</b>	<b>4,975</b>	<b>712,253</b>	<b>6,614,132</b>
Long-term liabilities:							
Unearned revenue	-	-	-	7,494,048	-	-	7,494,048
Due to lessee	-	-	-	1,000,226	-	-	1,000,226
Loans payable	-	-	300,000	-	-	-	300,000
LCCCA obligation	-	-	-	-	-	3,300,000	3,300,000
Notes payable	-	-	-	3,987,981	-	-	3,987,981
Note payable due to primary government	-	-	-	-	-	320,000	320,000
Bonds payable	-	-	23,630,671	20,306,449	-	6,080,000	50,017,120
<b>Total long-term liabilities</b>	<b>-</b>	<b>-</b>	<b>23,930,671</b>	<b>32,788,704</b>	<b>-</b>	<b>9,700,000</b>	<b>66,419,375</b>
<b>Total Liabilities</b>	<b>-</b>	<b>181,140</b>	<b>25,196,139</b>	<b>37,239,000</b>	<b>4,975</b>	<b>10,412,253</b>	<b>73,033,507</b>
<u>Deferred Inflows of Resources:</u>							
Deferred inflows of resources for pension	-	-	20,067	-	-	-	20,067
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>20,067</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,067</b>
<u>Net Position:</u>							
Net investment in capital assets	-	147,871	(2,817,795)	5,170,355	5,250	-	2,505,681
Restricted	-	-	-	937,155	-	-	937,155
Unrestricted	543,247	768,098	1,971,642	1,173,557	177,772	(5,259,596)	(625,280)
<b>Total Net Position</b>	<b>543,247</b>	<b>915,969</b>	<b>(846,153)</b>	<b>7,281,067</b>	<b>183,022</b>	<b>(5,259,596)</b>	<b>2,817,556</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 543,247</b>	<b>\$ 1,097,109</b>	<b>\$ 24,370,053</b>	<b>\$ 44,520,067</b>	<b>\$ 187,997</b>	<b>\$ 5,152,657</b>	<b>\$ 75,871,130</b>

(Concluded)

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

# CITY OF LANCASTER, PENNSYLVANIA

## STATEMENT OF ACTIVITIES COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2015

	Program Revenues			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Lancaster Industrial Development Authority	\$ 22,595	\$ 21,740	\$ -	\$ -
Lancaster Recreation Commission	3,506,110	3,176,689	475,025	-
The Parking Authority of the City of Lancaster	4,516,345	5,564,983	-	-
Redevelopment Authority of the City of Lancaster	3,442,264	1,236,934	808,460	-
Lancaster Downtown Investment District Authority *	416,722	371,387	74,965	-
City of Lancaster City Revitalization and Improvement Zone Authority	233,203	2,500	129,857	-
Total component units	\$ 12,137,239	\$ 10,374,233	\$ 1,488,307	\$ -
General revenues:				
Investment earnings (loss)				
Total general revenues				
<b>Change in Net Position</b>				
<b>Net Position:</b>				
Beginning of year - restated				
End of year				

\* - Year ended April 30, 2015

Net (Expenses) Revenue and  
Changes in Net Position

Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	City of Lancaster Revitalization and Improvement Zone Authority	Total
\$ (855)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (855)
-	145,604	-	-	-	-	145,604
-	-	1,048,638	-	-	-	1,048,638
-	-	-	(1,396,870)	-	-	(1,396,870)
-	-	-	-	29,630	-	29,630
-	-	-	-	-	(100,846)	(100,846)
<u>(855)</u>	<u>145,604</u>	<u>1,048,638</u>	<u>(1,396,870)</u>	<u>29,630</u>	<u>(100,846)</u>	<u>(274,699)</u>
<u>304</u>	<u>813</u>	<u>(151,289)</u>	<u>1,576,169</u>	<u>-</u>	<u>-</u>	<u>1,425,997</u>
<u>304</u>	<u>813</u>	<u>(151,289)</u>	<u>1,576,169</u>	<u>-</u>	<u>-</u>	<u>1,425,997</u>
(551)	146,417	897,349	179,299	29,630	(100,846)	1,151,298
<u>543,798</u>	<u>769,552</u>	<u>(1,743,502)</u>	<u>7,101,768</u>	<u>153,392</u>	<u>(5,158,750)</u>	<u>1,666,258</u>
<u>\$ 543,247</u>	<u>\$ 915,969</u>	<u>\$ (846,153)</u>	<u>\$ 7,281,067</u>	<u>\$ 183,022</u>	<u>\$ (5,259,596)</u>	<u>\$ 2,817,556</u>

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### *A. Reporting Entity*

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

The City is financially accountable for:

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

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

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

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Component Units*

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

The following are the discretely presented component units of the City:

#### *Lancaster Industrial Development Authority (LIDA)*

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

#### *Lancaster Recreation Commission (Commission)*

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

As a member of the Commission, the City is required to make a quarterly contribution to the Commission. For the year ended December 31, 2015, the City contributed \$305,656 to the Commission, which was reported as an expenditure of the General Fund.

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

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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During the year ended December 31, 2015, the City paid the Parking Authority \$146,679 for employee parking.

### *Redevelopment Authority of the City of Lancaster (Redevelopment Authority)*

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

The City provided a total of \$75,879 Community Development Block Grant funds to the Redevelopment Authority during the year ended December 31, 2015. These funds were used for vacant and blighted properties in the City.

### *Lancaster Downtown Investment District Authority (LDIDA)*

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

### *City of Lancaster City Revitalization and Improvement Zone Authority (CRIZ)*

The CRIZ board consists of nine voting members. Six members of the board are nominated by the State Senator representing the City and three members are nominated by the Mayor. All nine appointments must be approved by City Council. The purpose of the CRIZ is to acquire, hold, construct, improve, maintain, own, finance and lease, industrial, specialized or commercial development projects for purposes of administering, providing financing for, and undertaking all other activities related to the City Revitalization and Improvement Zone of the City (Zone). The Zone consists of approximately 130 acres in downtown Lancaster and in selected areas in the remaining parts of the City. Certain qualified state and local tax revenues are provided to the CRIZ for the repayment of debt service on bonds and loans issued for the acquisition, improvement, and development of qualified capital improvements within the Zone. The CRIZ operates on a fiscal year ending December 31.

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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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The following component unit has been included in the financial reporting entity as a blended component unit:

*City of Lancaster Office of Promotion (LOOP), formerly Mayor's Office of Special Events*

The LOOP Board consists of 15 members who are appointed by the Mayor with City Council approval. The Board is entrusted with creating excitement and enthusiasm for the City by hosting, creating, and producing special events and to promote and market those events. LOOP operates on a fiscal year ending December 31. LOOP's financial statements are blended with the City's other enterprise funds activity. Separately published financial statements of the above component unit are available for public inspection in the Mayor's office.

As a result of the inclusion of LOOP as a blended component unit in the City's December 31, 2015 financial statements, beginning net position has been restated. See "Adoption of Governmental Accounting Standards Board (GASB) Statements and Restatements of Net Position" section below.

The Redevelopment Authority provided a contribution totaling \$100,000 to LOOP during the year ended December 31, 2015. These funds were used for promotional activities.

### ***Related Organizations***

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

*Lancaster Municipal Authority*

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

*Metropolitan Lancaster Authority*

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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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capacity of lessor or lessee) waterworks, water supply works, and water distribution systems for the City and other authorized areas in Lancaster County. The Metropolitan Lancaster Authority is currently inactive.

### *Lancaster Airport Authority (Airport Authority)*

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

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

### *Lancaster Higher Education Authority*

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

### *Housing Authority of the City of Lancaster (Housing Authority)*

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

### *Lancaster County Convention Center Authority (Convention Center Authority)*

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

### ***B. Basis of Presentation, Basis of Accounting***

#### ***Basis of Presentation***

##### ***Government-Wide and Fund Financial Statements***

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

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

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

##### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

### *General Fund*

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

### *Capital Projects*

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

### *Debt Service Fund*

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

The City reports the following major proprietary funds:

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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Additionally, the City reports the following fund types:

### *Internal Service Fund*

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

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

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

### *Private-Purpose Trust Fund*

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

### *Agency Funds*

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

Component units are accounted for as follows:

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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services. The Water and Sewer Funds also recognize, as operating revenue, the portion of tap fees intended to recover the cost of certain prior capital outlays. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

### ***C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity***

#### ***Cash and Cash Equivalents***

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

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

#### ***Investments***

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

#### ***Loans Receivable***

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

#### ***Property Taxes***

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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### ***Interfund Receivables and Payables***

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

Since one of the City's component units reports on an April 30 fiscal year-end and is included in the City's December 31 financial statement, amounts due to/from component units/primary government may not net to zero. Other differences may be the result of application of accounting principles generally accepted in the United States of America regarding contingent liabilities and receivables.

### ***Unavailable/Unearned Revenue***

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

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

### ***Deferred Inflows and Outflows of Resources for Pensions***

In conjunction with pension accounting requirements, the effect of the differences in the City's expected and actual experience, the difference between projected and actual earnings on pension plan investments, and Parking Authority contributions subsequent to the measurement date are recorded as deferred inflows or outflows of resources related to pensions on the government-wide financial statements, proprietary fund balance sheet, and component units balance sheet. These amounts are determined based on actuarial valuations performed for the pension plans. Note 12 presents additional information about the pension plans.

### ***Long-Term Obligations***

Long-term obligations, such as bonds and notes, are recorded at the fund level in the proprietary funds and at the government-wide level for the governmental and business-type

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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activities. Amounts payable within one year are classified as current liabilities on the proprietary fund's balance sheet and the government-wide statement of net position.

### ***Fund Balance***

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

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

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

### ***Net Position***

Net position of the government-wide and proprietary funds is categorized as net investment in capital assets, restricted, or unrestricted. Net investment in capital assets consists of all

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds at the end of the reporting period, the portion of the debt attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount. The restricted category represents the balance of assets restricted by requirements of bonds and other externally imposed constraints or by legislation in excess of the related liabilities of resources payable from restricted assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

### *Capital Assets*

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

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

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

Depreciation is computed on a straight-line basis, with the exception of the Sewer Fund and Water Fund, which use the composite remaining life method using the average life term of group assets. Useful lives are as follows:

General Fund and other enterprise funds capital assets:

Land improvements	20 years
Buildings	50 years
Machinery, equipment, and vehicles	3 - 20 years
Infrastructure	10 - 20 years

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Sewer Fund capital assets:

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

### Water Fund capital assets:

Water systems	20 - 110 years
Equipment and vehicles	3 - 40 years

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

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

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

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

Buildings	40 years
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Capital assets are defined by LDIDA as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at cost. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	5 - 7 years
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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Capitalization of Interest*

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

### *D. Other Policies*

#### *Budgetary Data*

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

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

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

#### *Property Taxes*

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

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

In 2015, the City assessed 14.02 mills for general government purposes.

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *CRIZ Tax Revenue*

The provisions of the Act of July 9, 2013, P.L. 270, No. 52 of the Pennsylvania General Assembly, as amended and supplemented (the CRIZ Act), authorized the establishment of the CRIZ in an area not to exceed 130 acres. The taxes enumerated in the CRIZ Act from all taxpayers associated with qualified business within the CRIZ are to be distributed by the Treasurer of the Commonwealth of Pennsylvania for the payment of debt service on the bonds issued to finance improvement and development within the CRIZ. Currently, seven eligible state taxes and two out of four eligible local taxes are used to calculate revenue.

### *Compensated Absences*

The City allows nonuniformed employees and uniformed police officers to accumulate up to a maximum of 200 hours and uniformed firefighters to accumulate up to a maximum of 480 hours of compensatory time. The compensatory time is paid to the employee at termination. The accumulated hours are multiplied by the employee's current salary rate to determine the aggregate cost. For the year ended December 31, 2015, the aggregate cost to the City for the accumulated compensatory time has been estimated at \$840,052 and \$124,413 for governmental activities and business-type activities, respectively.

The City allows nonuniformed union and nonunion employees to accumulate up to a maximum of 200 and 360 days of sick leave, respectively. Upon retirement, at age sixty-two, after twenty years of service, the employee would be paid \$10 per day for unused sick leave up to a maximum of 120 days. The City allows firefighters to accumulate up to 297 days of sick leave. Upon retirement, the employee would be paid \$20 per day for unused sick leave up to 150 days. The City allows police officers to accumulate up to 500 days of sick leave and effective August 8, 2008, new police hires only accumulate up to 297 days. Upon retirement, the employee would be paid \$10 per day for unused sick leave, to a maximum of 40% of the accrued sick leave. For the year ended December 31, 2015, the aggregate cost to the City for accumulated vested sick days has been estimated at \$169,895 and \$3,562 for governmental activities and business-type activities, respectively.

The City allows employees to accumulate up to a maximum of five vacation days each year. Vacation days are paid to the employee at termination. The accumulated days are multiplied by the employee's current salary rate to determine the aggregate cost. For the year ended December 31, 2015, the aggregate cost to the City for accumulated vacation days has been estimated at \$230,625 and \$68,572 for governmental activities and business-type activities, respectively.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

### ***Retirement and OPEB Plans***

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

### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

### ***Adoption of Governmental Accounting Standards Board (GASB) Statements and Restatements of Net Position***

GASB Statement No. 68, “*Accounting and Financial Reporting for Pensions,*” and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date,*” were adopted for the year ended December 31, 2015 by the City and its component units.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

As a result of this implementation, as well as the inclusion of LOOP as a blended component unit and the CRIZ as a discretely presented component unit during the year ended December 31, 2015, net position was restated as follows:

	Governmental Activities	Business-Type Activities	Component Units
Net position at January 1, 2015 - as originally stated	\$ 5,507,920	\$ 82,693,828	\$ 6,643,923
Remove net pension asset at January 1, 2015	(12,277,572)	-	-
Record net pension asset (liability) at January 1, 2015	(33,369,539)	(1,846,988)	173,398
Contributions subsequent to the measurement date	-	-	7,687
LOOP net position at January 1, 2015	-	5,164	-
CRIZ net position at January 1, 2015	-	-	(5,158,750)
Net position at January 1, 2015 - restated	\$ (40,139,191)	\$ 80,852,004	\$ 1,666,258

	Sewer Fund	Water Fund	Other Enterprise Funds	The Parking Authority of the City of Lancaster
Net position at January 1, 2015 - as originally stated	\$ 64,929,236	\$ 18,659,597	\$ (536,711)	\$ (1,924,587)
Record net pension asset (liability) at January 1, 2015	(605,616)	(1,001,747)	(239,624)	173,398
Contributions subsequent to the measurement date	-	-	-	7,687
LOOP net position at January 1, 2015	-	-	5,164	-
Net position at January 1, 2015 - restated	\$ 64,323,620	\$ 17,657,850	\$ (771,171)	\$ (1,743,502)

Net pension liabilities (assets) and their related components are described more fully in Note 12.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### ***Pending Pronouncements***

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.

In June of 2015, the GASB issued Statement No. 73, “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*” This Statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68). The provisions of GASB Statement No. 73 are effective for the City’s December 31, 2016 financial statements – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City’s December 31, 2017 financial statements.

In June of 2015, the GASB issued Statement No. 74, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*” This Statement addresses reporting by other post-employment benefit (OPEB) plans that administer benefits on behalf of governments. The provisions of GASB Statement No. 74 are effective for the City’s December 31, 2017 financial statements.

In June of 2015, the GASB issued Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*” This Statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions of GASB Statement No. 75 are effective for the City’s December 31, 2018 financial statements.

In June of 2015, the GASB issued Statement No. 76, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*” This Statement identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment. The provisions of GASB Statement No. 76 are effective for the City’s December 31, 2016 financial statements.

In August of 2015, the GASB issued Statement No. 77, “*Tax Abatement Disclosures.*” This Statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government’s tax revenues. The provisions of GASB Statement No. 77 are effective for the City’s December 31, 2016 financial statements.

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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In December of 2015, the GASB issued Statement No. 79, “*Certain External Investment Pools and Pool Participants.*” This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The provisions of GASB Statement No. 79 are effective for the City’s December 31, 2016 financial statements.

In January of 2016, the GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.*” This Statement amends the blending criteria to include a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of GASB Statement No. 80 are effective for the City’s December 31, 2017 financial statements.

In March of 2016, the GASB issued Statement No. 82, “*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.*” This Statement addresses certain issues that have been raised with respect to previous pension standards. The provisions of GASB Statement No. 82 are effective for the City’s December 31, 2017 and 2018 financial statements.

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

## 2. DEPOSITS AND INVESTMENTS

### Primary Government

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

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

The City maintains a cash and investment pool that is available for use by all funds with the exception of the Pension and OPEB Trust Funds. At December 31, 2015, the book balance of the pooled funds was \$48,195,690 and the bank balance was \$50,183,103.



