City of Lancaster Water Fund

Financial Statements and Required Supplementary Information

Years Ended December 31, 2016 and 2015
with Independent Auditor's Report

MaherDuessel

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CITY OF LANCASTER WATER FUND

YEARS ENDED DECEMBER 31, 2016 AND 2015

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Independent Auditor's Report

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

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, 2016 and 2015, 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, 2016 and 2015, 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.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the historical pension and other post-employment benefit (OPEB) information on pages 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2016 and 2015, 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
July 12, 2017

CITY OF LANCASTER WATER FUND

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

Assets and Deferred Outflows of Resources	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	$ 550	$ 550
Cash and cash equivalents - restricted	20,809,521	28,091,306
Receivables:		
Water rents	1,838,677	1,929,159
Unbilled water rents	2,661,489	2,308,840
Other	29,086	17,071
Prepaid expenses	775,256	254,317
Total current assets	26,114,579	32,601,243
Long-term assets:		
Prepaid debt insurance	952,473	835,701
Capital assets, not being depreciated	7,913,737	4,481,596
Capital assets, being depreciated, net	138,959,448	139,362,052
Total long-term assets	147,825,658	144,679,349
Total Assets	173,940,237	177,280,592
Deferred Outflows of Resources:		
Deferred outflows of resources for pension	117,081	129,883
Deferred charge on refunding	6,749,507	1,550,908
Total Deferred Outflows of Resources	6,866,588	1,680,791
Total Assets and Deferred Outflows of Resources	$180,806,825	$178,961,383

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	2016	2015
Liabilities:		
Current liabilities:		
Accounts payable	$ 1,305,403	$ 1,140,789
Accrued expenses	991,286	1,112,330
Due to City of Lancaster General Fund	6,872,319	10,453,239
Compensated absences, current portion	23,129	21,614
Capital lease, current portion	113,133	141,809
Notes payable, current portion	498,400	467,200
Bonds payable, current portion	1,140,000	2,120,000
Total current liabilities	10,943,670	15,456,981
Long-term liabilities:		
Compensated absences, net of current portion	77,388	72,320
Net other post-employment liability	3,317,180	3,381,698
Net pension liability	1,138,951	1,109,944
Workers' compensation payable	3,861	4,397
Capital lease, net of current portion	178,996	234,056
Notes payable, net of current portion	9,730,400	10,228,800
Bonds payable, net of current portion	137,841,071	130,974,145
Total long-term liabilities	152,287,847	146,005,360
Total Liabilities	163,231,517	161,462,341
Deferred Inflows of Resources:		
Deferred inflows of resources for pension	37,875	41,591
Total Deferred Inflows of Resources	37,875	41,591
Net Position:		
Net investment in capital assets	25,162,222	29,900,889
Unrestricted	(7,624,789)	(12,443,438)
Total Net Position	17,537,433	17,457,451
Total Liabilities, Deferred Inflows of Resources, and Net Position	$180,806,825	$178,961,383

(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, 2016 AND 2015

	2016	2015
Operating Revenues:		
Water rents	26,247,323	24,776,350
Meter labor reimbursement	220,850	211,765
Miscellaneous revenue	439,479	513,798
Total operating revenues	26,907,652	25,501,913
Operating Expenses:		
Susquehanna treatment plant	2,582,866	2,741,640
Conestoga treatment plant	2,333,551	2,159,844
Transmission and distribution	1,337,681	1,358,857
Meters and meter labor	630,999	605,044
Laboratory	280,314	262,503
Depreciation	3,014,670	2,942,230
Administration	5,659,710	5,632,830
Grounds maintenance	414,050	395,669
Total operating expenses	16,253,841	16,098,617
Operating Income	10,653,811	9,403,296
Non-Operating Revenues (Expenses):		
State pension contribution	229,619	231,929
Investment income	58,961	40,869
Economic development contribution	(539,381)	(266,120)
Amortization expense	(63,576)	(70,562)
Interest expense	(5,404,058)	(6,301,219)
Total non-operating revenues (expenses)	(5,718,435)	(6,365,103)
Income before transfers and capital contributions	4,935,376	3,038,193
Transfers out	(4,994,000)	(3,492,002)
Capital contributions	138,606	253,410
Change in Net Position	79,982	(200,399)
Net Position:		
Beginning of year	17,457,451	17,657,850
End of year	$ 17,537,433	$ 17,457,451

