City of Lancaster Water Fund

Financial Statements and Required Supplementary Information

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

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

CITY OF LANCASTER WATER FUND

YEARS ENDED DECEMBER 31, 2015 AND 2014

TABLE OF CONTENTS

MaherDuessel
Certified Public Accountants

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

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

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Water 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 Water Fund of the City of Lancaster as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, 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 financial statements. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

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

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Fund and do not purport to, and do not present fairly the financial position of the City of Lancaster, as of December 31, 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 WATER FUND

BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	2015	(Restated) 2014
Assets and Deferred Outflows of Resources		
Assets:		
Current assets:		
Cash and cash equivalents	$ 550	$ 550
Cash and cash equivalents - restricted	28,091,306	33,121,023
Receivables:		
Water rents	1,929,159	1,566,911
Unbilled water rents	2,308,840	1,735,536
Other	17,071	11,514
Prepaid expenses	254,317	1,407
Total current assets	32,601,243	36,436,941
Long-term assets:		
Prepaid debt insurance	835,701	906,264
Capital assets, not being depreciated	4,481,596	3,531,483
Capital assets, being depreciated, net	139,362,052	137,590,499
Total long-term assets	144,679,349	142,028,246
Total Assets	177,280,592	178,465,187
Deferred Outflows of Resources:		
Deferred outflows of resources for pension	129,883	-
Deferred charge on refunding	1,550,908	1,752,715
Total Deferred Outflows of Resources	1,680,791	1,752,715
Total Assets and Deferred Outflows of Resources	$178,961,383	$180,217,902

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	2015	(Restated) 2014
Liabilities:		
Current liabilities:		
Accounts payable	$ 1,140,789	$ 1,400,126
Accrued expenses	1,112,330	1,189,476
Due to City of Lancaster General Fund	10,453,239	9,209,243
Compensated absences, current portion	21,614	19,498
Capital lease, current portion	141,809	88,986
Notes payable, current portion	467,200	1,022,027
Bonds payable, current portion	2,120,000	1,007,000
Total current liabilities	15,456,981	13,936,356
Long-term liabilities:		
Compensated absences, net of current portion	72,320	65,258
Net other post-employment liability	3,381,698	3,302,186
Net pension liability	1,109,944	1,001,747
Workers' compensation payable, net of current portion	4,397	-
Capital lease, net of current portion	234,056	142,040
Notes payable, net of current portion	10,228,800	10,410,675
Bonds payable, net of current portion	130,974,145	133,701,790
Total long-term liabilities	146,005,360	148,623,696
Total Liabilities	161,462,341	162,560,052
Deferred Inflows of Resources:		
Deferred inflows of resources for pension	41,591	-
Total Deferred Inflows of Resources	41,591	-
Net Position:		
Net investment in capital assets	29,900,889	29,995,105
Unrestricted	(12,443,438)	(12,337,255)
Total Net Position	17,457,451	17,657,850
Total Liabilities, Deferred Inflows of Resources, and Net Position	$178,961,383	$180,217,902

(Concluded)

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

CITY OF LANCASTER WATER FUND

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

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	(Restated) 2014
Operating Revenues:		
Water rents	24,776,350	20,052,600
Meter labor reimbursement	211,765	216,065
Miscellaneous revenue	513,798	482,186
Total operating revenues	25,501,913	20,750,851
Operating Expenses:		
Susquehanna treatment plant	2,741,640	2,641,726
Conestoga treatment plant	2,159,844	2,107,372
Transmission and distribution	1,358,857	1,414,533
Meters and meter labor	605,044	617,327
Laboratory	262,503	205,176
Depreciation	2,942,230	2,878,242
Administration	5,632,830	5,560,937
Grounds maintenance	395,669	365,042
Total operating expenses	16,098,617	15,790,355
Operating Income	9,403,296	4,960,496
Non-Operating Revenues (Expenses):		
State pension contribution	231,929	182,707
Investment income	40,869	15,022
Insurance recovery	-	230,829
Economic development contribution	(266,120)	-
Amortization expense	(70,562)	(73,274)
Interest expense	(6,301,219)	(6,563,804)
Total non-operating revenues (expenses)	(6,365,103)	(6,208,520)
Income (loss) before transfers and capital contributions	3,038,193	(1,248,024)
Transfers out	(3,492,002)	(2,743,751)
Capital contributions	253,410	393,874
Change in Net Position	(200,399)	(3,597,901)
Net Position:		
Beginning of year	17,657,850	21,255,751
End of year	$ 17,457,451	$ 17,657,850