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### A. Deposits

**Custodial credit risk.** Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2015, the City's book balance was \$56,758,405 and the bank balance was \$58,669,157. Of the bank balance, \$823,201 was covered by federal depository insurance and the remaining \$57,845,956 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.

Cash and cash equivalents:	
Governmental activities:	
Unrestricted	\$ 566,622
Restricted	1,097,274
Business-type activities:	
Unrestricted	2,112
Restricted	54,659,609
Fiduciary funds	<u>432,788</u>
Total cash and cash equivalents	<u>\$ 56,758,405</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### ***B. Investments***

The fair value of the investments of the City at December 31, 2015 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 8,745,597
U.S. government agency obligations	101,945
U.S. government obligations	12,105,473
Corporate bonds and notes	21,067,095
Mutual funds - balanced	6,082,069
Mutual funds - fixed income	244,566
Mutual funds - equities	1,448,339
Equities	73,783,627
Total investments	<u>\$ 123,578,711</u>
<u>Investments</u>	
Governmental activities:	
Unrestricted	\$ 370,259
Restricted	697
Fiduciary funds	123,207,755
Total investments	<u>\$ 123,578,711</u>

***Custodial credit risk.*** Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City does not have an investment policy for custodial credit risk. Investments of the City are held by the counterparty, with \$116,176,853 held in the City's name or in the name of the City's multiple Pension Plans and \$7,401,858 registered in the name of the Trustee.

***Concentration of credit risk.*** The City places no limit on the amount the City may invest in any one issuer. At December 31, 2015, none of the City's investments with a single issuer were in excess of five percent of the City's portfolio.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

**Credit risk.** The City does not have a formal policy that would limit its investment choices with regard to credit risk. The City's investments had the following level of exposure to credit risk as of December 31, 2015:

	Fair Value	Rating
Money market funds	\$ 5,106,349	AAA
Money market funds	3,639,248	Unrated
U.S. government agency obligations	101,945	AA+
U.S. government obligations	12,105,473	AA+
Corporate bonds and notes	2,238,706	AAA
Corporate bonds and notes	521,232	AA+
Corporate bonds and notes	1,282,750	AA
Corporate bonds and notes	6,672,888	AA-
Corporate bonds and notes	2,717,410	A+
Corporate bonds and notes	3,552,324	A
Corporate bonds and notes	4,081,785	A-

**Interest rate risk.** The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following is a list of the City's investments and their related average maturities:

	Fair Value	Investment Maturity			
		2016	2017-2021	2022-2026	Subsequent to 2026
Money market funds	\$ 8,745,597	\$ 8,745,597	\$ -	\$ -	\$ -
U.S. government agency obligations	101,945	3,591	1,325	27,163	69,866
U.S. government obligations	12,105,473	11,004,307	876,645	224,521	-
Corporate bonds and notes	21,067,095	-	17,571,983	3,495,112	-
	\$ 42,020,110	\$ 19,753,495	\$ 18,449,953	\$ 3,746,796	\$ 69,866

### ***C. Restricted Cash, Cash Equivalents, and Investments***

#### ***Governmental Activities***

As of December 31, 2015, the City had restricted cash, cash equivalents, and investments of \$1,097,971, which represents \$100,000 restricted for the payment of workers' compensation claims, and \$997,971 restricted for various City projects.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Business-Type Activities*

As of December 31, 2015, the City had cash, cash equivalents, and investments of \$54,659,609 restricted for various sewer, water, trash, and stormwater projects.

### Component Units

#### *LIDA*

LIDA typically maintains cash and cash equivalents in local banks. Cash is insured by the Federal Deposit Insurance Corporation up to a limit of \$250,000 per bank as of December 31, 2015. At times during the year ended December 31, 2015, LIDA's cash balances may have exceeded the federally insured limits.

#### *Commission*

The carrying amount of the Commission's deposits was \$776,782 as of December 31, 2015. The bank balance totaled \$807,582 as of December 31, 2015.

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

The bank balance of the Commission's cash deposits is categorized as follows to give an indication of the level of risk assumed by the Commission at December 31, 2015:

Insured	\$ 356,336
Collateralized	
Collateral held by pledging bank's trust department not in the Commission's name	<u>451,246</u>
Total	<u><u>\$ 807,582</u></u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Parking Authority*

#### **A. Deposits**

The Parking Authority's available cash is invested in demand deposit accounts and petty cash. The carrying amounts of the cash deposits at December 31, 2015 consist of the following:

Cash Deposits:	
Cash and cash equivalents	\$ 1,275,062
Petty cash	<u>40,419</u>
	<u>\$ 1,315,481</u>

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

As of December 31, 2015, the Parking Authority's cash deposits were \$1,315,481. The bank balance as of December 31, 2015 was \$1,307,972. At December 31, 2015, \$251,347 was covered by federal depository insurance and \$1,056,625 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

#### **B. Investments**

As of December 31, 2015, the Parking Authority had the following investments:

<u>Investments</u>	<u>Fair Value</u>
Restricted:	
Money market funds	\$ 1,555,238
U.S. Government obligation	<u>1,897,318</u>
Total Restricted	<u>\$ 3,452,556</u>
Unrestricted:	
Money market funds	<u>\$ 702,942</u>

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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**Custodial credit risk.** Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Parking Authority does not have a formal policy that would limit its investment choices with regard to custodial credit risk. At December 31, 2015, all investments of the Parking Authority are held by the financial institution's department or agency, in the Parking Authority's name.

**Concentration of credit risk.** The Parking Authority places no limits on the amount it may invest in any one issuer. At December 31, 2015, more than five percent of the Parking Authority's investments were held with the following issuer:

	<u>Fair Value</u>	<u>Percent of Investments</u>
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	\$ 2,258,180	54.34%

**Credit risk.** The Parking Authority does not have a formal policy that would limit its investment choices with regard to credit risk. As of December 31, 2015, the Parking Authority's investments in the money market funds were rated AAA.

The Parking Authority is permitted to invest its funds as defined in the Pennsylvania Parking Authorities Law. Authorized types of investments include short-term, highly liquid debt instruments that include commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. The Parking Authority's investment policy is consistent with these limitations. Non-negotiable certificates of deposits are recorded at cost. Investment income is recognized when earned.

**Interest rate risk.** As a means of managing its exposure to fair value losses arising from changes in interest rates, the Parking Authority's investment policy permits investments with a maturity date in excess of 18 months, provided market conditions and projected use of funds warrant a longer term. At December 31, 2015, the Parking Authority's money market funds had maturities greater than 10 years.

### **C. Restricted Cash, Cash Equivalents, and Investments**

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Redevelopment Authority*

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

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

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

### **A. Deposits**

**Custodial credit risk.** Custodial credit risk is the risk that in the event of a bank failure, the Redevelopment Authority's deposits may not be returned to it. The Redevelopment Authority does not have a policy for custodial credit risk. As of December 31, 2015, \$702,747 of the Redevelopment Authority's bank balance of \$1,550,092 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the Redevelopment Authority's name	<u>\$ 702,747</u>
Reconciliation to financial statements:	
Uninsured amount above	\$ 702,747
Insured amount	847,345
Outstanding checks	(5,539)
Money market fund shown as cash and cash equivalents	<u>937,401</u>
	<u>\$ 2,481,954</u>
Cash and cash equivalent - unrestricted per financial statements	\$ 371,971
Cash and cash equivalent - restricted per financial statements	<u>2,109,983</u>
Total cash per financial statements	<u>\$ 2,481,954</u>

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### ***B. Restrictions***

Of the total cash and cash equivalents of \$2,481,954 at December 31, 2015, \$2,109,983 is restricted for future debt service requirements as per certain loan and bond documents.

### ***C. Investments***

As of December 31, 2015, the Redevelopment Authority held investments in the GS Financial Square Treasury Obligations money market fund with a fair market value of \$937,401, which is included as cash and cash equivalents - restricted in the financial statements.

***Interest Rate Risk and Credit Risk.*** The Redevelopment Authority invests certain bond and note proceeds required to be kept on deposit as a result of the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and the Tax Increment Notes Trust Indenture (Note 10). The guidelines set forth in these indentures limit the Redevelopment Authority's interest rate and credit risk by limiting investment choices to certain U.S. government and other select high-grade investments and certain maturities. There are no requirements pertaining to investment diversification to limit exposure to custodial credit risk. At December 31, 2015, 100% of the Redevelopment Authority's investments are in the GS Financial Square Treasury Obligations money market fund and are rated AAAM by Standard & Poor's.

### ***LDIDA***

The financial instruments that potentially subject LDIDA to credit risk consist primarily of cash deposits. LDIDA maintains its cash deposits with financial institutions where the account balances may at times exceed Federal Deposit Insurance Corporation insured limits. However, the balances in excess of federal deposit insurance are collateralized by a pool of marketable securities as required by Act 72. All deposits were insured at April 30, 2015.

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



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

***Custodial Credit Risk.*** Custodial credit risk is the risk that in the event of a bank failure, LDIDA's deposits may not be returned to it. LDIDA does not have a policy for custodial credit risk. As of April 30, 2015, none of LDIDA's bank balance was exposed to custodial credit risk.

### *CRIZ*

The Authority Code, Section 902.1, authorizes investments in U.S. Treasury bills, savings accounts, obligations of the United States or its agencies, and shares of investment companies registered under the Investment Company Act of 1940. Act 72 requires all governmental deposits not insured by Federal Depository Insurance Corporation be collateralized by the financial institution.

Custodial credit risk is the risk that, in the event of a bank failure, the CRIZ's deposits may not be returned. The CRIZ does not have a deposit policy for custodial credit risk. At December 31, 2015, the CRIZ's total bank deposits were \$5,152,657. The deposits not covered by depository insurance were collateralized with securities held by the pledging financial institution, but not in the CRIZ's name.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### 3. RECEIVABLES

#### Primary Government

#### *Governmental Activities*

Receivables as of December 31, 2015, for the City's governmental activities, individual major governmental funds, non-major funds in the aggregate, and applicable allowances for uncollectible accounts, are as follows:

	General	Capital Projects	Non-major funds	Governmental Activities
Receivables:				
Taxes, gross	\$ 2,593,497	\$ -	\$ -	\$ 2,593,497
Allowances for uncollectibles	-	-	-	-
Taxes, net	2,593,497	-	-	2,593,497
Accounts, gross	1,087,651	5,031	1,751,305	2,843,987
Allowances for uncollectibles	(591,380)	-	(1,750,685)	(2,342,065)
Accounts, net	496,271	5,031	620	501,922
Notes, gross	60,000	-	9,399,642	9,459,642
Allowances for uncollectibles	(60,000)	-	(9,399,642)	(2,019,379)
Notes, net	-	-	-	7,440,263
Investment income	-	-	141,116	141,116
Note due from component unit	320,000	-	-	320,000
Total receivables	\$ 3,409,768	\$ 5,031	\$ 141,736	\$ 10,996,798

#### *Notes Receivable*

As of December 31, 2015, the City has outstanding program loans (notes receivable) aggregating \$9,459,642. These various program loans bear interest at rates ranging from 0% to 7%, maturing over terms of 1 to 30 years, through 2040.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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A summary of notes receivable activity for the year ended December 31, 2015 is as follows:

Balance January 1, 2015	New Loans Issued	Forgiveness/ Write-offs/ Principal Receipts	Balance December 31, 2015
<u>\$ 7,151,839</u>	<u>\$ 1,402,536</u>	<u>\$ (1,114,112)</u>	<u>\$ 7,440,263</u>

In addition, as of December 31, 2015, there were \$2,019,379 in loans that are forgivable over a period of time, subject to the terms of the loan agreement. The City does not expect to receive any payments on these loans. Therefore, an allowance for doubtful accounts has been established in the fund and the government-wide financial statements at 100% of the note receivable balance.

### *Note Receivable Due from Component Unit*

During the year ended December 31, 2014, City loaned the CRIZ a total of \$162,500 in order to pay costs associated with the implementation of the CRIZ program. This amount was to be repaid to the City when adequate resources were available. In March 2015, the City and the CRIZ entered into a non-interest bearing Judgement Note in the amount of \$162,500, agreeing to the maturity date of December 31, 2016. During the year ended December 31, 2015, the City loaned the CRIZ an additional \$157,500. As of December 31, 2015, no payments were made by the CRIZ and the amount outstanding is \$320,000 as of December 31, 2015. In April 2016, the City and the CRIZ entered into a non-interest bearing Judgement Note extending the due date of the remaining \$320,000 until June 30, 2017.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### ***Business-Type Activities***

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

	Sewer Fund	Water Fund	Other Enterprise Funds	Total
Receivables:				
Accounts, gross	\$ 8,930,845	\$ 4,237,999	\$ 1,747,215	\$ 14,916,059
Allowances for uncollectibles	(4,170,161)	-	-	(4,170,161)
Accounts, net	<u>4,760,684</u>	<u>4,237,999</u>	<u>1,747,215</u>	<u>10,745,898</u>
Other, gross	106,476	17,071	78,834	202,381
Allowances for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other, net	<u>106,476</u>	<u>17,071</u>	<u>78,834</u>	<u>202,381</u>
Total receivables	<u><u>\$ 4,867,160</u></u>	<u><u>\$ 4,255,070</u></u>	<u><u>\$ 1,826,049</u></u>	<u><u>\$ 10,948,279</u></u>

The Sewer Fund's allowance for uncollectible accounts totaling \$4,170,161 represents the cumulative amount of bulk treatment accounts receivable that is the subject of ongoing billing disputes with municipalities that are connected to the City's sewer system.

### **Component Units**

#### *LIDA*

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

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

#### *Redevelopment Authority*

The Redevelopment Authority's receivables relate to grants receivables, notes receivables, lease rental receivables, and delinquent real estate tax claims purchased from the City. The delinquent real estate tax receivables are recorded at carrying value, including base, penalty,

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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and interest, offset by commission payable. Notes receivables are recorded at carrying value. The Redevelopment Authority reduces the receivable for delinquent real estate tax claims by an allowance for doubtful accounts as determined based on the Redevelopment Authority's best estimate.

### *Accounts Receivable*

A summary of receivables at December 31, 2015 follows:

Delinquent taxes receivable	\$ 547,434
Less: Allowance for doubtful accounts	<u>(25,429)</u>
Total receivables	<u>\$ 522,005</u>

Annually, the Redevelopment Authority purchases the delinquent real estate tax claims of the City. During the year ended December 31, 2015, the Redevelopment Authority purchased the full amount of delinquent real estate tax claims from the City for the year 2014 with a total carrying value of \$941,128 for total consideration of \$854,999. The City's continuing involvement with the delinquent real estate tax receivables is effectively terminated.

In the event that this annual cycle of purchasing delinquent tax claims would be discontinued, the Redevelopment Authority would essentially return any accumulated cash balances to the City. Therefore, the Redevelopment Authority has recorded a payable to the City in the amount of \$372,965 as of December 31, 2015, which reflects the cumulative positive results of the tax claim collections for the year ended December 31, 2015. Under certain circumstances, the City has the right or the obligation to repurchase all or a portion of the delinquent tax claims from the Redevelopment Authority.

### *Lease Rental Receivable*

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

The lease rental receivable represents the discounted future minimum lease payments, which are comprised of base rent and minimum participation rent. The base rental payments are required to be used to meet debt service requirements on the Series of 2005 Taxable Bonds, the minimum participation rent of approximately \$200,000 per annum is not restricted for such purpose. The discount rate is the interest rate applicable to the Series of 2005 Taxable Bonds, the proceeds of which were used to finance the underlying hotel construction costs.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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The imputed interest income of \$5,852,374 as of December 31, 2015 is presented as part of unearned revenue.