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

CITY OF LANCASTER WATER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Cash received from users	$ 26,633,470	$ 24,560,804
Cash paid to suppliers	(8,833,509)	(8,244,209)
Cash paid to employees	(5,219,314)	(5,078,686)
Net cash provided by operating activities	12,580,647	11,237,909
Cash Flows From Investing Activities:		
Investment income received	58,961	40,869
Net cash provided by investing activities	58,961	40,869
Cash Flows From Capital and Related Financing Activities:		
Proceeds from bonds payable	102,607,409	-
Proceeds from note payable	-	556,000
Cash paid for debt issuance costs	(2,103,084)	-
Payments to bond escrow agent	(100,504,325)	-
Principal payments on capital lease	(141,808)	(88,985)
Principal payments on notes payable	(467,200)	(1,292,702)
Principal payments on bonds payable	(1,095,000)	(1,527,000)
Interest paid	(4,100,518)	(6,291,684)
Acquisition of capital assets	(6,726,185)	(5,381,927)
Net cash used in capital and related financing activities	(12,530,711)	(14,026,298)
Cash Flows From Non-Capital Financing Activities:		
Transfers out	(3,500,000)	(3,492,002)
Economic development contribution	(539,381)	(266,120)
Due to City of Lancaster General Fund	(3,580,920)	1,243,996
State pension contribution	229,619	231,929
Net cash used in non-capital financing activities	(7,390,682)	(2,282,197)
Net Decrease in Cash and Cash Equivalents	(7,281,785)	(5,029,717)
Cash and Cash Equivalents:		
Beginning of year	28,091,856	33,121,573
End of year	$ 20,810,071	$ 28,091,856

(Continued)

CITY OF LANCASTER WATER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)

	2016	2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 10,653,811	$ 9,403,296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	3,014,670	2,942,230
Amortization	29,005	29,000
Loss on disposal of capital assets	-	12,592
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables	(274,182)	(941,109)
Prepaid expenses	(520,939)	(252,910)
Deferred outflows of resources for pension	(19,669)	(162,354)
Accounts payable	(301,186)	20,360
Accrued expenses	28,851	(59,542)
Compensated absences	6,583	9,178
Workers' compensation payable	(536)	4,397
Net pension liability	29,007	108,197
Net other post-employment liability	(64,518)	79,512
Deferred inflows of resources for pension	(250)	45,062
Total adjustments	1,926,836	1,834,613
Net cash provided by operating activities	$ 12,580,647	$ 11,237,909
Noncash Capital Financing Activities:		
Issuance of capital lease	$ 58,072	$ 233,824
Developer contributions	$ 138,606	$ 253,410

(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 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. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Water Fund would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

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

Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest capitalized for the years ended December 31, 2016 and 2015 totaled $149,543 and $87,025, respectively.

Restricted Assets

The unexpended 2011 and 2014 bond proceeds as of December 31, 2016 and 2015 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 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 amounts and disclosures. Accordingly, 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.

Pending Changes in Accounting Principles

In June of 2015, the Governmental Accounting Standards Board (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 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.

In March of 2017, the GASB issued Statement No. 85, *"Omnibus 2017."* This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and post-employment benefits. The provisions of GASB Statement No. 85 are effective for the City's December 31, 2018 financial statements.

In May of 2017, the GASB issued Statement No. 86, *"Certain Debt Extinguishment Issues."* This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provisions of GASB Statement No. 86 are effective for the City's December 31, 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 bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, 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.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The 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, 2016 and 2015, the book balance of the pooled deposits was $44,187,502 and $48,195,690, respectively, and the bank balance was $45,255,571 and $50,183,103, respectively. The Water Fund's position in the pooled deposits was $20,809,521 and $28,091,306 at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, 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, 2016 and 2015 is as follows:

	December 31, 2015	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2016
Capital assets not being depreciated:				
Land	$ 2,564,600	$ -	$ (1,494,000)	$ 1,070,600
Construction-in-progress	1,916,996	5,679,160	(753,019)	6,843,137
Total capital assets, not being depreciated	4,481,596	5,679,160	(2,247,019)	7,913,737
Capital assets being depreciated:				
Water system	190,121,383	2,510,720	(84,867)	192,547,236
Equipment and vehicles	3,045,340	101,346	-	3,146,686
Total capital assets, being depreciated	193,166,723	2,612,066	(84,867)	195,693,922
Less accumulated depreciation for:				
Water system	(51,914,433)	(2,807,452)	84,867	(54,637,018)
Equipment and vehicles	(1,890,238)	(207,218)	-	(2,097,456)
Total accumulated depreciation	(53,804,671)	(3,014,670)	84,867	(56,734,474)
Capital assets being depreciated, net	139,362,052	(402,604)	-	138,959,448
Capital assets, net	$ 143,843,648	$ 5,276,556	$ (2,247,019)	$ 146,873,185

	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

4. LONG-TERM LIABILITIES

A summary of long-term liabilities for the year ended December 31, 2016 is as follows:

Date of Issue/ Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2016
2009/2030	$ 15,875,000	General Obligation Notes, 2.50% - 4.875%	$ 9,700,000
2011/2041	11,260,000	General Obligation Bonds, 1.75% - 5.00%	9,115,000
2014/2044	27,235,000	General Obligation Bonds, 3.00% - 5.00%	26,700,000
2015/2028	556,000	General Obligation Note, 2.41%	528,800
2016/2046	98,920,000	General Obligation Bonds, 3.00% - 5.00%	98,920,000
			$ 144,963,800

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. These bonds were advance refunded through the issuance of General Obligation Bonds, Series of 2016. The balance outstanding on the defeased General Obligation Bonds, Series of 2007, on December 31, 2016 is $114,975,000, of which $93,745,000 is the Water Fund's portion.

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 at 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, the City 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 were used for the purposes of financing improvements and upgrades to the water treatment and distribution facilities.

In 2016, the City issued $118,820,000 of general obligation bonds. The portion allocable to the Water Fund amounted to $98,920,000, bearing interest at rates ranging from 3.00% to 5.00%. The proceeds of the bond issuance were used to advance refund the General Obligation Bonds, Series of 2007. The City completed the advance refunding to reduce its total debt service payments by $9,514,789 through the year 2046 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $9,152,042. As a result of the advance refunding, the Water Fund reduced its total debt service payments by $7,829,509 through the year 2046, with an economic gain of $7,523,702.

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.

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

Year Ending December 31,	Principal Maturity	Interest Maturity	Total
2017	$ 1,638,400	$ 5,589,431	$ 7,227,831
2018	1,699,600	5,521,791	7,221,391
2019	1,910,400	5,448,652	7,359,052
2020	3,451,200	5,361,144	8,812,344
2021	3,607,400	5,208,987	8,816,387
2022-2026	20,683,000	23,583,362	44,266,362
2027-2031	25,448,800	18,855,590	44,304,390
2032-2036	24,780,000	14,540,744	39,320,744
2037-2041	29,380,000	9,942,006	39,322,006
2042-2046	32,365,000	3,800,600	36,165,600
	$ 144,963,800	$ 97,852,307	$ 242,816,107

Capital Lease

In 2013 through 2016, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. As of December 31, 2016 and 2015, the Water Fund includes these vehicles and equipment at a cost of $574,063 and $719,822, respectively, with accumulated depreciation of $125,747 and $161,415, respectively.

The future minimum payments under these capital leases and the present value of the minimum lease payments at December 31, 2016 are as follows:

Year Ending December 31,	Total
2017	$ 122,546
2018	93,497
2019	78,773
2020	15,572
Total minimum lease payments	310,388
Less amount representing interest	(18,259)
Present value of future minimum lease payments	$ 292,129

Changes in long-term liabilities for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2015	Increase	Decrease	December 31, 2016	Amount Due Within One Year
Bonds payable	$ 131,680,000	$ 98,920,000	$ (95,865,000)	$ 134,735,000	$ 1,140,000
Unamortized premium	1,414,145	3,687,409	(855,483)	4,246,071	-
Notes payable	10,696,000	-	(467,200)	10,228,800	498,400
Capital lease	375,865	58,072	(141,808)	292,129	113,133
Compensated absences	93,934	608,265	(601,682)	100,517	23,129
Workers' compensation payable	4,397	236	(772)	3,861	-
	$ 144,264,341	$ 103,273,982	$ (97,931,945)	$ 149,606,378	$ 1,774,662

	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

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, 2016 and 2015, the borrowing had an outstanding balance of zero and $1,112,801, 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 were scheduled to mature on May 1, 2028. On March 9, 2016, the City made a payment totaling $261,700 to effectively terminate the Basis Swap. Interest was accreted to the principal amount annually. Accreted interest on the borrowing was zero and $818,587 at December 31, 2016 and 2015, respectively.

