City of Lancaster, Pennsylvania

Financial Statements and Required Supplementary Information

Year Ended December 31, 2017 with Independent Auditor's Report

MaherDuessel

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CITY OF LANCASTER, PENNSYLVANIA

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CITY OF LANCASTER, PENNSYLVANIA

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Independent Auditor's Report

To the Honorable
Danene Sorace, Mayor
and Members of City Council
City of Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business–type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Pennsylvania (City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lancaster Industrial Development Authority, the Lancaster Recreation Commission, the Redevelopment Authority of the City of Lancaster, the Lancaster Downtown Investment District Authority, the City of Lancaster Land Bank Authority, and the City of Lancaster City Revitalization and Improvement Zone Authority, which represent 67 percent, 62 percent, and 58 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of The Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, the Lancaster Downtown Investment District Authority, and the City of Lancaster Land Bank Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the historical pension and other post-employment benefit (OPEB) information, and budgetary comparison information on pages i through xii and 131 through 150 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of

America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lancaster, Pennsylvania ("the City") provides this narrative overview and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2017 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. While the Lancaster Industrial Development Authority, Lancaster Recreation Commission, the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, the Lancaster Downtown Investment District Authority, City of Lancaster Land Bank Authority and the City of Lancaster City Revitalization and Improvement Zone Authority are all separate legal entities, they are shown in the financial statements as discretely presented component units. This overview, however, focuses on the primary government and, unless otherwise noted, these component units are not included in this discussion. The City encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2017, the assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by $27.862 million. The City's net position decreased $3.534 million (11.256 percent) during the fiscal year. The governmental activities net position decreased by $4.979 million (9.897 percent) and the business-type activities net position increased by $1.445 million (1.769 percent).

- At the close of 2017, the City's governmental funds reported a combined ending fund balance of $25.293 million, a decrease of $3.311 million (11.576 percent). Of this amount, approximately $13.502 million is legally restricted and/or unavailable to spend, and $9.808 million is committed and/or assigned for designated projects, leaving $1.983 million available for spending at the government's discretion (unassigned fund balance).

- The City's total outstanding bonded debt decreased by $4.214 million (1.629 percent) during the current fiscal year to $254.466 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Proprietary funds account for services for which the City charges user fees to outside customers and internal City departments. Proprietary funds utilize full accrual accounting; the same method used by private sector businesses. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility operations, LOOP, stormwater management, and solid waste and recycling program. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water utility and sewer utility, and combine LOOP, stormwater management, and the solid waste and recycling program. The water and sewer utilities are considered to be major funds of the City. The Internal Service Fund accounts for financing of insurance services provided to other funds of the City.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of December 31, 2017 by approximately $27.862 million.

Statement of Net Position

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	$41,824	$43,775	$30,895	$47,708	$72,719	$91,483
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	72,767	71,190	271,077	255,910	343,844	327,100
Deferred Charge on Refunding & Pensions	5,141	7,106	7,128	7,829	12,269	14,935
Total Assets & Deferred Outflows of Resources	119,732	122,071	309,100	311,447	428,832	433,518
Current and Other Liabilities	4,741	7,502	7,391	21,319	12,132	28,821
Long-Term Liabilities	167,295	164,045	218,372	208,362	385,667	372,407
Deferred Inflows for Pensions	2,972	821	199	73	3,171	894
Total Liabilities & Deferred Inflows of Resources	175,008	172,368	225,962	229,754	400,970	402,122
Net Position						
Invested in Capital Assets, Net of Related Debt	37,537	37,742	94,551	91,066	132,088	128,808
Restricted	3,639	3,322	6,529	8,586	10,168	11,908
Unrestricted	(96,452)	(91,361)	(17,942)	(17,959)	(114,394)	(109,320)
Total Net Position	($55,276)	($50,297)	$83,138	$81,693	$27,862	$31,396