### Future Minimum Rental Payments:

The following schedule represents the future minimum rental payments due to the Redevelopment Authority as of December 31, 2015:

2016	\$ 2,092,468
2017	2,126,658
2018	2,163,319
2019	2,202,630
2020	2,244,783
2021-2025	9,665,013
2026-2029	<u>700,000</u>
Total	<u>\$ 21,194,871</u>

### Commitments:

The Redevelopment Authority has committed portions of the minimum rental payments to be granted to LOOP as follows:

2016	\$ 100,000
2017	100,000
2018	<u>100,000</u>
	<u>\$ 300,000</u>

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

2016	\$ 100,000
2017	100,000
2018	100,000
2019	100,000
2020	100,000
2021	<u>50,000</u>
	<u>\$ 550,000</u>

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Due from Other Governments*

A summary of grants receivable due from other governmental units at December 31, 2015 follows:

Commonwealth of Pennsylvania:	
Redevelopment Assistance Capital Program Grant	\$ 75,000
Infrastructure and Facilities Improvement Program Grant	<u>7,670,335</u>
	7,745,335
Current portion	<u>564,082</u>
Long-term portion	<u><u>\$ 7,181,253</u></u>

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

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

A summary of interest due from other governmental units which has been accrued on grants at December 31, 2015 follows:

Commonwealth of Pennsylvania:	
Interest accrued on Infrastructure and Facilities Improvement Program Grant, carried at present value	\$ 551,444
Other accrued interest	<u>23,300</u>
Total	<u><u>\$ 574,744</u></u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Notes Receivable*

Notes receivable at December 31, 2015 were as follows:

Note receivable from Neighborhood Services of Lancaster, due on demand with no interest. By mutual agreement, this loan is currently being repaid in monthly principal installments of \$598. The loan is secured by a mortgage on property at 134 and 136 South Prince Street.	\$ 2,390
Note receivable from Lancaster Press Partners, due December 2017. The loan has one scheduled payment at maturity for principal and interest of 1.50% through December 31, 2015 and 2.00% starting January 1, 2016. The loan is secured by a mortgage on property at 401-403 North Prince Street and at 37 and 39 West Lemon Street. The original due date of October 2015 was extended during 2015.	900,000
Note receivable from Penn Square Partners. This loan of originally \$2,250,000 accrued interest at 2.00% through November 2007. Beginning December 2007, the loan is payable in monthly installments of \$15,539 including interest at 2.00%. This loan is secured by a mortgage on the leasehold interest held by Penn Square Partners in the site of the Penn Square Hotel. A final balloon payment of \$900,566 is due in November 2017.	<u>1,203,559</u>
Current portion	2,105,949
Long-term portion	<u>166,282</u>
	<u>\$ 1,939,667</u>

### *LDIDA*

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

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

If payment for the current year is not received by LDIDA prior to December 31, a final delinquency notice is sent to the property owner. As of May 15th of the subsequent year, all unpaid delinquent assessments have liens filed against their property.



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 4. DELINQUENT TAX LIEN RECEIVABLES

During the year ended December 31, 2015, the City sold the full amount of delinquent real estate tax lien receivables for the 2014 tax year. Since the City's continuing involvement with the delinquent real estate tax liens is effectively terminated, these transactions were treated as a sale, as opposed to a collateralized borrowing. The total value of the 2014 delinquent tax lien receivables at the date of sale was \$922,270, which is the total assessed value of real estate taxes, plus any applicable penalties, less collections received from the County. The total received in 2015 by the City for this sale was \$806,059.

In February 2016, the City sold the full amount of delinquent real estate tax lien receivables for the 2015 tax year. The full amount received by the City for this sale was \$945,631 and the revenue was recognized in the year of sale.

### 5. PROPERTIES HELD FOR RESALE

#### Component Unit

#### *Redevelopment Authority*

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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As of December 31, 2015, the following properties were held for resale:

8 North Marshall Street	\$	39,000
219 Juniata Street		32,500
318 Beaver Street		17,500
434 East Strawberry Street		22,000
451-453 East Mifflin Street		33,000
459 Manor Street		18,788
526 East King Street		95,000
548 Beaver Street		26,000
819 Highland Avenue		85,000
12 Coral Street		2,200
437 Chambers Street		31,000
136 Old Dorwart Street		46,500
615 East Marion Street		28,000
433 East Strawberry Street		5,000
349 East Frederick Street		28,000
20 Hager Street		15,000
453 South Queen Street		14,000
	\$	<u>538,488</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### 6. CAPITAL ASSETS

#### Primary Government

Capital asset activity for the year ended December 31, 2015 is as follows:

	<u>December 31,</u> <u>2014</u>	<u>Increase/ Transfers In</u>	<u>Decrease/ Transfers Out</u>	<u>Transfers Between Activities</u>	<u>December 31,</u> <u>2015</u>
Governmental activities					
Capital assets not being depreciated:					
Land, easements, right of ways	\$ 7,927,510	\$ 22,133	\$ (79,824)	\$ (177,200)	\$ 7,692,619
Construction in progress	<u>481,980</u>	<u>117,867</u>	<u>(162,451)</u>	<u>-</u>	<u>437,396</u>
Total capital assets not being depreciated	<u>8,409,490</u>	<u>140,000</u>	<u>(242,275)</u>	<u>(177,200)</u>	<u>8,130,015</u>
Capital assets being depreciated:					
Land improvements	13,263,139	478,217	-	-	13,741,356
Buildings	42,720,932	536,935	-	-	43,257,867
Machinery and equipment	4,348,756	108,000	-	-	4,456,756
Vehicles	6,849,656	379,618	(228,888)	(23,840)	6,976,546
Infrastructure	<u>39,425,046</u>	<u>1,420,736</u>	<u>-</u>	<u>-</u>	<u>40,845,782</u>
Total capital assets being depreciated	<u>106,607,529</u>	<u>2,923,506</u>	<u>(228,888)</u>	<u>(23,840)</u>	<u>109,278,307</u>
Less accumulated depreciation for:					
Land improvements	(3,841,101)	(630,501)	-	-	(4,471,602)
Buildings	(7,354,634)	(839,716)	-	-	(8,194,350)
Machinery and equipment	(2,369,836)	(368,661)	-	-	(2,738,497)
Vehicles	(4,435,427)	(494,805)	228,888	23,840	(4,677,504)
Infrastructure	<u>(27,033,816)</u>	<u>(915,793)</u>	<u>-</u>	<u>-</u>	<u>(27,949,609)</u>
Total accumulated depreciation	<u>(45,034,814)</u>	<u>(3,249,476)</u>	<u>228,888</u>	<u>23,840</u>	<u>(48,031,562)</u>
Total capital assets being depreciated, net	<u>61,572,715</u>	<u>(325,970)</u>	<u>-</u>	<u>-</u>	<u>61,246,745</u>
Governmental activities, capital assets, net	<u>\$ 69,982,205</u>	<u>\$ (185,970)</u>	<u>\$ (242,275)</u>	<u>\$ (177,200)</u>	<u>\$ 69,376,760</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

Governmental Activities:

General government	\$ 117,284
Public safety	856,491
Economic development and neighborhood revitalization	44,374
Public works	<u>2,231,327</u>

Total depreciation expense - governmental activities \$ 3,249,476

	<u>December 31,</u> <u>2014</u>	<u>Increase/ Transfers In</u>	<u>Decrease/ Transfers Out</u>	<u>Transfers Between Activities</u>	<u>December 31,</u> <u>2015</u>
Business-type activities:					
Sewer Fund:					
Capital assets not being depreciated:					
Land	\$ 1,484,824	\$ -	\$ -	\$ -	\$ 1,484,824
Construction in progress	<u>1,840,742</u>	<u>9,245,487</u>	<u>(48,211)</u>	<u>-</u>	<u>11,038,018</u>
Total capital assets not being depreciated	<u>3,325,566</u>	<u>9,245,487</u>	<u>(48,211)</u>	<u>-</u>	<u>12,522,842</u>
Capital assets being depreciated:					
Sewer system	154,194,375	2,058,930	-	-	156,253,305
Equipment and vehicles	<u>2,944,547</u>	<u>107,647</u>	<u>(79,766)</u>	<u>-</u>	<u>2,972,428</u>
Total capital assets being depreciated	<u>157,138,922</u>	<u>2,166,577</u>	<u>(79,766)</u>	<u>-</u>	<u>159,225,733</u>
Less accumulated depreciation for:					
Sewer system	(67,975,487)	(2,884,249)	-	-	(70,859,736)
Equipment and vehicles	<u>(735,779)</u>	<u>(221,788)</u>	<u>59,040</u>	<u>-</u>	<u>(898,527)</u>
Total accumulated depreciation	<u>(68,711,266)</u>	<u>(3,106,037)</u>	<u>59,040</u>	<u>-</u>	<u>(71,758,263)</u>
Total capital assets being depreciated, net	<u>88,427,656</u>	<u>(939,460)</u>	<u>(20,726)</u>	<u>-</u>	<u>87,467,470</u>
Sewer Fund capital assets, net	<u>91,753,222</u>	<u>8,306,027</u>	<u>(68,937)</u>	<u>-</u>	<u>99,990,312</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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	<u>December 31,</u> <u>2014</u>	<u>Increase/</u> <u>Transfers In</u>	<u>Decrease/</u> <u>Transfers Out</u>	<u>Transfers</u> <u>Between</u> <u>Activities</u>	<u>December 31,</u> <u>2015</u>
Water Fund:					
Capital assets not being depreciated:					
Land	2,564,600	-	-	-	2,564,600
Construction in progress	966,883	1,006,297	(56,184)	-	1,916,996
Total capital assets not being depreciated	<u>3,531,483</u>	<u>1,006,297</u>	<u>(56,184)</u>	<u>-</u>	<u>4,481,596</u>
Capital assets being depreciated:					
Water system	185,754,248	4,367,135	-	-	190,121,383
Equipment and vehicles	2,799,640	359,241	(113,541)	-	3,045,340
Total capital assets being depreciated	<u>188,553,888</u>	<u>4,726,376</u>	<u>(113,541)</u>	<u>-</u>	<u>193,166,723</u>
Less accumulated depreciation for:					
Water system	(49,148,791)	(2,765,642)	-	-	(51,914,433)
Equipment and vehicles	(1,814,598)	(176,588)	100,948	-	(1,890,238)
Total accumulated depreciation	<u>(50,963,389)</u>	<u>(2,942,230)</u>	<u>100,948</u>	<u>-</u>	<u>(53,804,671)</u>
Total capital assets being depreciated, net	<u>137,590,499</u>	<u>1,784,146</u>	<u>(12,593)</u>	<u>-</u>	<u>139,362,052</u>
Water Fund capital assets, net	<u>141,121,982</u>	<u>2,790,443</u>	<u>(68,777)</u>	<u>-</u>	<u>143,843,648</u>

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

	December 31, 2014	Increase/ Transfers In	Decrease/ Transfers Out	Transfers Between Activities	December 31, 2015
Other enterprise funds:					
Capital assets not being depreciated:					
Land	-	-	-	177,200	177,200
Construction in progress	-	134,513	-	-	134,513
Total capital assets not being depreciated	-	134,513	-	177,200	311,713
Capital assets being depreciated:					
Buildings	281,016	19,070	-	-	300,086
Infrastructure	277,832	735,702	-	-	1,013,534
Equipment and vehicles	673,672	117,579	-	-	791,251
Total capital assets being depreciated	1,232,520	872,351	-	-	2,104,871
Less accumulated depreciation for:					
Buildings	(59,561)	(4,613)	-	-	(64,174)
Infrastructure	(1,715)	(12,693)	-	-	(14,408)
Equipment and vehicles	(121,399)	(58,253)	-	-	(179,652)
Total accumulated depreciation	(182,675)	(75,559)	-	-	(258,234)
Total other enterprise funds capital assets, net	1,049,845	796,792	-	-	1,846,637
Other enterprise funds capital assets, net	1,049,845	931,305	-	177,200	2,158,350
Business-type activities capital assets, net	<u>\$233,925,049</u>	<u>\$12,027,775</u>	<u>\$ (137,714)</u>	<u>\$ 177,200</u>	<u>\$245,992,310</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Component Units

#### *Commission*

Major classifications of capital assets and their respective depreciable lives consist of the following as of December 31, 2015:

	December 31, 2014	Additions	Deletions	December 31, 2015	Depreciable Lives
Capital assets being depreciated:					
Equipment	\$ 226,297	\$ 23,576	\$ -	\$ 249,873	3 - 10 years
Furniture and improvements	166,804	23,169	-	189,973	5 - 15 years
Vehicles	89,918	31,873	(55,329)	66,462	5 - 10 years
Total capital assets being depreciated	483,019	78,618	(55,329)	506,308	
Accumulated depreciation	(341,029)	(43,348)	25,940	(358,437)	
Capital assets being depreciated, net	<u>\$ 141,990</u>	<u>\$ 35,270</u>	<u>\$ (29,389)</u>	<u>\$ 147,871</u>	

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### *Parking Authority*

Capital asset activity for the year ended December 31, 2015 is as follows:

	<u>December 31, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>December 31, 2015</u>
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, and rental complex	33,163,140	259,278	-	33,422,418
Office furnishings and equipment	93,424	6,593	(29,821)	70,196
Equipment	3,614,941	427,709	(337,125)	3,705,525
Vehicles	82,669	30,995	-	113,664
Total capital assets being depreciated	<u>36,954,174</u>	<u>724,575</u>	<u>(366,946)</u>	<u>37,311,803</u>
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	(19,496,022)	(737,019)	-	(20,233,041)
Office furnishings and equipment	(80,294)	(4,312)	29,821	(54,785)
Equipment	(2,037,664)	(259,329)	195,745	(2,101,248)
Vehicles	(62,849)	(6,949)	-	(69,798)
Total accumulated depreciation	<u>(21,676,829)</u>	<u>(1,007,609)</u>	<u>225,566</u>	<u>(22,458,872)</u>
Total capital assets being depreciated, net	<u>15,277,345</u>	<u>(283,034)</u>	<u>(141,380)</u>	<u>14,852,931</u>
Total capital assets	<u>\$ 18,973,216</u>	<u>\$ (283,034)</u>	<u>\$ (141,380)</u>	<u>\$ 18,548,802</u>



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### *Redevelopment Authority*

A summary of changes in capital assets for the year ended December 31, 2015 is as follows:

	December 31, 2014	Increases	Decrease	December 31, 2015
Capital assets not being depreciated:				
Land and improvements	\$ 897,583	\$ -	\$ -	\$ 897,583
Construction in progress	199,479	1,919	-	201,398
Capital assets not being depreciated:	<u>1,097,062</u>	<u>1,919</u>	<u>-</u>	<u>1,098,981</u>
Capital assets being depreciated:				
Buildings	8,624,651	-	-	8,624,651
Accumulated depreciation				
Buildings	(179,680)	(215,616)	-	(395,296)
Net capital assets being depreciated:	<u>8,444,971</u>	<u>(215,616)</u>	<u>-</u>	<u>8,229,355</u>
Net capital assets	<u><u>\$ 9,542,033</u></u>	<u><u>\$ (213,697)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,328,336</u></u>

### *LDIDA*

A summary of changes in capital assets for the year ended April 30, 2015 is as follows:

	May 1, 2014	Increase	Decrease	April 30, 2015
Capital assets being depreciated:				
Equipment	\$ 22,958	\$ -	\$ -	\$ 22,958
Total capital assets being depreciated	22,958	-	-	22,958
Less accumulated depreciation	(15,608)	(2,100)	-	(17,708)
Capital assets, net	<u><u>\$ 7,350</u></u>	<u><u>\$ (2,100)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,250</u></u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 7. LINE OF CREDIT

#### Component Units

##### *Commission*

The Commission had a renewable \$250,000 line of credit agreement with PNC Bank, National Association during the year ended December 31, 2015. The line expires on October 6, 2016 and bears interest at a variable rate, which was 4.25% at December 31, 2015. There were no draws on this loan during the year ended December 31, 2015 and no outstanding balance at year-end.

##### *Redevelopment Authority*

The Redevelopment Authority entered into a revolving line of credit agreement with a bank which is secured by the Redevelopment Authority's interest in the City's delinquent tax receivables. Interest accrues at a variable rate measured by interest rates on corporate loans at large U.S. Money Center Commercial Banks as published in the Money Rates column of the Wall Street Journal, Eastern Editions. The rate shall not exceed 8.0% per annum for the year ended December 31, 2015. The rate shall not fall below 4.75% per annum for the year ended December 31, 2015. The interest rate was 4.75% as of December 31, 2015. Interest payments are due monthly. Principal payments are due quarterly based on availability of funds from the collection of delinquent tax receivables. The line will expire on March 1, 2018. During the year ended December 31, 2015, the Redevelopment Authority borrowed on this note to facilitate the purchase of delinquent real estate tax claims from the City (Note 3). The outstanding balance on the line of credit was \$425,525 as of December 31, 2015.

Short-term debt activity for the year ended December 31, 2015 was as follows:

	January 1, 2015	Increases	Decreases	December 31, 2015
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Line of credit - delinquent real estate taxes	\$ 503,952	\$ 854,999	\$ 933,426	\$ 425,525
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 8. DUE TO THE PRIMARY GOVERNMENT

#### Component Unit

##### *Redevelopment Authority*

As of December 31, 2015, \$372,965 was due to the primary government for the accumulated gain on tax collection (Note 3).

