

City of Lancaster
Police Pension Fund
Financial Statements and Required
Supplementary Information

Years Ended December 31, 2015 and 2014 with
Independent Auditor's Report

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CITY OF LANCASTER POLICE PENSION FUND

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Police Pension Fund of the City of Lancaster as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Police Pension Fund of the City of Lancaster as of December 31, 2015 and 2014, and the changes in the financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the historical pension plan information on pages 11 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Police Pension Fund and do not purport to, and do not, present fairly the financial position of the City of Lancaster, as of December 31, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Maher Duessel

Harrisburg, Pennsylvania
September 15, 2016

CITY OF LANCASTER POLICE PENSION FUND

STATEMENTS OF PLAN NET POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
Assets		
Investments (at fair value):		
Money market funds	\$ 2,847,758	\$ 3,934,517
U.S. government obligations	6,800,892	6,335,716
U.S. government agency obligations	87,947	126,733
Corporate notes and bonds	11,632,499	11,569,114
Common stock	41,392,481	40,331,431
Accrued interest	159,368	186,908
Total Assets	62,920,945	62,484,419
Liabilities		
Unsettled investment purchases	430,196	-
Net Position		
Restricted for pension benefits	\$ 62,490,749	\$ 62,484,419

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

CITY OF LANCASTER POLICE PENSION FUND

STATEMENTS OF CHANGES IN PLAN NET POSITION YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Additions:		
Contributions:		
Employees	\$ 636,599	\$ 723,981
Employer	2,748,596	2,439,350
Total contributions	3,385,195	3,163,331
Investment income:		
Net appreciation (depreciation) in fair value of investments	(499,424)	3,784,153
Interest and dividends	1,582,789	1,687,351
Less: investment expenses	1,083,365 (273,903)	5,471,504 (263,605)
Net investment income	809,462	5,207,899
Total additions	4,194,657	8,371,230
Deductions:		
Benefits	4,176,983	3,828,043
Administrative expenses	11,344	4,540
Total deductions	4,188,327	3,832,583
Change in Plan Net Position	6,330	4,538,647
Net Position:		
Beginning of year	62,484,419	57,945,772
End of year	\$ 62,490,749	\$ 62,484,419

The accompanying notes are integral part of these financial statements.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Basis of Accounting

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

Investments

Investments are recorded at fair value. Securities traded on a national exchange are valued at quoted market prices.

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.

Use of Estimates

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

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Pending Changes in Accounting Principles

In February of 2015, the Governmental Accounting Standards Board (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 Fund's December 31, 2016 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 Fund's December 31, 2016 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 Fund's December 31, 2017 financial statements.

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

2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Plan Participants

Membership of the Plan consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Inactive plan members or beneficiaries currently receiving benefits	162	159
Inactive plan members entitled to but not yet receiving benefits	-	5
Active plan members	<u>140</u>	<u>143</u>
	<u>302</u>	<u>307</u>

Plan Description and Administration

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

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through the collective bargaining process. The Plan is governed by City of Lancaster Police Pension Board (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.

Normal Retirement

A participant is eligible for normal retirement after completion of 25 years of services. Retirement is mandatory upon the attainment of age 60. 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 equal to 100% (75% if hired before January 1, 2003) of the initial amount payable to the participant.

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

Survivor Benefit

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 member is equal to 2½% 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.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Contributions

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. Plan 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 annual required contribution is determined annually during the budgeting process. The results of actuarial valuations are used in budgeting for future years.

The City made contributions to the Plan of \$2,748,596 and \$2,439,350 for the years ended December 31, 2015 and 2014, respectively.

Administrative Expenses

Administration costs are financed through investment income.

Net Pension Liability

The components of the net pension liability at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 83,984,867	\$ 80,674,018
Plan fiduciary net position	<u>(62,490,749)</u>	<u>(62,484,419)</u>
Net pension liability	<u>\$ 21,494,118</u>	<u>\$ 18,189,599</u>
Plan fiduciary net position as a percentage of the total pension liability	74.41%	77.45%

The net pension liability was measured as of December 31, 2015 and 2014 and was determined by rolling forward the liabilities from actuarial valuations as of January 1, 2015 and January 1, 2013, respectively. No significant events or changes occurred between the valuation dates and the fiscal year-ends.

Actuarial Assumptions – The January 1, 2015 actuarial valuation used the entry age normal actuarial cost method and RP2000 mortality table. The actuarial assumptions include: a)

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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) 12-year remaining amortization period. These assumptions were applied to all periods included in the measurement of total pension liability. The January 1, 2013 actuarial assumptions were consistent with the January 1, 2015 assumptions with the exception of the amortization period, which was 13 years.