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

CITY OF LANCASTER WATER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	(Restated) 2014
Cash Flows From Operating Activities:		
Cash received from users	$ 24,560,804	$ 20,867,609
Cash paid to suppliers	(8,244,209)	(7,824,980)
Cash paid to employees	(5,078,686)	(4,804,096)
Net cash provided by operating activities	11,237,909	8,238,533
Cash Flows From Investing Activities:		
Investment income received	40,869	15,022
Net cash provided by investing activities	40,869	15,022
Cash Flows From Capital and Related Financing Activities:		
Proceeds from bonds payable	-	27,798,139
Proceeds from note payable	556,000	-
Principal payments on capital lease	(88,985)	(97,156)
Principal payments on notes payable	(1,292,702)	(990,767)
Principal payments on bonds payable	(1,527,000)	(981,600)
Interest paid	(6,291,684)	(6,325,197)
Acquisition of capital assets	(5,381,927)	(4,973,080)
Net cash provided by (used in) capital and related financing activities	(14,026,298)	14,430,339
Cash Flows From Non-Capital Financing Activities:		
Transfers out	(3,492,002)	(2,743,751)
Economic development contribution	(266,120)	-
Due to City of Lancaster General Fund	1,243,996	2,414,197
State pension contribution	231,929	182,707
Net cash used in non-capital financing activities	(2,282,197)	(146,847)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,029,717)	22,537,047
Cash and Cash Equivalents:		
Beginning of year	33,121,573	10,584,526
End of year	$ 28,091,856	$ 33,121,573

(Continued)

CITY OF LANCASTER WATER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)

	2015	(Restated) 2014
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 9,403,296	$ 4,960,496
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,942,230	2,878,242
Amortization	29,000	-
Loss on disposal of capital assets	12,592	14,023
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables	(941,109)	116,758
Prepaid expenses	(252,910)	5,846
Deferred outflow of resources for pension	(162,354)	-
Accounts payable	20,360	116,430
Accrued expenses	(59,542)	45,562
Compensated absences	9,178	6,573
Workers' compensation payable	4,397	(25,869)
Net pension liability	108,197	14,878
Net other post-employment liability	79,512	105,594
Deferred inflow of resources for pension	45,062	-
Total adjustments	1,834,613	3,278,037
Net cash provided by operating activities	$ 11,237,909	$ 8,238,533
Noncash Capital Financing Activities:		
Issuance of capital lease	$ 233,824	$ 68,966
Developer contributions	$ 253,410	$ 393,874

(Concluded)

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

1. Significant Accounting Policies

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

Basis of Presentation and Accounting

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water Fund is charges for water. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Cash and Cash Equivalents

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

Capital Assets

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

Depreciation is computed using the composite remaining life method using the average life term of group assets.

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

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

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

Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest capitalized for the years ended December 31, 2015 and 2014 totaled $87,025 and $75,735, respectively.

Restricted Assets

The unexpended 2011 and 2014 bond proceeds as of December 31, 2015 and 2014 are included in the restricted assets.

Prepaid Debt Insurance/Deferred Charge on Refunding

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

Net Position

Net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category. Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this category. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the Water Fund that is not restricted for any project or other purpose.