### 9. UNEARNED REVENUE

#### Component Unit

##### *Redevelopment Authority*

A summary of unearned revenue at December 31, 2015 follows:

Unearned rent	\$ 16,667
Unearned grant revenue	2,633,853
Unearned interest income - capital lease (Note 3)	5,852,374
	<hr/>
	8,502,894
Current portion	1,008,846
	<hr/>
Long-term portion	\$ 7,494,048
	<hr/>

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### 10. LONG-TERM OBLIGATIONS

#### Primary Government

A summary of bonds and notes payable outstanding as of December 31, 2015 is as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2015
2007/2046	\$ 125,315,000	General Obligation Bonds, 4.00%-5.00%	\$ 117,960,000
2009/2030	43,990,000	General Obligation Notes, 2.50%-4.875%	28,250,000
2011/2041	38,860,000	General Obligation Bonds, 1.75%-5.00%	36,130,000
2013/2035	7,000,000	Note Payable to Financing Agency, 1.495%-2.965%	1,848,143
2014/2037	5,500,000	Note Payable to Financing Agency, 1.00%-1.74%	2,269,611
2014/2044	42,490,000	General Obligation Bonds, 3.00%-5.00%	42,275,000
2015/2034	11,840,000	General Obligation Bonds, 0.85%-4.30%	11,840,000
2015/2028	6,950,000	General Obligation Note, 2.41%	6,950,000
			<u>\$ 247,522,754</u>

#### ***Bonds Payable***

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

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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In 2006, the City issued \$13,455,000 of general obligation bonds, bearing interest at rates ranging from 5.00% to 5.59%. The proceeds of the bond issuance were used to fund the unfunded actuarial accrued liability associated with fire and police pension. These bonds were advance refunded through the issuance of General Obligation Bonds, Series of 2015, resulting in a defeasance of the 2006 general obligation bonds. The balance outstanding on the defeased 2006 general obligation bonds on December 31, 2015 is \$10,930,000.

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

In 2010, the City issued \$8,635,000 of general obligation bonds, bearing 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. These bonds were currently refunded through the issuance of General Obligation Note, Series of 2015.

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

In 2014, the City issued \$42,490,000 of general obligation bonds, bearing interest at rates ranging from 3.0% to 5.0%. The proceeds of the bond issuance were used for the purposes of financing improvements and upgrades to water treatment facilities, improving and upgrading wastewater treatment and collection facilities, and other miscellaneous capital projects. The debt service on these bonds is paid by the General Fund, Sewer Fund, Water Fund, and Stormwater Fund, an other enterprise fund.

In 2015, the City issued \$11,840,000 of general obligation bonds, bearing interest at rates ranging from .85% to 4.30%. The proceeds of the bond issuance were used to advance refund the General Obligation Bonds, Series of 2006. The debt service on these bonds is paid by the General Fund. The City completed the advance refunding to reduce its total debt service payments by \$833,557 through the year 2034, which resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$819,052.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Notes Payable*

In 2002, the City issued \$692,533 of notes, bearing interest at 2.77%. The proceeds of the note issuance were used by the Water Fund to construct a water main in Manor Township and to reinforce the water supply to the Borough of Millersville. The debt service on these notes was paid by the Water Fund. This note was paid in full during the year ended December 31, 2015.

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

In 2013, the City issued \$7,000,000 Guaranteed Revenue Note of 2012. This is a Pennvest drawdown loan that is for the construction of a series of green infrastructure source control practices, including porous pavement in parking lots, paths, alleys, and streets; infiltration and bio-retention systems; green roofs; rain gardens and rain barrels in order to capture storm water runoff, various other green infrastructure improvements throughout the City, and other ongoing capital improvement projects of the City. This note bears interest at a rate of 1.495% for the first five years and 2.965% thereafter. As of December 31, 2015, \$1,848,143 was drawn down on this note. The debt service on this note will be paid by the Stormwater Fund, another enterprise fund.

In 2014, the City issued \$5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest loan for the construction of a preliminary treatment facility and diversion chamber. The note bears interest at a rate of 1.00% for the first five years and 1.74% thereafter. As of December 31, 2015, \$2,269,611 was drawn down on this note. The debt service on this note will be paid by the Sewer Fund.

In 2015, the City issued a general obligation note in the amount of \$6,950,000, bearing a fixed interest rate of 2.41%. The debt service on this note is paid by the General Fund and Water Fund. The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series of 2010. The City completed the current refunding to reduce its total debt service payments by \$612,000 through the year 2028, which resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$542,000.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Bonds and Notes Payable*

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

<u>Year Ended December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2016	\$ 1,922,800	\$ 2,147,776	\$ 4,070,576
2017	2,651,600	2,052,253	4,703,853
2018	2,830,400	1,956,129	4,786,529
2019	2,944,600	1,845,031	4,789,631
2020	3,058,800	1,729,011	4,787,811
2021-2025	16,767,600	6,782,104	23,549,704
2026-2030	16,993,200	3,250,560	20,243,760
2031-2035	6,810,000	717,900	7,527,900
	<u>\$ 53,979,000</u>	<u>\$ 20,480,764</u>	<u>\$ 74,459,764</u>

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

<u>Year Ended December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2016	\$ 4,980,419	\$ 8,280,916	\$ 13,261,335
2017	5,364,200	8,088,381	13,452,581
2018	5,578,958	7,869,084	13,448,042
2019	5,821,733	7,632,228	13,453,961
2020	6,012,960	7,380,703	13,393,663
2021-2025	31,317,774	32,875,428	64,193,202
2026-2030	29,461,973	26,812,618	56,274,591
2031-2035	31,245,599	20,381,449	51,627,048
2036-2040	34,075,138	13,446,040	47,521,178
2041-2045	33,670,000	5,678,052	39,348,052
2046	6,015,000	270,675	6,285,675
	<u>\$ 193,543,754</u>	<u>\$ 138,715,574</u>	<u>\$ 332,259,328</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### *Capital Leases*

#### *Governmental Activities*

In 2011 through 2015, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. The assets were purchased from the General Fund. As of December 31, 2015, the assets are included as governmental activities in the government-wide financial statements at a cost of \$420,882 and accumulated depreciation of \$99,750.

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2015 are as follows:

Year Ended December 31,	Total
2016	\$ 88,948
2017	82,176
2018	51,128
2019	18,788
Total minimum lease payments	241,040
Less amount representing interest	(17,464)
Present value of future minimum lease payments	<u>\$ 223,576</u>

#### *Business-type Activities*

In 2012 through 2015, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. A majority of these assets were purchased from the Sewer Fund and the Water Fund. The City also purchased equipment, a portion of which is allocated to the Sewer Fund, Water Fund, and Stormwater and Trash Funds, two other enterprise funds. As of December 31, 2015, the assets are included as business-type activities in the government-wide financial statements at a cost of \$2,590,265 and accumulated depreciation of \$416,924.



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2015 are as follows:

Year Ended December 31,	Total
2016	\$ 487,228
2017	354,669
2018	139,369
2019	76,211
Total minimum lease payments	1,057,477
Less amount representing interest	(67,288)
Present value of future minimum lease payments	\$ 990,189

### ***Borrowing Payable – Basis Swap***

In conjunction with the Basis Swap transaction described in Note 11, the City received an upfront cash payment. This upfront cash payment received by the City was considered to be a borrowing at a rate of 4.4%. As of December 31, 2015, the borrowing had an outstanding balance of \$1,112,801, which is reflected in the governmental activities portion of the City's statement of net position. Payments on the borrowing commenced on May 1, 2009, the date the Basis Swap became effective, and were scheduled to mature on May 1, 2028. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap. Interest is currently being accreted to the principal amount annually. Accreted interest on the borrowing was \$818,587 at December 31, 2015.

A summary of principal and interest maturities on the borrowing at December 31, 2015 is as follows:

Year Ending December 31,	Principal	Interest	Total
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	107,842	23,853	131,695
2021-2025	424,948	53,359	478,307
2026-2028	115,785	-	115,785
Total	\$ 1,112,801	\$ 220,694	\$ 1,333,495

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Changes in long-term obligations for the year ended December 31, 2015 are as follows:

	December 31, 2014	Increase	Decrease	December 31, 2015	Amount Due Within One Year
Governmental activities:					
Bonds payable	\$ 44,928,000	\$ 11,840,000	\$ (18,388,000)	\$ 38,380,000	\$ 1,230,000
Unamortized premium	655,923	87,809	4,360	748,092	-
Notes payable	10,070,000	6,394,000	(865,000)	15,599,000	692,800
Borrowing payable - basis swap	1,249,816	1,230	(138,245)	1,112,801	122,402
Compensated absences	1,152,330	2,898,450	(2,810,208)	1,240,572	285,456
Capital leases	350,253	88,196	(214,873)	223,576	80,139
Workers' compensation payable	1,055,836	509,090	(835,217)	729,709	250,144
Total governmental activities	<u>\$ 59,462,158</u>	<u>\$ 21,818,775</u>	<u>\$ (23,247,183)</u>	<u>\$ 58,033,750</u>	<u>\$ 2,660,941</u>

	December 31, 2014	Increase	Decrease	December 31, 2015	Amount Due Within One Year
Business-type activities:					
Bonds payable	\$ 172,262,000	\$ -	\$ (2,437,000)	\$ 169,825,000	\$ 3,755,000
Unamortized premium	2,302,536	-	(189,034)	2,113,502	-
Notes payable	22,716,868	3,189,588	(2,187,702)	23,718,754	1,225,419
Compensated absences	186,558	1,225,370	(1,215,381)	196,547	43,305
Capital leases	1,192,321	281,608	(483,740)	990,189	449,397
Workers' compensation payable	1,831	10,704	(8,138)	4,397	-
Total business-type activities	<u>\$ 198,662,114</u>	<u>\$ 4,707,270</u>	<u>\$ (6,520,995)</u>	<u>\$ 196,848,389</u>	<u>\$ 5,473,121</u>

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

### **Component Units**

#### *Parking Authority*

#### ***Long-term Debt***

The Parking Revenue Bonds of 1992, Parking Revenue Bonds of 1993, and 2003 Note were secured by a trust indenture dated December 31, 1985, and supplemental trust indentures dated January 15, 1992, December 14, 1993, and January 1, 1996, respectively, all issued by the Parking Authority to the Trustee. The bonds were payable out of revenue derived principally from the operation of the parking facilities. The City has guaranteed (under the

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

terms of a lease agreement dated December 31, 1985, as amended by supplemental issues dated January 15, 1992, December 14, 1993, and January 1, 1996) debt service payments to the Trustee.

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

	December 31, 2014	Increase	Decrease	December 31, 2015	Amount Due Within One Year
2007 Series A Parking Revenue Bonds	\$ 16,785,000	\$ -	\$ (700,000)	\$ 16,085,000	\$ 730,000
2007 Series B Parking Revenue Bonds	8,515,000	-	(15,000)	8,500,000	15,000
	<u>\$ 25,300,000</u>	<u>\$ -</u>	<u>\$ (715,000)</u>	<u>\$ 24,585,000</u>	<u>\$ 745,000</u>

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2016	\$ 745,000	\$ 1,300,667	\$ 2,045,667
2017	785,000	1,263,306	2,048,306
2018	830,000	1,218,088	2,048,088
2019	875,000	1,168,703	2,043,703
2020	930,000	1,116,640	2,046,640
2021-2025	5,530,000	4,685,643	10,215,643
2026-2030	7,155,000	3,030,950	10,185,950
2031-2035	7,735,000	1,066,000	8,801,000
Total	<u>\$ 24,585,000</u>	<u>\$ 14,849,997</u>	<u>\$ 39,434,997</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Elevator Loan

During the year ended December 31, 2010, the Parking Authority obtained bank financing of \$1,500,000 to upgrade its elevators in the garages. Principal is paid in equal annual installments of \$150,000. During the year ended December 31, 2014, the Authority paid \$300,000 in excess of the amount due. As a result, the life of the loan decreased by two years and the balance will be fully repaid by 2018. Interest is fixed at 4.31%.

	December 31, 2014	Increase	Decrease	December 31, 2015	Amount Due Within One Year
Elevator loan payable	\$ 600,000	-	\$ (150,000)	\$ 450,000	\$ 150,000

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2016	\$ 150,000	\$ 16,738	\$ 166,738
2017	150,000	10,220	160,220
2018	150,000	3,755	153,755
Total	\$ 450,000	\$ 30,713	\$ 480,713

### Interest Expense

Interest expense on all bonds totaled \$1,324,808 for the year ended December 31, 2015. Interest expense on the elevator loan totaled \$24,100 for the year ended December 31, 2015.

### Defeased Debt

On September 15, 2007, the Parking Authority funded the outstanding balance of \$17,980,000 of the Parking Revenue Bonds of the 1992 issue and the 1993 issue, by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. The bonds are considered to be extinguished for financial reporting purposes and are excluded from the statement of net position. The Trustee retired \$1,745,000 of this debt in 2015.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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A summary of outstanding funded bonds at December 31, 2015 is as follows:

Series of 1992 and 1993:

Bonded debt outstanding	\$	1,745,000
Funds on deposit with Trustee at fair value	\$	1,668,738

### *Redevelopment Authority*

#### ***Due to Lessee***

The lessee of the Penn Square Hotel advanced \$1,000,000 to the Redevelopment Authority to facilitate debt service payments. Upon full payment of the related debt, these funds and any interest earned will be returned to the lessee. At December 31, 2015, the amount due is \$1,000,226.

At December 31, 2015, the lessee is also due a reimbursement of \$407,132 related to a construction project at the Penn Square Hotel. These funds are expected to be paid during 2016.

#### ***Notes Payable***

During the year ended December 31, 2013, the Redevelopment Authority entered into a non-revolving, multi-advance time loan. The maximum amount the Authority can borrow on this loan is \$5,075,000 to be used for the parking garage construction through December 15, 2014, at which point semi-annual payments are required to be made. The loan bears interest at 3.30% until December 22, 2022, then moves to 65% of 30-day LIBOR, plus 200 basis points, with a floor of 5.75%. The note is secured with the intergovernmental tax increment financing (TIF) revenues (Note 18). The lender can put a lien on the property being constructed, if desired. The loan matures December 15, 2028. The outstanding balance as of December 31, 2015 was \$4,157,981, of which \$170,000 is due within one year.

#### ***Bonds Payable***

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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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agreement. The bonds mature in December 2025. The outstanding balance at December 31, 2015 is \$4,570,547, of which \$329,005 is due within one year.

The Redevelopment Authority issued additional bonds as the First Supplemental Indenture to the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of \$4,000,000 in a private placement at a premium of \$983,716. The bonds bear interest of 6.39% per annum. Bond proceeds were used to fund construction of the Penn Square Hotel (Note 17). Proceeds from the Infrastructure and Facilities Improvement Grant (Notes 3 and 16) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The bonds mature in December 2025. The outstanding balance at December 31, 2015 is \$2,610,706, of which \$193,709 is due within one year.

The Redevelopment Authority does not amortize the bond premium of the Guaranteed Special Revenue Bonds, Series of 2005. The Redevelopment Authority is expecting reimbursement of the debt service through the Infrastructure and Facilities Improvement Program grant. The premium received does not represent a reduction of debt service but an offset of construction costs and is a part of lease rental.

On April 1, 2009, the Redevelopment Authority issued the Federally Taxable Hotel Lease Revenue Bonds, Series of 2005 in the amount of \$21,456,414 in a private placement. The bonds bear interest at 7.00% per annum. During the year ended June 30, 2011, the Federally Taxable Hotel Lease Revenue Bonds, Series A of 2005 was paid in full, which triggered a change in this bond issue's interest rate from the initial rate to an adjusted rate. The adjusted rate is a variable rate, which is related to the bondholder's funding interest rate with a third-party. This rate is 4.45% as of December 31, 2015. The bonds are secured with the Redevelopment Authority's interest in the lease rental payments from the Penn Square Hotel lessee and a limited guarantee from the City in the event of the imposition of certain taxes on the project. The bonds mature in December 2024. The outstanding balance as of December 31, 2015 was \$14,878,269, of which \$1,230,359 is due within one year.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Aggregate maturities required on bonds and notes payable at December 31, 2015 are as follows:

	Principal	Interest	Total
2016	\$ 1,923,073	\$ 1,276,608	\$ 3,199,681
2017	2,075,964	1,180,295	3,256,259
2018	2,215,765	1,076,623	3,292,388
2019	2,366,107	965,860	3,331,967
2020	2,526,674	847,683	3,374,357
2021-2025	13,529,940	2,059,879	15,589,819
2026-2028	1,579,980	83,598	1,663,578
Total	\$ 26,217,503	\$ 7,490,546	\$ 33,708,049

Long-term obligation activity for the year ended December 31, 2015 can be summarized as follows:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
Due to lessee	\$ 1,000,293	\$ 15	\$ (82)	\$ 1,000,226
Notes payable	4,294,392	196,589	(333,000)	4,157,981
Bonds payable	23,696,015	-	(1,636,493)	22,059,522
	\$ 28,990,700	\$ 196,604	\$ (1,969,575)	\$ 27,217,729

As described in the Guaranty Agreement between the City, the Redevelopment Authority, and the trustee, the City guarantees the full amount of the outstanding two indentures totaling \$7,181,253 as of December 31, 2015, all interest payments, as well as any fees and expenses resulting from events of default of the Redevelopment Authority. Future scheduled interest payments on these bonds amount to \$2,818,944 as of December 31, 2015. The guaranty remains in effect until the bonds are repaid. The bonds mature in 2025. The Redevelopment Authority is required to use special revenues (Infrastructure and Facilities Improvement Grant funds Notes 3 and 16) and reserve fund balances before requesting debt service assistance of the City under this guaranty. Since inception of the bonds, the City has not made any debt service payments under the terms of the guaranty on behalf of the Redevelopment Authority. If any payment were made under the guaranty, the City could seek reimbursement from the Redevelopment Authority's subsequent receipt of special revenues.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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As described in the Limited Guaranty Agreement between the City, the Redevelopment Authority, and the trustee, the City guarantees any shortfall in debt service payments by the Redevelopment Authority, because the Redevelopment Authority must apply lease revenue to the payment of real estate taxes on the property subject to the lease. If the property is determined to be taxable, then the lease rental payments will not be sufficient to meet the debt service obligations if the taxes have to be paid by the Redevelopment Authority. In that case, the City would be liable for payment of the shortfall in the debt service payments per the terms of the limited guaranty. The total bond principal outstanding at December 31, 2015 is \$14,878,269 and future interest payments, based on current interest rates, are \$3,616,601. The current tax-exempt assessment for the property is \$45,642,300 and the applicable combined millage rate is 44.9679. The bonds are scheduled to be paid in full in 2024. The amount of the guaranty cannot be further quantified because it is not known if the property will become taxable in the future before the debt is repaid and how future real estate tax rates and assessment will develop. Since the inception of the bonds, the City has not made any debt service payments under the terms of the guaranty on behalf of the Redevelopment Authority.