As noted above, this borrowing was 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

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 contained 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 was 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.

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.

B. *Plan Description and Contribution Information*

Plan Participants

At December 31, 2016 and 2015, employee membership data related to the CBPP was as follows:

	2016	2015
Inactive plan members or beneficiaries currently receiving benefits	55	50
Inactive plan members entitled to but not yet receiving benefits	32	30
Active plan members	317	298
	404	378

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 $931,774 and $900,704, respectively, to the CBPP for the years ended December 31, 2016 and 2015. Of the amount contributed by the City, the Water Fund contributed $229,619 and $231,929 to the CBPP for the years ended December 31, 2016 and 2015, respectively.

Changes in the Net Pension Liability

The changes in the net pension liability of the City for the years ended December 31, 2016 and 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	$ 15,253,792	$ 10,818,054	$ 4,435,738
Service cost	569,268	-	569,268
Interest	1,168,991	-	1,168,991
Contributions - employer	-	931,774	(931,774)
Net investment income	-	722,581	(722,581)
Benefit payments, including refunds	(473,019)	(473,019)	-
Administrative expense	-	(26,770)	26,770
Net changes	1,265,240	1,154,566	110,674
Balances at December 31, 2016	$ 16,519,032	$ 11,972,620	$ 4,546,412
Plan fiduciary net position as a percentage of the total pension liability			72.48%

	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, 2016 and 2015 and was determined by rolling forward the liabilities from the January 1, 2015 actuarial valuation. 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, 2016 and 2015 was $1,138,951 and $1,109,944, 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	

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, 2016 and 2015 are summarized in the following table:

Asset Class	2016 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	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%	

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, 2016 and 2015, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 6.86% and 1.23%, respectively.

Concentrations – At December 31, 2016, none of the CBPP's investments were more than five percent of the CBPP's total asset value.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2016 and 2015 was 7.50%. The CBPP's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

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

December 31, 2016:

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
$ 6,647,839	$ 4,546,412	$ 2,792,326

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

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

For the years ended December 31, 2016 and 2015, the Water Fund recognized pension expense of $267,712 and $251,834, respectively. At December 31, 2016, the Water Fund reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	2016	2015
Deferred Outflows of Resources		
Differences between expected and actual experience	$ 117,081	$ 129,883
Total Deferred Outflows of Resources	$ 117,081	$ 129,883
Deferred Inflows of Resources		
Net difference between projected and actual earnings on pension plan investments	$ 37,875	$ 41,591
Total Deferred Inflows of Resources	$ 37,875	$ 41,591

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 ending December 31,	
2017	$ 33,886
2018	33,886
2019	33,886
2020	1,651
2021	(3,443)
Thereafter	(20,660)
	$ 79,206

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, 2016 and 2015, there were 181 and 184 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, 2016, plan participants and the City made contributions of $538,221 and $89,696, respectively. During the year ended December 31, 2015, plan participants and the City made contributions of $519,490 and $93,475, respectively. Of the amount contributed by the City, the Water Fund contributed $29,333 and $29,229 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, respectively, the City's net cost of providing health benefits and life insurance for retired employees was $5,034,792 and $5,126,642. Of the amount contributed by the City, the Water Fund contributed $1,243,416 and $1,097,714 for the years ended December 31, 2016 and 2015, respectively. A portion of the contributions made during the years ended December 31, 2016 and 2015, in the amount of $876,720 and $876,720, respectively, was made directly to the City's OPEB trust fund by the City's Water Fund. Plan members receiving benefits contributed $47,410 and $47,313 through their contributions as required by the cost sharing provisions of the plans for the years ended December 31, 2016 and 2015, 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	1/1/2016
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5% per year
Medical inflation	6.5% in 2016, 6.0% in 2017, 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 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, 2016 and 2015 were as follows:

	2016	2015
Annual required contribution	$ 1,234,330	$ 1,231,354
Interest on net OPEB obligation	152,176	148,598
Adjustment to annual required contribution	(207,608)	(202,726)
Annual OPEB cost	1,178,898	1,177,226
Contribution made	(1,243,416)	(1,097,714)
Change in Net OPEB obligation	(64,518)	79,512
Net OPEB obligation, beginning	3,381,698	3,302,186
Net OPEB obligation, ending	$ 3,317,180	$ 3,381,698