Use of Estimates

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

Pension Plans

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

Deferred Inflows and Outflows of Resources for Pension

In conjunction with pension accounting requirements, the effect of the differences in the Water Fund's expected and actual experience and the difference between projected and actual earnings on pension plan investments are recorded as deferred inflows or outflows of resources related to pension on the financial statements. These amounts are determined based on the actuarial valuation performed for the pension plan. Note 6 presents additional information about the pension plan.

Adoption of Governmental Accounting Standards Board (GASB) Statements

The City has adopted 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."* These Statements revise and establish reporting requirements for most governments that provide their employees with pensions. As a result of adopting GASB Statement No. 68 and GASB Statement No. 71, the Water Fund's net position was restated as follows:

Net position at January 1, 2014 - as originally stated	$ 22,242,620
Net pension liability at January 1, 2014	(986,869)
Net position at January 1, 2014 - restated	$ 21,255,751

The net pension liability and its related components are described more fully in Note 6.

Pending Changes in Accounting Principles

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 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

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury obligations, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

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

A. Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Water Fund does not have a deposit policy for custodial credit risk.

The Water Fund pools certain deposits and investments with the City. At December 31, 2015 and 2014, the book balance of the pooled deposits was $48,195,690 and $60,340,669, respectively, and the bank balance was $50,183,103 and $61,980,426, respectively. The Water Fund's position in the pooled deposits was $28,091,306 and $33,121,023 at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the entire balance was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General

Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

3. Capital Assets

Capital asset activity for the years ended December 31, 2015 and 2014 is as follows:

	December 31, 2014	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2015
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	3,531,483	1,006,297	(56,184)	4,481,596
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	188,553,888	4,726,376	(113,541)	193,166,723
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	(50,963,389)	(2,942,230)	100,948	(53,804,671)
Capital assets being depreciated, net	137,590,499	1,784,146	(12,593)	139,362,052
Capital assets, net	$ 141,121,982	$ 2,790,443	$ (68,777)	$ 143,843,648

	December 31, 2013	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2014
Capital assets not being depreciated:				
Land	$ 2,564,600	$ -	$ -	$ 2,564,600
Construction-in-progress	365,955	700,258	(99,330)	966,883
Total capital assets, not being depreciated	2,930,555	700,258	(99,330)	3,531,483
Capital assets being depreciated:				
Water system	181,310,233	4,473,168	(29,153)	185,754,248
Equipment and vehicles	2,715,117	99,418	(14,895)	2,799,640
Total capital assets, being depreciated	184,025,350	4,572,586	(44,048)	188,553,888
Less accumulated depreciation for:				
Water system	(46,444,497)	(2,719,423)	15,129	(49,148,791)
Equipment and vehicles	(1,670,675)	(158,819)	14,896	(1,814,598)
Total accumulated depreciation	(48,115,172)	(2,878,242)	30,025	(50,963,389)
Capital assets being depreciated, net	135,910,178	1,694,344	(14,023)	137,590,499
Capital assets, net	$ 138,840,733	$ 2,394,602	$ (113,353)	$ 141,121,982

4. LONG-TERM LIABILITIES

A summary of long-term liabilities for the year ended 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	$ 96,460,000	General Obligation Bonds, 4.00% - 5.00%	$ 94,770,000
2009/2030	15,875,000	General Obligation Notes, 2.50% - 4.875%	10,140,000
2011/2041	11,260,000	General Obligation Bonds, 1.75% - 5.00%	9,675,000
2014/2044	27,235,000	General Obligation Bonds, 3.00% - 5.00%	27,235,000
2015/2028	556,000	General Obligation Note, 2.41%	556,000
			$ 142,376,000

Bonds Payable

In 1998, the City issued $61,915,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $26,185,000, bearing interest at rates ranging from 3.60% to 5.05%. The proceeds of the bond issuance were used to (i) finance the acquisition of the water system through the refunding of the Metropolitan Lancaster Authority's outstanding: (a) Water Revenue Bonds, Series of 1990; (b) Water Revenue Bonds, Series of 1992; (c) Water Project Notes, Series of 1997; and (d) Water Revenue Notes, Series of 1998. These bonds were currently refunded through the issuance of General Obligation Notes, Series of 2009.