### *CRIZ*

During the year ended December 31, 2014, the CRIZ entered into a collaboration agreement with the Convention Center Authority, for purposes of funding a portion of the Convention Center Authority's obligations for the replacement of furniture, fixtures, and equipment within the Convention Center under the Joint Development Agreement and Condominium Declaration. The obligation had an outstanding balance of \$4,000,000 at December 31, 2015 with maturity in 2020.

During the year ended December 31, 2015, the CRIZ issued \$6,080,000 of Tax Revenue Bonds, Series 2015. The Tax Revenue Bonds, Series 2015 are due in varying annual installments beginning December 2017 through December 2041, plus interest payable semiannually at a variable rate. The variable rate is adjusted to 70% of the sum of the one-month LIBOR and 2.50%. Under no circumstances shall the variable rate exceed 6.00% at any time.

Long-term debt obligations consist of the following at December 31, 2015:

Convention Center Authority (LCCCA) Obligation	\$ 4,000,000
Tax Revenue Bonds, Series 2015	<u>6,080,000</u>
	<u>\$ 10,080,000</u>

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

The following is a summary of debt transactions for the year ended December 31, 2015:

Long-term debt at January 1, 2015	\$ 5,000,000
Borrowing	6,080,000
Payments	<u>(1,000,000)</u>
Long-term debt at December 31, 2015	10,080,000
Current portion	<u>(700,000)</u>
Long-term debt, net	<u><u>\$ 9,380,000</u></u>

Annual debt service requirements with respect to these obligations are as follows:

	LCCCA Obligation	Tax Revenue Bonds 2015	Total
2016	\$ 700,000	\$ -	\$ 700,000
2017	700,000	-	700,000
2018	800,000	275,000	1,075,000
2019	900,000	283,000	1,183,000
2020	900,000	291,000	1,191,000
2021 - 2025	-	738,000	738,000
2026 - 2030	-	987,000	987,000
2031 - 2035	-	1,320,000	1,320,000
2036 - 2040	-	1,766,000	1,766,000
2041	-	420,000	420,000
	<u><u>\$ 4,000,000</u></u>	<u><u>\$ 6,080,000</u></u>	<u><u>\$ 10,080,000</u></u>

### 11. 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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap.

***Fair value.*** As of December 31, 2015, the Basis Swap had a fair value of (\$258,380). 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 \$185,518 during the year ended December 31, 2015 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, 2015. 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. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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**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, 2015, the interest rate the City is paying under the Basis Swap was 0.01%, whereas the interest the City is receiving at 67% of the one-month LIBOR rate was 0.29%.

**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, 2015, the City's rating is not below the rating threshold and therefore, the City had not posted any collateral due to a ratings trigger.

## 12. RETIREMENT PLANS

### Primary Government

#### *Defined Benefit Plans*

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

#### FPP and PPP

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

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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Investments of the FPP and PPP are reported at fair value. Securities traded on a national exchange are valued at quoted market prices. Investments that do not have an established market are reported at estimated fair values.

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

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

At December 31, 2015, none of the FPP's and PPP's investments were more than five percent of the total asset value for each plan.

### Plan Participants

At December 31, 2015, employee membership data related to the FPP and PPP was as follows:

	<u>FPP</u>	<u>PPP</u>
Inactive plan members or beneficiaries currently receiving benefits	128	162
Inactive plan members entitled to but not yet receiving benefits	2	-
Active plan members	<u>62</u>	<u>140</u>
Total	<u>192</u>	<u>302</u>

### Plan Descriptions and Administration

The FPP and PPP are single-employer public employee retirement systems established and administered by the City to provide pension benefits for full-time members of its Bureau of Fire and Bureau of Police, respectively. FPP and PPP provisions are established and may be amended through the collective bargaining process. The FPP is governed by the City of Lancaster Fire Pension Board, which consists of the Mayor, Director of Administrative Services, Director of Public Safety, City Controller, Chief of Fire, and two members of the fire department. The PPP is governed by City of Lancaster Police Pension Board which consists of the Mayor, the City Treasurer, the City Controller, three active police officers to be duly elected by a majority of all active police officers for three-year overlapping terms, and one retired police officer on the pension list to be duly elected by a majority of the retired police officers on the pension list for a two-year term.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Normal Retirement

For both the FPP and PPP, a participant is eligible for normal retirement after completion of 25 years of services. Retirement is mandatory upon the attainment of age 60 for PPP. The normal retirement pension is payable monthly during the participant's lifetime, with payments continuing after the participants' death to the surviving spouse, or to dependent children under the age of 18, or to the FPP member's dependent parents, equal to 100% (75% if hired before January 1, 2003 for PPP) of the initial amount payable to the participant.

For FPP, the amount of monthly pension is equal to 50% of the final month's salary plus longevity, plus a service increment of 2.5% of the benefit multiplied by years of service in excess of 20, but not more than \$500 additional.

For PPP, the amount of monthly pension is equal to 50% (pro-rated for service less than 25 years if age 60 mandatory retirement) of the final month's salary plus longevity, plus a service increment of 2.5% of the benefit multiplied by years of service in excess of 20, but not more than \$500 additional if hired before January 1, 2011, \$100 if hired on or after January 1, 2011.

### Disability Retirement

In the event of occupational disability, the pension is paid regardless of years of service for both FPP and PPP.

In the event of non-occupational disability, the PPP pension is prorated for service less than 25 years. Both occupational and non-occupational pensions are based on 50% of actual salary, plus longevity for PPP. For FPP, the pension is paid after five years of service and is prorated for service less than 20 years.

### Survivor Benefit

For FPP, a spouse's pension is payable in the event a retired member dies, in the event an active member dies after completing 20 years of service, or in the event an active member dies in the line of duty, regardless of service. The spouse's pension is equal to 100% of the pension the member was receiving or would have received had he/she been retired.

If an active FPP member dies other than in the line of duty and has completed more than ten years of service but less than 20 years, the surviving spouse shall receive a pension based on the normal retirement benefit, multiplied by a fraction equal to the years of service divided by 20. If there is no surviving spouse, then the pension is paid to children under the age of

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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18. If there are no such children, the pension is paid to the dependent parents of the member, if any.

For PPP, a spouse's pension is payable in the event an active member dies after completing five years of service, or in the event an active member dies in the line of duty, regardless of service. The pension of the spouse of an active member killed in the line of duty is equal to 100% of the pension the member would have received had he/she been retired.

The pension of the spouse of a deceased (not in the line of duty) active PPP member is equal to 2 ½% of the pension the member would have received had he/she been retired, multiplied by the number of years of service up to 20 years. If a member with at least 20 years of service is deceased not in the line of duty, the spouse shall receive a pension equal to 100% of the monthly pension the member would have received had he/she been retired.

### Deferred Retirement Option Program (DROP)

An active member in the FPP who has attained age 51 and completed 25 years of service may elect to participate in the DROP. As of December 31, 2015, there were 11 participants in the DROP. As of December 31, 2015, the balance held by the FPP pursuant to the DROP totaled \$1,599,264.

### Contributions

FPP members are required to contribute 5% of their pay and longevity plus \$5.00 per month for the service increment. PPP plan members hired on or before January 1, 2011 are required to contribute 5% of lieutenant's pay (or actual pay, if higher) and longevity, plus \$5.00 per month for the service increment. PPP members hired on or after January 1, 2011 contribute 5% of base pay and longevity, plus \$1.00 per month for the service increment.

The City is required to make actuarially determined periodic contributions at rates that, for individual employees, increase over time so that sufficient assets will be available to pay benefits when due.

The City contributed \$2,059,043 and \$2,748,596 for the year ended December 31, 2015 to the FPP and PPP, respectively.

### Administrative Expenses

FPP and PPP administration costs are financed through investment income.

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Changes in Net Pension Liability

The changes in the net pension liability for the FPP and PPP at December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
FPP:			
Balances at December 31, 2014	\$ 52,077,188	\$ 39,043,422	\$ 13,033,766
Changes for the year:			
Service cost	668,547	-	668,547
Interest	3,963,234	-	3,963,234
Changes for experience	(658,793)	-	(658,793)
Contributions - employer	-	2,059,043	(2,059,043)
Contributions - employees	-	290,678	(290,678)
Net investment income	-	531,376	(531,376)
Benefit payments, including refunds	(3,517,597)	(3,517,597)	-
Administrative expense	-	(32,701)	32,701
Net changes	455,391	(669,201)	1,124,592
Balances at December 31, 2015	\$ 52,532,579	\$ 38,374,221	\$ 14,158,358
Plan fiduciary net position as a percentage of the total pension liability			73.05%

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
PPP:			
Balances at December 31, 2014	\$ 80,674,018	\$ 62,484,419	\$ 18,189,599
Changes for the year:			
Service cost	1,725,052	-	1,725,052
Interest	6,375,804	-	6,375,804
Changes for experience	(613,024)	-	(613,024)
Contributions - employer	-	2,748,596	(2,748,596)
Contributions - employees	-	636,599	(636,599)
Net investment income	-	809,462	(809,462)
Benefit payments, including refunds	(4,176,983)	(4,176,983)	-
Administrative expense	-	(11,344)	11,344
Net changes	<u>3,310,849</u>	<u>6,330</u>	<u>3,304,519</u>
Balances at December 31, 2015	<u>\$ 83,984,867</u>	<u>\$ 62,490,749</u>	<u>\$ 21,494,118</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>74.41%</u>

The net pension liability was measured as of December 31, 2015 and was determined by rolling forward liabilities from the January 1, 2015 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year-end.

*Actuarial Assumptions* - The January 1, 2015 actuarial valuation used the entry age normal actuarial cost method and RP2000 mortality table. The actuarial assumptions for both the FPP and PPP include the following: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c) 3.00% inflation rate, d) level dollar closed amortization method, and e) 8-year remaining amortization period for FPP and 12-year remaining amortization period for PPP. These assumptions were applied to all periods included in the measurement of total pension liability.

*Investment Policy* - The Plans' policies in regard to the allocation of invested assets are established and may be amended by the respective Boards. The Boards seek to optimize the total return of the Plans' portfolios through a policy of balanced investments, structured to achieve the maximum returns possible, as measured on the total portfolios, consistent with policies that emphasize the prudent management of risk.



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

*Long-Term Expected Rate of Return* - The long-term expected rates of return on both Plans' investments were 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 weighting the expected future real rates 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 both Plans as of December 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	66.0%	5.5-7.5%
Fixed income	30.0%	1.0-3.0%
Cash	4.0%	0.0-1.0%
	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, 2015, the annual money-weighted rate of return on Plan investments, net of investment expense, was 1.30% and 1.22% for the FPP and PPP, respectively.

*Discount Rate* – The discount rate used to measure the total pension liability as of December 31, 2015 was 8.00% for both the FPP and PPP. The Plans' 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 each Plan calculated using the discount rate described above, as well as what the Plan'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 (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
FPP	\$ 19,333,128	\$ 14,158,358	\$ 9,764,599
PPP	\$ 31,576,693	\$ 21,494,118	\$ 12,793,482

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 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 the 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 the plan.

##### Method Used to Value Investments

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

#### *B. Plan Description and Contribution Information*

##### Plan Participants

At December 31, 2015, employee membership data related to the CBPP was as follows:

Inactive plan members or beneficiaries currently receiving benefits	50
Inactive plan members entitled to but not yet receiving benefits	30
Active members	<u>298</u>
Total	<u><u>378</u></u>

##### 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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Board consists of the Mayor, City Controller, the superintendent of finance, two nonuniformed employees, and a member of City Council.

### Benefits Provided

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.

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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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 \$900,704 to the CBPP for the year ended December 31, 2015.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Changes in the Net Pension Liability

The changes in the net pension liability for the CBPP at December 31, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 14,733,676	\$ 10,740,515	\$ 3,993,161
Service cost	542,160	-	542,160
Interest	1,096,819	-	1,096,819
Changes for experience	(184,304)	-	(184,304)
Contributions - employer	-	900,704	(900,704)
Net investment income	-	139,124	(139,124)
Benefit payments, including refunds	(934,559)	(934,559)	-
Administrative expense	-	(27,730)	27,730
Net changes	520,116	77,539	442,577
Balances at December 31, 2015	\$ 15,253,792	\$ 10,818,054	\$ 4,435,738
Plan fiduciary net position as a percentage of the total pension liability			70.92%

The net pension liability of the pension plan is allocated between governmental activities and business-type activities in the amounts of \$2,380,471 and \$2,055,267, respectively, at December 31, 2015.

The net pension liability was measured as of December 31, 2015 and was determined by rolling forward liabilities from the January 1, 2015 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year end.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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*Actuarial Assumptions* - The January 1, 2015 actuarial valuation included the following assumptions:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	14 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.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	66.0%	5.5% - 7.5%
Fixed income	30.0%	1.0% - 3.0%
Cash	4.0%	0.0% - 1.0%
	<u>100.0%</u>	

*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, 2015, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 1.23%.

*Concentrations* – The CBPP had investments in Goldman Sachs Financial Square Federal Fund Money Market Fund that were approximately 7% of the CBPP's fiduciary net position at December 31, 2015.

*Discount Rate* – The discount rate used to measure the total pension liability as of December 31, 2015 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:

<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
<u>\$ 6,415,359</u>	<u>\$ 4,435,738</u>	<u>\$ 2,783,696</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

For the year ended December 31, 2015, the governmental activities and business-type activities recognized pension expense of \$4,663,409 and \$208,279, respectively. At December 31, 2015, the governmental activities and business-type activities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows of Resources</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Differences between expected and actual experience	\$ 5,648,970	\$ 250,026
Total Deferred Outflows of Resources	\$ 5,648,970	\$ 250,026
<u>Deferred Inflows of Resources</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 1,095,012	\$ 80,063
Total Deferred Inflows of Resources	\$ 1,095,012	\$ 80,063

The effect of the differences in the governmental activities and business-type activities expected and actual experience is recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2016	\$ 1,137,869	\$ 55,835
2017	1,137,869	55,835
2018	1,137,867	55,835
2019	1,302,567	55,833
2020	(109,675)	(6,672)
Thereafter	(52,539)	(46,703)
	\$ 4,553,958	\$ 169,963



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### **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, 2015, there were 184 plan participants. 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 SSP provisions are established and may be amended by the Board. During the year ended December 31, 2015, SSP participants and the City made contributions of \$519,490 and \$93,475, respectively.