Investment Policy – The Plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board. The Board seeks to optimize the total return of the Plan’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 Plan 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 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 as of December 31, 2015 and 2014 are summarized in the following table:

	2015 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%	

	2014 Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	65.0%	7.0%
Fixed income	29.0%	2.5%
Cash	6.0%	0.0%
	100.0%	

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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 years ended December 31, 2015 and 2014, the annual money-weighted rate of return on Plan investments, net of investment expense, were 1.22% and 9.29%, respectively.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2015 and 2014 was 8.00%. The Plan’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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the 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:

December 31, 2015:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 31,876,693	\$ 21,494,118	\$ 12,793,482

December 31, 2014:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 28,293,476	\$ 18,189,599	\$ 9,731,004

3. DEPOSITS AND INVESTMENTS

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

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Investments consist of the following as of December 31:

	2015	2014
Money market funds	\$ 2,847,758	\$ 3,934,517
U.S. government obligations	6,800,892	6,335,716
U.S. government agency obligations	87,947	126,733
Corporate notes and bonds	11,632,499	11,569,114
Common stock	41,392,481	40,331,431
Total investments	\$ 62,761,577	\$ 62,297,511

Custodial Credit Risk. Custodial credit risk is the risk that the financial institution or the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Fund does not have an investment policy for custodial credit risk. All of the Fund's investments are uninsured, registered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Fund's name.

Concentration of Credit Risk. The Fund places no limit on the amount the Fund may invest in any one issuer. At December 31, 2015, none of the Fund's investments were more than five percent of the Fund's total asset value.

Credit Risk. The Fund does not have a formal policy that would limit its investment choices with regard to credit risk. The Fund's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2015:

	Fair Value	Rating
Money market funds	\$ 2,847,758	AA
U.S. government agency obligations	87,947	AA+
Corporate notes and bonds	1,229,149	AAA
Corporate notes and bonds	289,461	AA+
Corporate notes and bonds	699,049	AA
Corporate notes and bonds	3,675,566	AA-
Corporate notes and bonds	1,504,344	A+
Corporate notes and bonds	1,976,035	A
Corporate notes and bonds	2,258,895	A-

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Interest Rate Risk. The Fund does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average maturity of the Fund's money market funds at December 31, 2015 was less than one year. The average maturities for the Fund's fixed income investments as of December 31, 2015 were as follows:

	Fair Value	Investment Maturity			
		2016	2017-2021	2022-2026	Subsequent to 2026
U.S. government obligations	\$ 6,800,892	\$ 6,186,611	\$ 488,549	\$ 125,732	\$ -
U.S. government agency obligations	87,947	1,942	1,324	22,935	61,746
Corporate notes and bonds	11,632,499	-	9,707,018	1,925,481	-
	<u>\$ 18,521,338</u>	<u>\$ 6,188,553</u>	<u>\$ 10,196,891</u>	<u>\$ 2,074,148</u>	<u>\$ 61,746</u>

**Required Supplementary
Information**

CITY OF LANCASTER POLICE PENSION FUND

SCHEDULE OF CHANGES IN PLAN NET PENSION LIABILITY AND RELATED RATIOS

	2015*	2014*
Total Pension Liability:		
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)
Net Changes in Total Pension Liability	3,310,849	4,045,067
Total Pension Liability - Beginning	80,674,018	76,628,951
Total Pension Liability - Ending (a)	\$ 83,984,867	\$ 80,674,018
Plan Fiduciary Net Position:		
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)
Net Change in Plan Fiduciary Net Position	6,330	4,538,647
Plan Fiduciary Net Position - Beginning	62,484,419	57,945,772
Plan Fiduciary Net Position - Ending (b)	\$ 62,490,749	\$ 62,484,419
Net Pension Liability - Ending (a-b)	\$ 21,494,118	\$ 18,189,599
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.41%	77.45%
Covered Employee Payroll	\$ 10,972,837	\$ 10,707,385
Net Pension Liability as a Percentage of Covered Employee Payroll	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 plan.

CITY OF LANCASTER POLICE PENSION FUND

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS

<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	<u>2,748,596</u>	<u>2,439,350</u>	<u>2,427,282</u>	<u>1,718,841</u>	<u>1,732,970</u>	<u>2,588,199 (1)</u>	<u>1,565,272</u>	<u>1,542,197</u>	<u>1,032,228</u>	<u>8,848,168 (2)</u>
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

Investment Returns

Annual money-weighted rate of return, net of investment expense	1.22%	9.29%
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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 accompanying note to required supplementary information - pension plan.

CITY OF LANCASTER POLICE PENSION FUND

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

1. ACTUARIAL METHODS AND ASSUMPTIONS

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 required under Act 205 are as follows:

Contribution Year	12/31/2015	12/31/2014
Actuarial valuation date	1/1/2013	1/1/2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	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 70% to 130% of market value
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases	5.0%	5.0%
Underlying inflation rate	3.0%	3.0%
Mortality table	RP2000 mortality table	RP2000 mortality table