In 2003, the City issued $9,995,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $800,000, bearing interest at rates ranging from 2.00% to 4.45%. The proceeds of the bond issuance were used to fund transmission and distribution projects. These bonds were currently refunded through the issuance of General Obligation Bonds, Series of 2010.

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

In 2010, the City issued $8,635,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $690,800. The bonds bear interest at rates ranging from 2.00% to 4.00%. The proceeds of the bond issuance were used to currently refund the General Obligation Bonds, Series of 2003. 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. The portion allocable to the Water Fund amounted to $11,260,000, bearing interest rates ranging from 1.75% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the water plant and various miscellaneous capital projects.

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

Notes Payable

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

In 2009, the City issued $43,990,000 of general obligation notes. The portion allocable to the Water Fund amounted to $15,875,000, bearing interest at rates ranging from 2.50% to 4.875%. The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series A of 1998, and to pay the termination costs of the Swaption agreement with Wachovia Bank.

In 2015, the City issued a general obligation note in the amount of $6,950,000. The portion allocable to the Water Fund amounted to $556,000, bearing a fixed interest rate of 2.41%. 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 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $542,000.

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

Year Ended December 31,	Principal Maturity	Interest Maturity	Total
2016	$ 2,587,200	$ 6,210,297	$ 8,797,497
2017	2,718,400	6,095,806	8,814,206
2018	2,834,600	5,974,166	8,808,766
2019	2,970,400	5,844,277	8,814,677
2020	3,111,200	5,703,769	8,814,969
2021-2025	17,872,400	26,356,396	44,228,796
2026-2030	22,041,800	22,255,993	44,297,793
2031-2035	22,890,000	17,423,225	40,313,225
2036-2040	27,200,000	12,124,525	39,324,525
2041-2045	32,135,000	5,606,675	37,741,675
2046	6,015,000	270,676	6,285,676
	$ 142,376,000	$ 113,865,805	$ 256,241,805

Capital Lease

In 2012 through 2015, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. As of December 31, 2015 and 2014, the Water Fund includes these vehicles and equipment at a cost of $719,822 and $481,333, respectively, with accumulated depreciation of $161,415 and $129,062, respectively.

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

Year Ended December 31,	Total
2016	$ 154,812
2017	106,976
2018	77,925
2019	63,202
Total minimum lease payments	402,915
Less amount representing interest	(27,050)
Present value of future minimum lease payments	$ 375,865

Changes in long-term liabilities for the years ended December 31, 2015 and 2014 are as follows:

	December 31, 2014	Increase	Decrease	December 31, 2015	Amount Due Within One Year
Bonds payable	$ 133,207,000	$ -	$ (1,527,000)	$ 131,680,000	$ 2,120,000
Unamortized premium	1,501,790	-	(87,645)	1,414,145	-
Notes payable	11,432,702	556,000	(1,292,702)	10,696,000	467,200
Capital lease	231,026	233,824	(88,985)	375,865	141,809
Compensated absences	84,756	547,375	(538,197)	93,934	21,614
Workers' compensation payable	-	4,397	-	4,397	-
	$ 146,457,274	$ 1,341,596	$ (3,534,529)	$ 144,264,341	$ 2,750,623

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

In conjunction with the Basis Swap transaction described in Note 5, the City received an upfront cash payment. This upfront cash payment received by the City was considered to be a borrowing at a rate of 4.4%. As of December 31, 2015 and 2014, the borrowing had an outstanding balance of $1,112,801 and $1,249,816, respectively, which is reflected in the governmental activities portion of the City's financial statement. Payments on the borrowing commenced on May 1, 2009, the date the Basis Swap became effective, and are scheduled to mature on May 1, 2028. 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 and $768,775 at December 31, 2015 and 2014, respectively.