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### *Pension Financial Statements*

Financial statements for the individual pension plans are presented below:

#### Statement of Net Position

December 31, 2015

	FPP	PPP	CBPP	SPP
Assets:				
Cash	\$ -	\$ -	\$ -	\$ 45,485
Investments	38,300,626	62,761,577	11,095,842	7,401,859
Receivables:				
Investment income	97,580	159,368	27,115	-
Total Assets	38,398,206	62,920,945	11,122,957	7,447,344
Liabilities:				
Unsettled investment purchases	23,985	430,196	304,903	2,900
Net position restricted for pension benefits	\$38,374,221	\$62,490,749	\$10,818,054	\$ 7,444,444

#### Statement of Changes in Net Position

Year Ended December 31, 2015

	FPP	PPP	CBPP	SPP
Additions:				
Contributions:				
Employees	\$ 290,678	\$ 636,599	\$ -	\$ 519,490
Employer	2,059,043	2,748,596	900,704	93,475
Total contributions	2,349,721	3,385,195	900,704	612,965
Investment income:				
Net depreciation in fair value of investments	(294,114)	(499,424)	(76,011)	(293,254)
Interest and dividends	994,318	1,582,789	260,129	244,470
Total investment income	700,204	1,083,365	184,118	(48,784)
Less: investment expenses	(168,828)	(273,903)	(44,994)	-
Net investment income (loss)	531,376	809,462	139,124	(48,784)
Total additions	2,881,097	4,194,657	1,039,828	564,181
Deductions:				
Benefits	3,517,597	4,176,983	934,559	685,874
Administrative expenses	32,701	11,344	27,730	51,259
Total deductions	3,550,298	4,188,327	962,289	737,133
Change in net position	(669,201)	6,330	77,539	(172,952)
Net position restricted for pension benefits:				
Beginning of year	39,043,422	62,484,419	10,740,515	7,617,396
End of year	\$ 38,374,221	\$ 62,490,749	\$ 10,818,054	\$ 7,444,444

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Component Units

#### *Commission*

The Commission established a non-contributory, money purchase retirement plan for all eligible employees. The Corporation contributes 6% of eligible employees' earnings during the Plan year. Retirement expense totaled \$46,765 for the year ended December 31, 2015.

#### *Parking Authority*

The Parking Authority's defined benefit pension plan, The Parking Authority of the City of Lancaster Employee Pension Plan, provides retirement, disability, and death benefits to all full-time plan members and their beneficiaries. The plan is a single-employer defined benefit pension plan. The pension plan is affiliated with the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer pension plan administered by an independent state agency created by the Pennsylvania General Assembly in 1974 to administer local government pension plans. The PMRS issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. The report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165, or via PMRS's website.

### Benefits Provided

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, grants the authority to establish and amend the benefit terms to the Parking Authority's Board of Directors.

*Normal Benefit* – Normal retirement age is 62 and the annual benefit is determined by multiplying years of credited service times final average salary times .015, whereby final average salary is the average annual compensation during the highest five consecutive years prior to the effective date of retirement. A member is fully vested after ten years of credited service.

*Early Retirement Benefit* – Early retirement is available for those who have at least ten years of service and have attained the age of 55. The benefit will be actuarially reduced for each year and month prior to normal retirement age that early retirement takes place.

*Survivor Benefit* – If a member is eligible to retire at the time of death, their beneficiary receives the present value of the accrued benefit.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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*Disability Benefit* – In the instance of a service or non-service related disability, a 30% disability benefit is provided, offset by applicable worker’s compensation benefits, to a member who has ten years of service and who is unable to perform gainful employment.

*Cost-of-Living Adjustments* – The Parking Authority has the option to award post-retirement adjustments based on investment performance.

### Plan Membership

Membership of the Plan consisted of the following at December 31, 2015:

Active employees	20
Inactive employees and beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	-
Total	<u>35</u>

### Contributions

Active members are required to contribute 3.50% of their total compensation. The Parking Authority is required to contribute at an actuarially determined rate, as in accordance with Act 205.

During the year ended December 31, 2014, the Parking Authority made a contribution to the Plan in the amount of \$7,687. The minimum municipal obligation (MMO) for the year ended December 31, 2014 was \$6,907. During the year ended December 31, 2015, the Parking Authority made a contribution of \$5,112. The MMO for the year ended December 31, 2015 was \$5,112. The 2015 contribution is reported as a deferred outflow of resources at December 31, 2015.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Changes in the Net Pension Asset

The changes in the net pension asset of the Parking Authority for the year ended December 31, 2015 were as follows:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2014 (based on the measurement date of December 31, 2013)	\$ 1,323,671	\$ 1,497,069	\$ (173,398)
Changes for the year:			
Service cost	34,602	-	34,602
Interest	70,961	-	70,961
Differences between expected and actual experience	3,085	-	3,085
Contributions - employer	-	7,687	(7,687)
Contributions - employee	-	16,561	(16,561)
Net investment income	-	104,945	(104,945)
Benefit payments, including refunds	(137,991)	(137,991)	-
Administrative expense	-	(3,843)	3,843
Net changes	(29,343)	(12,641)	(16,702)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 1,294,328	\$ 1,484,428	\$ (190,100)
Plan fiduciary net position as a percentage of the total pension liability			114.69%

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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*Actuarial Assumptions* – The total pension liability was determined by an actuarial valuation performed on January 1, 2015, and rolled forward to December 31, 2015, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.5%
Projected salary increases	3.0% - 8.3% *
* includes inflation rate of 3%	
Cost-of-living adjustments	3.0%

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2005 to December 31, 2008.

Pre-retirement mortality:

Males: RP 2000 with 1 year set back

Females: RP 2000 with 5 year set back

Post-retirement mortality:

Males and females: RP-2000 Sex-Distinct Mortality Table

*Long-Term Expected Rate of Return* – The PMRS System’s (System) long-term expected rate of return on plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to the method:

1. Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the PMRS Board’s opinion, any such asset classes are expected in the future to significantly vary from its 20-year historical returns.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are presented in the chart labeled “System Nominal and Real Rates of Return by Asset Class.”
4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study, the minimum acceptable confidence

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

level for the PMRS Board has been determined to be 70%. The chart labeled “Confidence Levels for System Nominal and Real Rates of Return” identifies simulated portfolio returns at various confidence levels.

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2015:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	11.7%	8.7%
Domestic equity (small capitalized firms)	15.0%	11.4%	8.4%
International equity (developed markets)	15.0%	7.6%	4.6%
International equity (emerging markets)	10.0%	11.1%	8.1%
Real estate	20.0%	9.7%	6.7%
Fixed income	15.0%	2.0%	-1.0%
Total portfolio	100.0%	9.2%	6.2%

The following are the Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2015:

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95.0%	4.7%	1.7%
90.0%	5.7%	2.7%
85.0%	6.4%	3.4%
80.0%	6.9%	3.9%
75.0%	7.4%	4.4%
70.0%	7.8%	4.8%
50.0%	9.2%	6.2%

Based on the four-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.5%.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2014, this rate is equal to 5.5%.

The System's policy in regard to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

*Discount Rate* – While it is often common practice to establish an actuarial discount rate that is equal to the long-term expected rate of return, PMRS is required by law (Act 15 of 1974) to establish a discount rate equal to the regular interest rate. The PMRS Board establishes the regular interest rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The PMRS Board considers the following five quantitative factors in establishing the regular interest rate:

1. Retiree plan liability as a percentage of total plan liability,
2. Active plan participant liability as a percentage of total plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System long-term expected rate of return, and
5. PMRS administrative expenses.

The regular interest rate is equal to the retiree liability percentage times the smoothed PBGC annuity rates, plus the active employee liability percentage times the System long-term expected rate of return, less administrative expenses as a percentage of assets.

The PMRS Board may then adjust the regular interest rate derived from the formula due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility,

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2014 was 5.5%.

This required equivalence between the regular interest rate and the actuarial discount rate will likely result in a System long-term expected rate of return that will be higher than the actuarial discount rate and higher than the long-term expected rate of return for individual participating municipalities. Should the System experience a prolonged period of investment returns in excess of the regular interest rate, the PMRS Board is authorized to allocate any applicable portion of any such excess in accordance with the PMRS Board policies.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
\$ 85,959	\$ 190,100	\$ 281,440

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Parking Authority recognized pension expense of \$8,584. At December 31, 2015, the Parking Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,468	\$ -
Parking Authority contributions subsequent to the measurement date	5,112	-
Net difference between projected and actual earnings on pension plan investments	-	20,067
Total	<u>\$ 7,580</u>	<u>\$ 20,067</u>

The effect of the differences in the Parking Authority's expected and actual experience is recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Parking Authority contributions subsequent to the measurement date will be recorded as an increase to the pension asset during the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,

2016	\$ (4,400)
2017	(4,400)
2018	(4,400)
2019	<u>(4,399)</u>
	<u>\$ (17,599)</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 13. OTHER POST-EMPLOYMENT BENEFITS

#### Plan Description

In addition to the retirement benefits described in Note 12, the City provides single-employer health care benefits for all retired employees, their spouses, and dependents. These benefit provisions and all other requirements are established under the various union contracts and City policy for non-organized employees. Those employees are required to pay a portion of the cost of the Plan, which generally ranges from approximately 2% to 10% of the annual premiums.

Police officers and firefighters are eligible to retire with benefits after completion of 20 years of service or upon disability. Mandatory retirement with benefits occurs when police officers and firefighters reach age 60 regardless of service. 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 firefighter, hired on or before November 30, 2012, who is eligible to retire, will receive fully paid medical and prescription drug coverage for the member, spouse, and eligible dependent children unless the retiree becomes employed by another employer. Retired firefighters will also receive dental coverage for the member only. If the retiree dies, his or her surviving spouse will be provided coverage to age 65 or until such time as the spouse becomes eligible for Medicare due to disability or other reason. For any firefighter hired after November 30, 2012, excluding cadets currently in the Academy, the City will provide employee-only medical insurance to those employees who retire and are under the age of 65 and not Medicare eligible. The coverage shall be the same employee-only medical insurance provided to then active Firefighters. Eligible retirees shall be given the option of purchasing coverage for their spouses through the City. If the retiree dies, their spouse will be provided coverage to age 65 or until such time the spouse becomes eligible for Medicare due to disability or other reason. If the surviving spouse of the retiree remarries, the new spouse will not be eligible for coverage. If the regular Medicare eligibility age is increased by federal legislation, this entitlement to coverage shall continue beyond age 65 until the newly established age of Medicare eligibility. Eligibility for post-retirement medical insurance coverage paid for by the City ends at Medicare eligibility.

Any police officer hired on or before December 26, 2011 who is eligible to retire will receive fully paid medical and prescription drug coverage for the member, spouse, and eligible dependent children unless the retiree becomes employed by another employer. For any police officer hired after December 26, 2011 who is eligible to retire, the City will pay 50% of the premium for member, spouse, and eligible dependent children for medical and prescription drug coverage unless the retiree becomes employed by another employer. Upon employment

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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with a subsequent employer, the retiree, spouse, and eligible dependent children must accept the medical coverage offered by the subsequent employer and terminate coverage under the City's group plan. Upon termination of employment with any subsequent employer, the retiree, spouse, and eligible dependent children must elect, in writing within sixty days of the termination of employment, to re-enroll under the City's plan or otherwise forfeit reinstatement. Eligibility for post-retirement medical insurance coverage paid for by the City ends at Medicare eligibility.

Any 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.

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

Upon retirement, police officers will be provided with \$7,500 of life insurance and firefighters will be provided with \$10,000 of life insurance. A nonuniformed employee will be eligible for \$7,000 of life insurance upon 10 years of service and attainment age of 55 or upon disability after completion of 10 years of service.

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

### Funding Policy and Annual OPEB Costs

The City's Water and Sewer Funds have been making contributions to the OPEB trust fund based on a percentage of the annual required contribution, as determined by an actuarial valuation. The balance of the City's contribution is based on projected pay-as-you-go financing requirements through the General Fund. For the year ended December 31, 2015, the City's net cost of providing health benefits and life insurance for retired employees was approximately \$5,127,000. During the year ended December 31, 2015, portions of the contribution were made directly to the City's OPEB trust funds by the City's Water and Sewer Funds in the amounts of \$876,720 and \$100,416, respectively. Plan members

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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receiving benefits contributed \$32,718 and \$14,595 to the City's Water and Sewer Funds, respectively, as required by the cost sharing provisions of the plans for the year ended December 31, 2015.

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

For police officers hired on or before December 26, 2011 and firefighters eligible to retire, the City pays the entire cost of medical and prescription drug coverage for the retiree, spouse and eligible dependent children. For police officers hired after December 26, 2011 eligible to retire, the City pays 50% of medical and prescription drug coverage for the retiree, spouse, and eligible dependent children. Retired firefighters will also receive dental coverage of the member only. Any nonuniformed employee who elects coverage will make monthly contributions. For eligible nonuniform 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 cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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 City's annual OPEB costs and net OPEB obligations to the plan for the year ended December 31, 2015 were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	\$ 11,077,470	\$ 2,283,646	\$ 13,361,116
Interest on net OPEB obligation	2,091,622	312,487	2,404,109
Adjustment to annual required contribution	(2,853,507)	(426,313)	(3,279,820)
Annual OPEB cost	10,315,585	2,169,820	12,485,405
Contribution made	(3,688,944)	(1,437,698)	(5,126,642)
Change in Net OPEB obligation	6,626,641	732,122	7,358,763
Net OPEB obligation, beginning	46,480,490	6,944,171	53,424,661
Net OPEB obligation, ending	\$ 53,107,131	\$ 7,676,293	\$ 60,783,424

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	\$ 10,750,048	45%	\$ 45,855,075
2014	12,609,482	40%	53,424,661
2015	12,485,405	41%	60,783,424

### 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	\$ 128,129,913	\$ 126,669,990	1.14%	\$ 26,808,050	472.51%

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Financial statements for the OPEB Trust Funds are presented below:

### Statement of Net Position December 31, 2015

	Sewer OPEB Trust	Water OPEB Trust
Assets:		
Investments	\$ 278,954	\$ 3,107,378
Total Assets	<u>278,954</u>	<u>3,107,378</u>
Net position restricted for other post-employment benefits	<u>\$ 278,954</u>	<u>\$ 3,107,378</u>

### Statement of Changes in Net Position Year Ended December 31, 2015

	Sewer OPEB Trust	Water OPEB Trust
Additions:		
Contributions:		
Employees	\$ 14,595	\$ 32,718
Employer	100,416	876,720
Total contributions	<u>115,011</u>	<u>909,438</u>
Investment income:		
Interest and dividends	35	412
Total investment income	<u>35</u>	<u>412</u>
Total additions	<u>115,046</u>	<u>909,850</u>
Deductions:		
Administrative expenses	941	11,518
Total deductions	<u>941</u>	<u>11,518</u>
Change in net position	114,105	898,332
Net position restricted for other post-employment benefits:		
Beginning of year	164,849	2,209,046
End of year	<u>\$ 278,954</u>	<u>\$ 3,107,378</u>



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 14. RISK MANAGEMENT

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

Insurance contracts cover public officials, law enforcement, automobile, excess workers' compensation, excess health claims, and umbrella liabilities. The contracts also provide 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 2015, the City was limited to \$750,000 per employee per accident and \$750,000 per employee for disease. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

A summary of workers' compensation claims for the years ended December 31, 2015 and 2014 is as follows:

Unpaid claims as of January 1, 2014	\$ 1,474,707
Incurred claims and change in estimates during 2014	2,181,583
Payments during 2014	<u>(2,598,623)</u>
Unpaid claims as of January 1, 2015	1,057,667
Incurred claims and change in estimates during 2015	519,794
Payments during 2015	<u>(843,355)</u>
Unpaid claims as of December 31, 2015	<u>\$ 734,106</u>

#### *Self-Insurance-Health Insurance*

The City is exposed to various risks of loss related to major medical self-insurance. The City has a stop/loss agreement with an insurance company which covers all individual claim amounts exceeding \$150,000. This policy has an aggregate stop-loss limit of \$1,000,000.

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program.

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

Changes in the balance of claims liability (net of excess insurance) during the years ended December 31, 2015 and 2014 is as follows:

Unpaid claims as of January 1, 2014	\$ 943,556
Incurred claims and change in estimates during 2014	10,151,852
Payments during 2014	<u>(10,267,611)</u>
Unpaid claims as of December 31, 2014	827,797
Incurred claims and change in estimates during 2015	10,936,793
Payments during 2015	<u>(10,494,489)</u>
Unpaid claims as of December 31, 2015	<u>\$ 1,270,101</u>

### 15. PROPERTY SALES

#### Component Unit

##### *Redevelopment Authority*

During the year ended December 31, 2015, twenty-five properties, which were acquired by purchase or eminent domain, were resold to private or corporate entities for rehabilitation. The just compensation cannot always be obtained when properties are resold as the cost of the rehabilitation work required when added to the just compensation would prohibit the property from being marketable to low or moderate income families. As a result, the Redevelopment Authority may have losses from time to time on the sale or transfer of properties held for resale. Grant funding received from Community Development Block Grant allocations are used to absorb these losses.