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2014	$ 1,178,957	91.0%	$ 3,302,186
2015	1,177,226	93.2%	3,381,698
2016	1,178,898	105.5%	3,317,180

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)
1/1/2016	$ 3,107,378	$ 12,855,084	$ 9,747,706	24.17%	$ 3,890,332	250.56%

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 2016, 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, 2016 and 2015 is as follows:

Unpaid claims as of January 1, 2015	$ -
Incurred claims during 2015	4,397
Payments during 2015	-
Unpaid claims as of January 1, 2016	4,397
Incurred claims during 2016	236
Payments during 2016	(772)
Unpaid claims as of December 31, 2016	$ 3,861

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 2016.

10. CONTRACT COMMITMENTS

During the years ended December 31, 2016 and 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 $8,732,425. The commitment remaining on the contracts at December 31, 2016 was $7,831,306.

11. NEGATIVE UNRESTRICTED NET POSITION

In the Water Fund, a series of inside City rate increases and a nearly 75% increase in rates for outside City customers approved by the 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 March 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). This refinancing savings was a significant factor in the reduction of the Water Fund negative unrestricted net position by nearly $5,000,000 as of December 31, 2016.

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

	2016*	2015*	2014*
Total Pension Liability:			
Service cost	$ 569,268	$ 542,160	$ 533,032
Interest	1,168,991	1,096,819	1,048,689
Changes for experience	-	(184,304)	-
Benefit payments, including refunds	(473,019)	(934,559)	(595,063)
Net Changes in Total Pension Liability	1,265,240	520,116	986,658
Total Pension Liability - Beginning	15,253,792	14,733,676	13,747,018
Total Pension Liability - Ending (a)	$ 16,519,032	$ 15,253,792	$ 14,733,676
Plan Fiduciary Net Position:			
Contributions - employer	$ 931,774	$ 900,704	$ 697,517
Net investment income	722,581	139,124	854,651
Benefit payments, including refunds	(473,019)	(934,559)	(595,063)
Administrative expense	(26,770)	(27,730)	(24,140)
Net Change in Plan Fiduciary Net Position	1,154,566	77,539	932,965
Plan Fiduciary Net Position - Beginning	10,818,054	10,740,515	9,807,550
Plan Fiduciary Net Position - Ending (b)	$ 11,972,620	$ 10,818,054	$ 10,740,515
Net Pension Liability - Ending (a-b)	$ 4,546,412	$ 4,435,738	$ 3,993,161
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.48%	70.92%	72.90%
Covered Employee Payroll	$ 15,105,036	$ 14,312,665	$ 13,618,505
Net Pension Liability as a Percentage of Covered Employee Payroll	30.10%	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	2016*	2015*	2014*	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 931,774	$ 900,704	$ 697,516	$ 658,895	$ 516,512	$ 504,280	$ 499,125	$ 475,248	$ 459,603	$ 410,346
Contributions in relation to the actuarially determined contribution	931,774	900,704	697,517	658,895	516,512	504,280	499,125	475,248	459,603	410,346
Contribution deficiency (excess)	$ -	$ -	$ (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 15,105,036	$ 14,312,665	$ 13,618,505							
Contributions as a percentage of covered employee payroll	6.17%	6.29%	5.12%							
Investment Returns										
Annual money-weighted rate of return, net of investment expense	6.86%	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	12/31/2016	12/31/2015
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	15 years	15 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:		
Investment rate of return	6.5-7.5%	6.5-7.5%
Projected salary increases	5.0%	5.0%
Underlying inflation rate	3.0%	3.0%
Mortality table	RP2000 mortality table	RP2000 mortality table

Changes in Actuarial Assumptions

In the January 1, 2013 actuarial valuation, the asset valuation method was updated from smoothed value with a corridor of 70% to 130% of market value to smoothed value with a corridor of 80% to 120% of market value. The remaining amortization method was also updated from 16 years to 15 years and the investment rate of return was updated from 7.5% to 6.5-7.5%.

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%
1/1/2016	3,107,378	12,855,084	9,747,706	24.2%	3,890,332	250.6%

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
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%
2016	1,234,330	100.7%