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

Year Ended 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
	$ 1,112,801	$ 220,694	$ 1,333,495

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

5. Derivative Agreements

Objective of the interest rate swap agreement and terms. During the year ended December 31, 1998, the City issued its $61,915,000, aggregate principal amount, General Obligation Bonds, Series A of 1998 (the "Series A Bonds"). During the year ended December 31, 2004, because of the market conditions, the City entered into a forward interest rate swap agreement (Basis Swap) with PNC Bank, N.A., as the counterparty in connection with the Series A Bonds through the final maturity date of the Series A Bonds (May 1, 2028). Beginning on May 1, 2009 and ending on the final maturity date of May 1, 2028, the City was to pay a variable interest rate equal to the SIFMA index based on the notional amount remaining on the Series A Bonds and receive a variable interest rate equal to 67% of the 1-Month LIBOR rate. The Basis Swap agreement contains an embedded interest rate cap, providing that the floating rate to be paid by the City shall not exceed 25%. PNC Bank, N.A. paid a premium to the City in the amount of $1,715,700 for the Basis Swap. The Basis Swap became effective on May 1, 2009 and has been assigned to a proportionate share of the City's General Obligation Notes, Series of 2009 which refunded the Series A Bonds. 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.

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.

6. PENSION PLANS

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

The CBPP does not issue stand-alone financial reports.

A. Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

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

B. Plan Description and Contribution Information

Plan Participants

At December 31, 2015 and 2014, employee membership data related to the CBPP was as follows:

	2015	2014
Inactive plan members or beneficiaries currently receiving benefits	50	49
Inactive plan members entitled to but not yet receiving benefits	30	33
Active plan members	298	307
	378	389

Plan Description and Administration

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

Retirement Benefit

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

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

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

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

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

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

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

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

Contributions

The CBPP is funded by the City on an annual basis pursuant to the provisions of the Act 205 of 1984 of the Commonwealth of Pennsylvania. The CBPP members are not required to contribute to the CBPP. The City is required to make actuarial determined periodic contributions at rates that for individual employees increase over time so that sufficient assets will be available to pay benefits when due.

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

The City contributed $900,704 and $697,517, respectively, to the CBPP for the years ended December 31, 2015 and 2014. Of the amount contributed by the City, the Water Fund contributed $231,929 and $177,893 to the CBPP for the years ended December 31, 2015 and 2014, respectively.

Changes in the Net Pension Liability

The changes in the net pension liability of the City for the years ended December 31, 2015 and 2014 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2013	$ 13,747,018	$ 9,807,550	$ 3,939,468
Service cost	533,032	-	533,032
Interest	1,048,689	-	1,048,689
Contributions - employer	-	697,517	(697,517)
Net investment income	-	854,651	(854,651)
Benefit payments, including refunds	(595,063)	(595,063)	-
Administrative expense	-	(24,140)	24,140
Net changes	986,658	932,965	53,693
Balances at December 31, 2014	$ 14,733,676	$ 10,740,515	$ 3,993,161
Plan fiduciary net position as a percentage of the total pension liability			72.90%

	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 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 date and the fiscal year ends.

The Water Fund's portion of the net pension liability as of December 31, 2015 and 2014 was $1,109,944 and $1,001,747, respectively.

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	

The January 1, 2013 actuarial assumptions were consistent with the January 1, 2015 assumptions with the exception of the amortization period, which was 15 years.

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2015 and 2014 are summarized in the following table:

Asset Class	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%	

Asset Class	2014 Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	61.0%	7.0%
Fixed income	29.0%	2.5%
Cash	10.0%	0.0%
	100.0%	

Rate of Return – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the years ended December 31, 2015 and 2014, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 1.23% and 8.89%, respectively.