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Properties sold during the year ended December 31, 2015:

Property	Net Proceeds from Property Sales	Cost of Property Sold	Gain (Loss)
19 Howard Avenue	\$ 17,900	\$ 25,000	\$ (7,100)
21 Dauphin Street	27,000	24,000	3,000
31 Caroline Street	19,500	18,000	1,500
211 East Madison Street	21,840	19,000	2,840
317 South Marshall Street	17,000	9,500	7,500
337 East Chestnut Street	36,500	35,000	1,500
338 North Plum Street	41,000	39,000	2,000
346 South Prince Street	25,500	50,000	(24,500)
401 South Queen Street	4,000	7,500	(3,500)
413 Fremont Street	10,500	8,000	2,500
439 South Queen Street	32,000	27,500	4,500
519 Locust Street	31,500	35,000	(3,500)
520 East Fulton Street	32,293	25,000	7,293
522 Locust Street	22,000	25,000	(3,000)
528 East Fulton Street	35,000	33,500	1,500
528 East King Street	17,500	8,000	9,500
535 Rockland Street	20,000	20,000	-
536 New Dauphin Street	36,200	25,000	11,200
539 Chestnut Street	60,400	40,000	20,400
588 North Plum Street	65,500	64,000	1,500
613 1/2 East Chestnut Street	50,501	49,000	1,501
720 St. Joseph Street	30,000	24,000	6,000
738 East Fulton Street	43,500	42,000	1,500
801 Highland Avenue	30,250	25,000	5,250
804 North Plum Street	40,000	37,000	3,000
Additional just compensation on property sold in prior year	-	1,500	(1,500)
Additional allocated costs	-	40,872	(40,872)
	<u>\$ 767,384</u>	<u>\$ 757,372</u>	<u>\$ 10,012</u>

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 16. GRANTS

#### Component Unit

##### *Redevelopment Authority*

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

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

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

On April 20, 2009, the Redevelopment Authority entered into an Infrastructure and Facilities Improvement Program Grant with the Commonwealth of Pennsylvania. The Redevelopment Authority will receive annual grant proceeds of up to \$1,000,000 based on stipulations included in the grant agreement for a period of ten years. Upon receipt, the Redevelopment Authority will forward those proceeds to a third-party developer to assist with debt service related to the Lancaster Stockyard project. The Redevelopment Authority received and subsequently disbursed \$654,864 under this grant agreement during the year ended December 31, 2015.

In addition, the Redevelopment Authority has been awarded an Infrastructure and Facilities Improvement Program Grant through the Commonwealth of Pennsylvania, which is payable in annual increments of up to \$1,000,000 over twenty years to be used for debt service of equal annual amount on the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and First Supplemental Indenture (Note 10) on a reimbursement basis. The Redevelopment Authority has discounted the future grant receipts (Note 3) and offset construction expenses related to the Penn Square Hotel project in the amount of \$12,000,000. During the year ended December 31, 2015, \$999,933 was received under this grant agreement to offset debt service requirements.

Receipt of annual grant funding of the Infrastructure and Facilities Improvement Program Grant is contingent upon the Redevelopment Authority demonstrating to the Commonwealth of Pennsylvania that anticipated tax revenues generated for the Commonwealth as a result of

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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

For the year ended December 31, 2015, a shortfall of \$67 was recognized in changes in net position.

### **17. PENN SQUARE HOTEL PROJECT**

#### **Component Unit**

*Redevelopment Authority*

#### ***Acquisition, Construction, and Project Financing***

On January 31, 2006, the Redevelopment Authority purchased from Penn Square Partners (PSP) the Watt & Shand Building and the rights to certain development materials completed by PSP relative to the project. The Redevelopment Authority then constructed the Penn Square Hotel. The Redevelopment Authority utilized several funding tranches to facilitate the construction of the hotel, including grant funding from the Commonwealth of Pennsylvania, bond issuances, and investments by the lessee.

#### ***Hotel Lease and Operation***

The Redevelopment Authority has entered into a lease agreement with PSP. Rent is comprised of the amounts required as debt service on certain bonds issued by the Redevelopment Authority (base rent), other charges in connection with the bonds, plus any costs incurred by the Redevelopment Authority relative to the administration of the lease that are not provided for in the bond financing documents (additional rent). During the base term, PSP also pays the Redevelopment Authority minimum participant rent in the amount of \$200,000 per annum for the remainder of the lease. The minimum participant rent will be increased if certain hotel operating results, as defined in the lease agreement, are met.

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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the purchase, in addition to the amount derived by the formula. In no event shall the purchase price be less than \$1,000. The lease is set to expire on June 30, 2029.

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

### *Pledged Revenues*

All future base rent payments have been pledged for the payment of the debt service related to the Redevelopment Authority's Federally Taxable Hotel Lease Revenue Bonds, Series of 2005. For the year ended December 31, 2015, the Redevelopment Authority recognized interest income from the underlying capital lease in the amount of \$1,032,712 and received base rent cash flow in the amount of \$1,831,824. These funds were utilized to make principal payments in the amount of \$1,147,412 and interest payments in the amount of \$684,412.

## **18. NORTH QUEEN STREET PARKING GARAGE AND INTERGOVERNMENTAL TAX INCREMENT FINANCING REVENUE**

### *Component Unit*

#### *Redevelopment Authority*

The Redevelopment Authority owns the property at 400 North Market Street where the North Queen Street parking garage was built to provide parking to future tenants of the Lancaster Press Building, current lot users, and the public. The Authority completed construction and began operations during 2014.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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The City, the Redevelopment Authority, Lancaster County, and the School District of Lancaster created the Northwest Lancaster Tax Increment District (TIF district) on December 16, 2008 and agreed that 50% of the TIF revenues generated by the incremental increase in total assessed value of property and 50% of any millage rate increases within the TIF district will be paid to the Redevelopment Authority as further outlined in the TIF agreement. The following TIF revenues were received by the Redevelopment Authority during the year ended December 31, 2015:

City of Lancaster	\$ 102,517
Lancaster County	27,311
School District of Lancaster	<u>208,470</u>
Total	<u>\$ 338,298</u>

During the year ended December 31, 2013, the Redevelopment Authority Board approved the pursuit of purchasing three properties located adjacent to the parking garage with the intention of demolishing the structures to create a public urban park area. Two properties were purchased in 2014 for \$198,000. The purchase of the third property, as well as any construction contracts, are not yet finalized.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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### 19. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

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

A reconciliation of the interfund receivables and payables at December 31, 2015 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ 10,973,666	\$ 1,162,717
Capital Projects Fund	1,162,717	-
Non-major governmental funds	2,111,630	603,815
Proprietary funds:		
Sewer Fund	-	4,162,394
Water Fund	-	10,453,239
Other Enterprise Funds	-	924,028
Internal Service Fund	3,058,180	-
	<u>\$ 17,306,193</u>	<u>\$ 17,306,193</u>

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



# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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Interfund transfers for the year ended December 31, 2015 are as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
Governmental funds:		
General Fund	\$ 3,500,000	\$ 5,396,046
Capital Projects Fund	1,079,993	162,450
Debt Service Fund	4,242,809	-
Non-major governmental funds	81,225	471,269
Proprietary funds:		
Sewer Fund	12,791,057	12,794,662
Water Fund	4,209,261	7,701,263
Other Enterprise Funds	798,545	-
	<u>\$ 26,702,890</u>	<u>\$ 26,525,690</u>

These amounts primarily represent transfers for debt service for principal and interest payments, transfers of grant related capital projects, and to fulfill budgetary transfer requirements. Total transfers do not balance due to transfer of land from governmental activities to other enterprise funds in the amount of \$177,200.

## 20. COMMITMENTS AND CONTINGENCIES

### Primary Government

#### *Litigation*

In the normal course of business, there are various claims and lawsuits pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss, if any, of all claims and lawsuits will not materially affect the City's financial position. With the exception of workers' compensation and health insurance, the City purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2015.

#### *Grants*

The City participates in various federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors. Any liability for reimbursement of

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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unallowed costs, which may arise as a result of these audits, if any, would not materially affect the City's financial position.

### *Contract Commitments*

During the year ended December 31, 2015, the City, through the Capital Projects Fund, entered into contracts with construction contractors totaling \$4,701,746. The commitment remaining on the contracts at December 31, 2015 was \$2,314,188.

During the year ended December 31, 2015, the Sewer Fund contracted for pumping stations upgrades and maintenance. As a result of this, the City entered into contracts with construction contractors totaling \$20,827,340. The commitment remaining on the contracts at December 31, 2015 was \$7,434,951.

During the year ended December 31, 2015, 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 \$6,817,661. The commitment remaining on the contracts at December 31, 2015 was \$2,029,229.

During the year ended December 31, 2015, the Stormwater Fund contracted to make necessary capital improvements to the stormwater system. As a result of this, the City entered into contracts with construction contractors totaling \$5,153,882. The commitment remaining on the contracts at December 31, 2015 was \$839,398.

### *Guarantee*

The City is guarantor of the outstanding revenue bonds of the Parking Authority. As of December 31, 2015, the outstanding bonds amounted to \$24,585,000. In accordance with the Guaranty Agreement, the City is required to make principal and interest payments on the bonds if the Parking Authority fails to generate sufficient revenues to pay debt service. In accordance with the Reimbursement Agreement, if such payments are made by the City, the Parking Authority is required to reimburse the City from any monies available for that purpose under the Trust Indenture.

The City is guarantor of certain bonds of the Redevelopment Authority. The Redevelopment Authority issued \$12 million Bonds under the State's Infrastructure and Facilities Improvement Program Grant. The City has guaranteed the debt service payments due and owing under the Bonds. The Redevelopment Authority is expected to use its annual grant from the State to pay the debt service. In the event of a shortfall in the grant amount, the City is liable under the Guaranty agreement for payment of the shortfall in the annual debt service payment. Additionally, the Redevelopment Authority issued \$24 million in Bonds under a

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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lease agreement with Penn Square Partners. The City has guaranteed, on a limited basis, the debt service payments due and owing under the bonds. The guarantee is limited to the shortfall in any debt service payment owed by the Redevelopment Authority as the result of a shortfall in amounts available to the Redevelopment Authority under the lease because the Redevelopment Authority must apply amounts to the payment of real estate taxes on the property subject to the lease. If the property is determined to be taxable, then the lease rental payments will not be sufficient to meet the debt service obligations if the taxes have to be paid by the Redevelopment Authority. In that case, the City would be liable for payment of the shortfall in the debt service payments per the terms of the limited guaranty.

During the year ended December 31, 2015, the City guaranteed the CRIZ's Tax Revenue Bond, Series of 2015 in the aggregate principal amount of \$6,080,000. In accordance with the Guaranty Agreement, the City is required to replenish the debt service reserve fund in order to maintain the appropriate required reserve amount of \$445,200 from 2016 through 2041. Under the Reimbursement Agreement, the CRIZ agrees to reimburse the City, on demand, any amount paid by the City under the Guaranty Agreement, plus an additional amount equal to any reasonable charges and expenses incurred by the City.

The City was not required to make payments under any of the above guarantees during the year ended December 31, 2015.

### **Component Units**

#### *LIDA*

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

As of December 31, 2015, there were bonds and notes issued and outstanding of \$163,797,483.

#### *Parking Authority*

In 2007, the Parking Authority entered into a lease agreement with Penn Square Partners. The lease provides Penn Square Partners with 300 guaranteed spaces, and the option to

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

modify the Penn Square Garage. All modifications are to be paid by the Parking Authority upon approval and are then reimbursed by the lessee. In the event of lease termination or cancellation, the lessee is responsible for all expenses required to revert the Penn Square Garage to its original form that existed prior to the lease agreement.

In 2015, the Parking Authority entered into a lease agreement with Hotel Lancaster. The lease provides Hotel Lancaster with 134 guaranteed spaces. The term of the agreement is for five years, with an option to extend for two additional five-year terms subject to the Authority's right to increase the rent space based upon then existing market conditions.

### *Redevelopment Authority*

The just compensation of properties acquired by the Redevelopment Authority under the power of eminent domain may be subject to change. Such changes could take place in the event of a court-mandated change in the estimated value of the property. The amount of pending changes, if any, cannot be determined at this time. Based on current facts and circumstances, the Redevelopment Authority has determined that it is probable that additional just compensation will be required on the following properties and has accrued the following amounts as of December 31, 2015:

Property	Accrued Loss
434 East Strawberry Street	\$ 10,000
437 Chambers Street	31,000
615 East Marion Street	28,000
433 East Strawberry Street	5,000
349 East Frederick Street	28,000
20 Hager Street	15,000
453 South Queen Street	14,000
	<u>\$ 131,000</u>

## **21. NEGATIVE NET POSITION OF PROPRIETARY FUNDS**

As of December 31, 2015, LOOP (other enterprise fund) had a deficit in net position totaling \$27,786. Since LOOP was established, it has operated as a separate 501(c)(3) organization with its financial management performed within the City's accounting system and management oversight provided by the Mayor's Office and Director of Economic Development and Neighborhood Revitalization (EDNR). It has proven difficult to fully fund LOOP operations (including personnel costs) through sponsorships and other fundraising methods as originally intended. Additionally, with the opening of the Lancaster City Visitor Center in July 2016, the mission of LOOP as an organization has changed significantly since

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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it was established. Due to these and other factors, beginning in 2017 LOOP operations and personnel will be accounted for in the City's General Fund budget and LOOP will be considered a bureau within the Department of EDNR.

In addition to sewer rate increases for inside City customers in 2010 (10%), 2011 (20%), and 2012 (35%), City Council approved a 10% increase for inside City customers effective in January 2016. The Pennsylvania Public Utility Commission (PUC) also 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 Management Fund (SWMF) as a new enterprise fund with its own dedicated revenue source (stormwater management fees). The creation of the SWMF 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 SWMF has incrementally improved the Sewer Fund's operating budget results 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. At year-end 2015, the City's bulk sewer treatment expense dispute with the Lancaster Area Sewer Authority was still unresolved and continued to be a drag on Sewer Fund revenues and cash flow.

In the Water Fund, a series of inside City rate increases and a nearly 75% increase in rates for outside City customers approved by the PUC in July 2011 had begun to gradually improve operating results and cash flow. Following the lengthy PUC review process for an outside City customer rate increase proposal filed in 2014, 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. An additional rate increase of 7% for inside City customers was approved by City Council in January 2016.

In April of 2016, the City refinanced the 2007 General Obligation Bonds, the largest portion of which were issued to fund major improvements to the two City water filtration plants.

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# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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The refinancing took advantage of historically low interest rates to net a total savings to the Water Fund of approximately \$7.5 million, including \$3.2 million in savings in 2016 and about \$1.5 million in savings in each of the following three years (2017, 2018, and 2019).

## 22. SUBSEQUENT EVENTS

### Primary Government

During 2016, the City borrowed \$4,000,000 in the form of a Tax and Revenue Anticipation Note, Series of 2016, bearing interest at a fixed interest rate of 1.95%. The full amount borrowed was repaid in March of 2016. The maximum principal amount of the Tax and Revenue Anticipation Note, Series of 2016 was \$6,000,000.

On April 7, 2016, the City issued General Obligation Bonds, Series of 2016, in the aggregate amount of \$118,820,000. Bond proceeds are to be used to advance refund the General Obligation Bonds, Series of 2007. The bonds bear interest ranging from 3.00% to 5.00% until maturity on November 1, 2046. The principal will be allocated as follows: \$12,900,000 to General Fund, \$7,000,000 to Sewer Fund, and \$98,920,000 to Water Fund.

### Component Units

#### *Parking Authority*

In February 2016, the Parking Authority issued Guaranteed Parking Revenue Bonds, Series of 2016 (Series 2016 Bonds) in the amount of \$19,530,000. Bond proceeds are to be used for (1) advance refunding a portion of the 2007 Series A Bonds; (2) construction of improvements to the Parking Authority's facilities; and (3) the payment of the issuance costs of the Series 2016 Bonds. Principal on the Series 2016 Bonds is payable annually, and commences on December 1, 2017. Interest on the Series 2016 Bonds is payable semiannually, bearing interest at a fixed rate of 2.85% from June 1, 2016 through December 1, 2026. Thereafter, the Series 2016 Bonds will bear interest at a variable rate equal to 85% of the prime rate until maturity on December 1, 2036, provided that such variable rate shall not exceed 3.95%.