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

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

December 31, 2015:

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

December 31, 2014:

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

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

For the years ended December 31, 2015 and 2014, the Water Fund recognized pension expense of $108,197 and $14,878, respectively. At December 31, 2015, the Water Fund reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Deferred Outflows of Resources	
Differences between expected and actual experience	$ 129,883
Total Deferred Outflows of Resources	$ 129,883
Deferred Inflows of Resources	
Net difference between projected and actual earnings on pension plan investments	$ 41,591
Total Deferred Inflows of Resources	$ 41,591

The effect of the differences in the Water Fund's expected and actual experience are 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:

Year ended December 31,	
2016	$ 29,005
2017	29,005
2018	29,005
2019	29,004
2020	(3,466)
Thereafter	(24,261)
	$ 88,292

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 and 2014, there were 184 and 188 plan participants, respectively. The SSP participants may elect to contribute up to 10% of their after-tax pay. The City will match 25% of the participant's contribution, on the first 5% contributed by each participant. Participant contributions in excess of 5% of compensation will not be matched. The plan provisions are established and may be amended by the Nonuniformed Pension Board. During the year ended December 31, 2015, plan participants and the City made contributions of $519,490 and $93,475, respectively. During the year ended December 31, 2014, plan participants and the City made contributions of $433,632 and $92,954, respectively. Of the amount contributed by the City, the Water Fund contributed $29,229 and $29,304 for the years ended December 31, 2015 and 2014, respectively.

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

7. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to the retirement benefits described in Note 6, the City provides single-employer health care benefits for all retired employees, their spouses, and dependents. These benefit provisions and all other requirements are established under the various union contracts and City policy for non-organized employees. Those employees are required to pay a portion of the cost of the plan, which generally ranges from approximately 2% to 10% of the annual premiums.

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

Any nonuniformed employee who elects coverage will make monthly contributions. Once any retiree or spouse becomes eligible for Medicare, he/she must apply for Medicare Part A and Part B. For those eligible for Medicare coverage, medical insurance provided by the City will supplement Medicare.

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

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

Funding Policy and Annual OPEB Costs

The City's 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 years ended December 31, 2015 and 2014, respectively, the City's net cost of providing health benefits and life insurance for retired employees was $5,126,642 and $5,039,896. Of the amount contributed by the City, the Water Fund contributed $1,097,714 and $1,073,363 for the years ended December 31, 2015 and 2014, respectively. A portion of the contributions made during the years ended December 31, 2015 and 2014, in the amount of $876,720 and $726,204, respectively, was made directly to the City's OPEB trust fund by the City's Water Fund. Plan members receiving benefits contributed $47,313 and $62,719 through their contributions as required by the cost sharing provisions of the plans for the years ended December 31, 2015 and 2014, respectively.

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

Any nonuniformed employee who elects coverage will make monthly contributions. For eligible nonuniformed individuals under the age of 65, the monthly costs for the retiree, spouse, and eligible dependent children are $65, $110, and $60, respectively. For eligible nonuniformed individuals over the age of 65, the monthly costs for the retiree and spouse are $50 and the monthly costs for eligible dependent children is $65.

The City pays the entire cost of the life insurance benefits.

The City's annual OPEB costs (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new 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 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 Water Fund portion of the City's annual OPEB costs and net OPEB obligations to the plan for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Annual required contribution	$ 1,231,354	$ 1,231,354
Interest on net OPEB obligation	148,598	143,847
Adjustment to annual required contribution	(202,726)	(196,244)
Annual OPEB cost	1,177,226	1,178,957
Contribution made	(1,097,714)	(1,073,363)
Change in Net OPEB obligation	79,512	105,594
Net OPEB obligation, beginning	3,302,186	3,196,592
Net OPEB obligation, ending	$ 3,381,698	$ 3,302,186

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	$ 1,012,886	114.1%	$ 3,196,592
2014	1,178,957	91.0%	3,302,186
2015	1,177,226	93.2%	3,381,698

Funded Status and Schedule of Funding Progress

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2014	$ 1,459,923	$ 12,043,238	$ 10,583,315	12.12%	$ 3,312,344	319.51%

8. RISK MANAGEMENT

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

Insurance contracts cover public officials, law enforcement, automobile, excess workers' compensation, excess health claims, and umbrella liabilities. The contracts also provide employee, tax collector/treasurer, mayor, controller, city engineer, and employee blanket bonds.

Self-Insurance-Workers' Compensation

The City has a self-funded third-party administered workers' compensation arrangement through Murray Risk Management and Insurance. During 2015, the City was limited to $750,000 per each accident and $750,000 per each employee for disease. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

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

Unpaid claims as of January 1, 2014	$ 256,698
Incurred claims during 2014	-
Payments during 2014	(256,698)
Unpaid claims as of January 1, 2015	-
Incurred claims during 2015	4,397
Payments during 2015	-
Unpaid claims as of December 31, 2015	$ 4,397

9. CONTINGENCIES

Litigation

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

10. CONTRACT COMMITMENTS

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.

11. NEGATIVE UNRESTRICTED NET POSITION

A series of inside City rate increases and a nearly 75% increase in rates for outside City customers approved by the Pennsylvania Public Utility Commission (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. 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).

12. SUBSEQUENT EVENT

On April 7, 2016, the City issued General Obligation Bonds, Series of 2016, in the aggregate amount of $118,820,000. The portion allocable to the Water Fund amounted to $98,920,000. 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.

Required Supplementary Information

CITY OF LANCASTER WATER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

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

	2015*	2014*
Total Pension Liability:		
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)
Net Changes in Total Pension Liability	520,116	986,658
Total Pension Liability - Beginning	14,733,676	13,747,018
Total Pension Liability - Ending (a)	$ 15,253,792	$ 14,733,676
Plan Fiduciary Net Position:		
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)
Net Change in Plan Fiduciary Net Position	77,539	932,965
Plan Fiduciary Net Position - Beginning	10,740,515	9,807,550
Plan Fiduciary Net Position - Ending (b)	$ 10,818,054	$ 10,740,515
Net Pension Liability - Ending (a-b)	$ 4,435,738	$ 3,993,161
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.92%	72.90%
Covered Employee Payroll	$ 14,312,665	$ 13,618,505
Net Pension Liability as a Percentage of Covered Employee Payroll	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 plan.

CITY OF LANCASTER WATER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS

CASH BALANCE PENSION PLAN:

Schedule of City Contributions	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 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	900,704	697,517	658,895	516,512	504,280	499,125	475,248	459,603	410,346	421,948
Contribution deficiency (excess)	$ -	$ (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 14,312,665	$ 13,618,505								
Contributions as a percentage of covered employee payroll	6.29%	5.12%								
Investment Returns										
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 plan.

CITY OF LANCASTER WATER 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	15 years	16 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	6.5-7.5%	7.5%
Projected salary increases	5.0%	5.0%
Underlying inflation rate	3.0%	3.0%
Mortality table	RP2000 mortality table	RP2000 mortality table

CITY OF LANCASTER WATER FUND

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)
1/1/2008	$ -	$ 8,834,931	$ 8,834,931	0.0%	$ 2,914,972	303.1%
1/1/2010	-	11,365,848	11,365,848	0.0%	3,814,064	298.0%
1/1/2012	-	10,700,060	10,700,060	0.0%	3,079,389	347.5%
1/1/2014	1,459,923	12,043,238	10,583,315	12.1%	3,312,344	319.5%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB

Year	Annual Required Contribution	Percentage Contributed
2010	$ 1,191,735	26.8%
2011	1,191,735	32.2%
2012	1,067,625	98.6%
2013	1,067,625	108.3%
2014	1,231,354	87.2%
2015	1,231,354	89.1%