REQUIRED  
SUPPLEMENTARY  
INFORMATION

# CITY OF LANCASTER, PENNSYLVANIA

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

### SCHEDULE OF CHANGES IN FIRE PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS

	2015*	2014*
<b>Total Pension Liability:</b>		
Service cost	\$ 668,547	\$ 646,693
Interest	3,963,234	3,820,058
Changes for experience	(658,793)	-
Benefit payments, including refunds	(3,517,597)	(3,163,900)
<b>Net Changes in Total Pension Liability</b>	455,391	1,302,851
<b>Total Pension Liability - Beginning</b>	52,077,188	50,774,337
<b>Total Pension Liability - Ending (a)</b>	\$ 52,532,579	\$ 52,077,188
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 2,059,043	\$ 1,623,658
Contributions - employees	290,678	293,263
Net investment income	531,376	3,312,384
Benefit payments, including refunds	(3,517,597)	(3,163,900)
Administrative expense	(32,701)	(5,690)
<b>Net Change in Plan Fiduciary Net Position</b>	(669,201)	2,059,715
<b>Plan Fiduciary Net Position - Beginning</b>	39,043,422	36,983,707
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 38,374,221	\$ 39,043,422
<b>Net Pension Liability - Ending (a-b)</b>	\$ 14,158,358	\$ 13,033,766
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	73.05%	74.97%
<b>Covered Employee Payroll</b>	\$ 4,521,715	\$ 4,122,312
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	313.12%	316.18%

\* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plans.



**CITY OF LANCASTER, PENNSYLVANIA**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -**  
**PENSION PLANS**

**SCHEDULE OF CHANGES IN POLICE PENSION PLAN'S**  
**NET PENSION LIABILITY AND RELATED RATIOS**

	2015*	2014*
<b>Total Pension Liability:</b>		
Service cost	\$ 1,725,052	\$ 1,755,477
Interest	6,375,804	6,117,633
Changes for experience	(613,024)	-
Benefit payments, including refunds	(4,176,983)	(3,828,043)
<b>Net Changes in Total Pension Liability</b>	3,310,849	4,045,067
<b>Total Pension Liability - Beginning</b>	80,674,018	76,628,951
<b>Total Pension Liability - Ending (a)</b>	\$ 83,984,867	\$ 80,674,018
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 2,748,596	\$ 2,439,350
Contributions - employees	636,599	723,981
Net investment income	809,462	5,207,899
Benefit payments, including refunds	(4,176,983)	(3,828,043)
Administrative expense	(11,344)	(4,540)
<b>Net Change in Plan Fiduciary Net Position</b>	6,330	4,538,647
<b>Plan Fiduciary Net Position - Beginning</b>	62,484,419	57,945,772
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 62,490,749	\$ 62,484,419
<b>Net Pension Liability - Ending (a-b)</b>	\$ 21,494,118	\$ 18,189,599
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	74.41%	77.45%
<b>Covered Employee Payroll</b>	\$ 10,972,837	\$ 10,707,385
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	195.88%	169.88%

\* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plans.

# CITY OF LANCASTER, PENNSYLVANIA

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

### SCHEDULE OF CHANGES IN CASH BALANCE PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS

	2015*	2014*
<b>Total Pension Liability:</b>		
Service cost	\$ 542,160	\$ 533,032
Interest	1,096,819	1,048,689
Changes for experience	(184,304)	-
Benefit payments, including refunds	(934,559)	(595,063)
	520,116	986,658
<b>Net Changes in Total Pension Liability</b>		
<b>Total Pension Liability - Beginning</b>	14,733,676	13,747,018
<b>Total Pension Liability - Ending (a)</b>	\$ 15,253,792	\$ 14,733,676
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 900,704	\$ 697,517
Net investment income	139,124	854,651
Benefit payments, including refunds	(934,559)	(595,063)
Administrative expense	(27,730)	(24,140)
	77,539	932,965
<b>Net Change in Plan Fiduciary Net Position</b>		
<b>Plan Fiduciary Net Position - Beginning</b>	10,740,515	9,807,550
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 10,818,054	\$ 10,740,515
<b>Net Pension Liability - Ending (a-b)</b>	\$ 4,435,738	\$ 3,993,161
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	70.92%	72.90%
<b>Covered Employee Payroll</b>	\$ 14,312,665	\$ 13,618,505
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	30.99%	29.32%

\* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plans.

**CITY OF LANCASTER, PENNSYLVANIA**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -**  
**PENSION PLANS**

**SCHEDULE OF CHANGES IN PARKING AUTHORITY PENSION**  
**PLAN'S NET PENSION ASSET AND RELATED RATIOS**

	2015*
<b>Total Pension Liability:</b>	
Service cost	\$ 34,602
Interest	70,961
Benefit payments, including refunds	(137,991)
Differences between expected and actual experience	3,085
	(29,343)
<b>Net Changes in Total Pension Liability</b>	(29,343)
<b>Total Pension Liability - Beginning</b>	1,323,671
<b>Total Pension Liability - Ending (a)</b>	\$ 1,294,328
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 7,687
Contributions - employees	16,561
Net investment income	104,945
Benefit payments, including refunds	(137,991)
Administrative expense	(3,843)
	(12,641)
<b>Net Change in Plan Fiduciary Net Position</b>	(12,641)
<b>Plan Fiduciary Net Position - Beginning</b>	1,497,069
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 1,484,428
<b>Net Pension Liability (Asset) - Ending (a-b)</b>	\$ (190,100)
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	114.7%
<b>Covered Employee Payroll</b>	\$ 396,954
<b>Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll</b>	-47.89%

\* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Parking Authority is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plans.

**CITY OF LANCASTER, PENNSYLVANIA**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -**  
**PENSION PLANS**  
**SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS -**  
**FIRE PENSION PLAN**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Schedule of City Contributions</b>										
Actuarially determined contribution under Act 205	\$ 2,059,043	\$ 1,623,658	\$ 1,623,453	\$ 1,075,765	\$ 1,154,230	\$ 1,068,751	\$ 1,002,631	\$ 980,923	\$ 527,673	\$ 643,594
Contributions in relation to the actuarially determined contribution	<u>2,059,043</u>	<u>1,623,658</u>	<u>1,623,453</u>	<u>1,075,765</u>	<u>1,154,230</u>	<u>1,183,751</u> (1)	<u>1,002,631</u>	<u>980,923</u>	<u>527,673</u>	<u>6,284,151</u> (2)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (115,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,640,557)</u>
Covered employee payroll	<u>\$ 4,521,715</u>	<u>\$ 4,122,312</u>								
Contributions as a percentage of covered employee payroll	45.54%	39.39%								

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

(2) Includes contributions received from the Commonwealth of Pennsylvania and 2006 pension bond issue proceeds

**Investment Returns**

Annual money-weighted rate of return, net of investment expense	1.30%	9.42%
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\* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompany note to required supplementary information - pension plans.

**CITY OF LANCASTER, PENNSYLVANIA**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -**  
**PENSION PLANS**  
**SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS -**  
**POLICE PENSION PLAN**

<u>Schedule of City Contributions</u>	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution under Act 205	\$ 2,748,596	\$ 2,439,350	\$ 2,427,282	\$ 1,718,841	\$ 1,732,970	\$ 1,618,199	\$ 1,565,272	\$ 1,542,197	\$ 1,032,228	\$ 1,182,982
Contributions in relation to the actuarially determined contribution	2,748,596	2,439,350	2,427,282	1,718,841	1,732,970	2,588,199 (1)	1,565,272	1,542,197	1,032,228	8,848,168 (2)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (970,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,665,186)</u>
Covered employee payroll	<u>\$ 10,972,837</u>	<u>\$ 10,707,385</u>								
Contributions as a percentage of covered employee payroll	25.05%	22.78%								

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

(2) Includes contributions received from the Commonwealth of Pennsylvania and 2006 pension bond issue proceeds

<u>Investment Returns</u>	2015	2014
Annual money-weighted rate of return, net of investment expense	1.22%	9.29%

\* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plans.

**CITY OF LANCASTER, PENNSYLVANIA**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -**  
**PENSION PLANS**

**SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS -**  
**CASH BALANCE PENSION PLAN**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Schedule of City Contributions</b>										
Actuarially determined contribution under Act 205	\$ 900,704	\$ 697,516	\$ 658,895	\$ 516,512	\$ 504,280	\$ 499,125	\$ 475,248	\$ 459,603	\$ 410,346	\$ 421,948
Contributions in relation to the actuarially determined contribution	<u>900,704</u>	<u>697,517</u>	<u>658,895</u>	<u>516,512</u>	<u>504,280</u>	<u>499,125</u>	<u>475,248</u>	<u>459,603</u>	<u>410,346</u>	<u>421,948</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 14,312,665</u>	<u>\$ 13,618,505</u>								
Contributions as a percentage of covered employee payroll	6.29%	5.12%								
<b>Investment Returns</b>										
Annual money-weighted rate of return, net of investment expense	1.23%	8.89%								

\* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plans.

**CITY OF LANCASTER, PENNSYLVANIA**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -**  
**PENSION PLANS**

**SCHEDULE OF PARKING AUTHORITY CONTRIBUTIONS AND INVESTMENT RETURNS**

	<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution under Act 205	\$ 6,907	\$ 2,736	\$ 14,139	\$ 13,371	\$ 10,008	\$ 5,479	\$ 7,369	\$ 1,707	\$ -	\$ -
Contribution in relation to the actuarially determined contribution	<u>7,687</u>	<u>2,736</u>	<u>14,139</u>	<u>13,371</u>	<u>10,008</u>	<u>5,479</u>	<u>7,369</u>	<u>1,707</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ (780)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 396,954</u>									
Contributions as a percentage of covered employee payroll	1.94%									

\* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Parking Authority is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension plans.

# CITY OF LANCASTER, PENNSYLVANIA

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

### PENSION PLANS

#### 1. ACTUARIAL METHODS AND ASSUMPTIONS

##### Primary Government

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Methods and assumptions used to determine contribution rates for the FPP, PPP, and CBPP required under Act 205 are as follows:

	FPP	PPP	CBPP
Actuarial valuation date	1/1/2013	1/1/2013	1/1/2013
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed	Level dollar closed
Remaining amortization period	9 years	13 years	15 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:			
Investment rate of return	8.0%	8.0%	6.5-7.5%
Projected salary increases	5.0%	5.0%	5.0%
Underlying inflation rate	3.0%	3.0%	3.0%
Mortality table	RP2000 mortality table	RP2000 mortality table	RP2000 mortality table



**CITY OF LANCASTER, PENNSYLVANIA**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLANS**

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**Component Units**

**Lancaster Parking Authority**

The information presented in the required supplementary information was determined as part of the actuarial valuation at the date indicated. Methods and assumptions used to determine the contribution rate required under Act 205 for the year ended December 31, 2014 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	age related scale with merit and inflation component
Underlying inflation rate	3.0%
Cost-of-living adjustment increase	3.0%
Pre-retirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Post-retirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

# CITY OF LANCASTER, PENNSYLVANIA

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS - OPEB

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)
1/1/2010	\$ -	\$ 105,985,918	\$ 105,985,918	0.00%	\$ 27,660,157	383.17%
1/1/2012	-	113,807,524	113,807,524	0.00%	25,591,950	444.70%
1/1/2014	1,459,923	128,129,913	126,669,990	1.14%	26,808,050	472.51%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB

Year	Annual Required Contribution	Percentage Contributed
2010	\$ 11,143,003	29.59%
2011	11,143,003	33.07%
2012	11,404,542	39.01%
2013	11,404,542	42.30%
2014	13,361,116	37.72%
2015	13,361,116	38.37%

**CITY OF LANCASTER, PENNSYLVANIA**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Taxes:</b>				
Real estate taxes, net of discount	\$ 26,545,000	\$ 26,545,000	\$ 26,718,245	\$ 173,245
Real estate transfer tax	510,000	510,000	726,696	216,696
Penalties, interest, and costs on delinquent real estate taxes	97,000	97,000	123,573	26,573
Earned income tax	5,250,000	5,250,000	5,523,750	273,750
Local services tax	1,700,000	1,700,000	1,684,523	(15,477)
<b>Total taxes</b>	<b>34,102,000</b>	<b>34,102,000</b>	<b>34,776,787</b>	<b>674,787</b>
<b>Intergovernmental revenues:</b>				
Grants	90,000	90,000	54,866	(35,134)
PA state reimbursement	-	-	41,722	41,722
Pension state aid	2,671,180	2,671,180	2,336,130	(335,050)
Public utility reality tax	39,438	39,438	36,626	(2,812)
Alcohol beverage tax	33,000	33,000	55,800	22,800
<b>Total intergovernmental revenues</b>	<b>2,833,618</b>	<b>2,833,618</b>	<b>2,525,144</b>	<b>(308,474)</b>
Licenses and permits	2,087,000	2,087,000	2,175,967	88,967
Fines and forfeitures	2,375,000	2,375,000	2,140,449	(234,551)
Rents and charges for services	1,378,500	1,378,500	1,405,836	27,336
Investment income	350	350	226	(124)
Miscellaneous	2,211,405	2,271,405	2,369,734	98,329
<b>Other financing sources:</b>				
Interfund reimbursements	2,613,274	2,613,274	2,576,546	(36,728)
Sale of general capital assets	25,000	1,023,768	1,032,987	9,219
Transfers in	3,500,000	3,500,000	3,500,000	-
<b>Total other financing sources</b>	<b>6,138,274</b>	<b>7,137,042</b>	<b>7,109,533</b>	<b>(27,509)</b>
<b>Total revenues and other financing sources</b>	<b>\$ 51,126,147</b>	<b>\$ 52,184,915</b>	<b>\$ 52,503,676</b>	<b>\$ 318,761</b>

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

**CITY OF LANCASTER, PENNSYLVANIA**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES**  
**YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Executive department:				
Office of the Mayor	\$ 215,232	\$ 225,570	\$ 225,181	\$ 389
Office of the City Solicitor	375,000	364,662	302,990	61,672
	<u>590,232</u>	<u>590,232</u>	<u>528,171</u>	<u>62,061</u>
Legislative department:				
Office of the City Council	62,000	62,000	59,902	2,098
Office of the City Clerk	69,178	69,178	66,110	3,068
	<u>131,178</u>	<u>131,178</u>	<u>126,012</u>	<u>5,166</u>
Office of the City Treasurer/Controller	<u>17,000</u>	<u>17,000</u>	<u>17,000</u>	<u>-</u>
Administrative services:				
Bureau of Accounting	745,338	739,791	710,437	29,354
Bureau of Procurement and Collections	130,606	131,204	122,684	8,520
Bureau of Human Resources	333,700	338,000	324,729	13,271
Bureau of Information Services	437,746	619,396	488,092	131,304
Community Involvement	548,156	554,729	440,276	114,453
Insurance	786,500	786,500	749,606	36,894
Fringe benefits	2,787,457	2,964,403	2,718,011	246,392
	<u>5,769,503</u>	<u>6,134,023</u>	<u>5,553,835</u>	<u>580,188</u>
Public safety:				
Bureau of Police	22,204,581	22,159,879	21,274,341	885,538
Bureau of Fire	11,045,712	10,974,809	10,523,470	451,339
	<u>33,250,293</u>	<u>33,134,688</u>	<u>31,797,811</u>	<u>1,336,877</u>
Economic development and neighborhood revitalization:				
Office of the Director	1,306,883	1,297,190	1,091,707	205,483
Bureau of Housing and Structural Inspection	1,036,932	1,042,283	1,002,226	40,057
Bureau of Neighborhood Revitalization	124,374	124,374	124,921	(547)
Bureau of Planning	265,377	269,719	261,321	8,398
	<u>2,733,566</u>	<u>2,733,566</u>	<u>2,480,175</u>	<u>253,391</u>
Public works:				
Office of the Director	1,045,594	1,035,364	1,029,600	5,764
Bureau of Engineering	422,909	424,169	381,355	42,814
Bureau of Streets:				
Administration	190,457	180,457	172,868	7,589
Maintenance	475,838	423,289	379,617	43,672
Traffic	973,659	1,014,109	1,007,616	6,493
Motor Vehicles	213,311	213,311	208,680	4,631
Bureau of Parks:				
Administration	177,850	185,400	167,032	18,368
Buildings	1,056,804	1,038,332	977,559	60,773
Parks	405,101	431,441	407,607	23,834
Trees	190,234	191,334	188,380	2,954
Central Market building	129,500	128,820	114,367	14,453
Southern Market building	146,891	154,211	144,480	9,731
	<u>5,428,148</u>	<u>5,420,237</u>	<u>5,179,161</u>	<u>241,076</u>
Other financing uses:				
Transfers out	4,748,139	5,565,907	5,396,046	169,861
Total expenditures and other financing uses	<u>\$ 52,668,059</u>	<u>\$ 53,726,831</u>	<u>\$ 51,078,211</u>	<u>\$ 2,648,620</u>

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

# CITY OF LANCASTER, PENNSYLVANIA

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2015

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#### 1. BUDGETARY BASIS OF ACCOUNTING

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

#### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

##### *Excess of Expenditures Over Appropriations*

	<u>Appropriation</u>	<u>Expenditures</u>
Economic development and neighborhood revitalization:		
Bureau of Neighborhood Revitalization	\$ 124,374	\$ 124,921

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