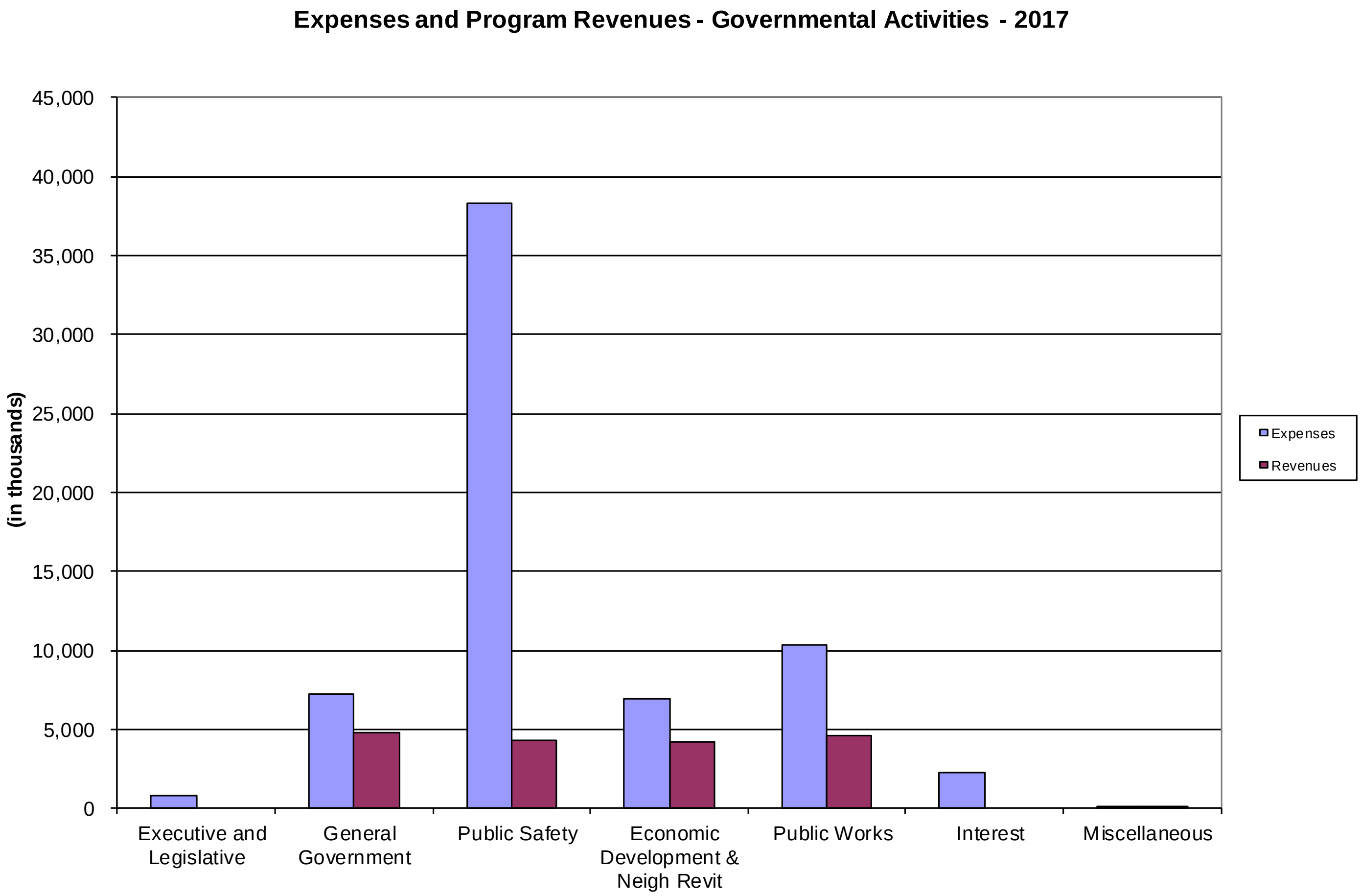
Table A-1 is a condensed version of the statement of net position for the City.

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

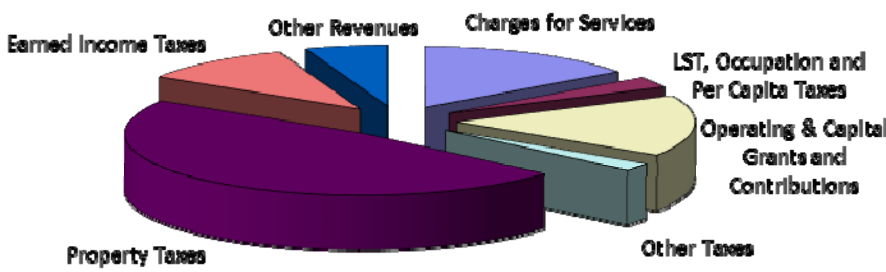
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services	$8,722	$8,468	$47,722	$46,990	$56,444	$55,458
Operating & Capital Grants and Contributions	9,391	8,266	3,996	4,549	13,387	12,815
General Revenues:						
Property Taxes	27,667	27,025	-	-	27,667	27,025
Earned Income Tax	6,081	5,800	-	-	6,081	5,800
LST	1,664	1,708	-	-	1,664	1,708
Other Taxes	1,197	989	-	-	1,197	989
Miscellaneous	3,229	3,170	61	80	3,290	3,250
Total Revenues	57,951	55,426	51,779	51,619	109,730	107,045
Expenses						
Governmental Activities:						
Executive and Legislative	845	735	-	-	845	735
General Government	7,230	6,804	-	-	7,230	6,804
Public Safety	38,359	38,348	-	-	38,359	38,348
Economic Development & Neigh Revit	7,006	5,504	-	-	7,006	5,504
Public Works	10,409	11,390	-	-	10,409	11,390
Interest	2,302	2,356	-	-	2,302	2,356
Miscellaneous	85	165	-	-	85	165
Business-Type Activities						
Sewer	-	-	17,818	15,990	17,818	15,990
Water	-	-	22,502	22,112	22,502	22,112
Solid Waste & Recycling, LOOP, & Stormwater Mgmt	-	-	6,708	7,323	6,708	7,323
Total Expenses	66,236	65,302	47,028	45,425	113,264	110,727
Excess (Deficiency) Before Transfers and Extraordinary Item	(8,285)	(9,876)	4,751	6,194	(3,534)	(3,682)
Extraordinary item - legal settlement	-	-	-	450	-	450
Transfers	3,306	4,750	(3,306)	(4,750)	-	-
Increase (Decrease) in Net Position	(4,979)	(5,126)	1,445	1,894	(3,534)	(3,232)
Net Position - Beginning of Year	(50,297)	(45,171)	81,693	79,799	31,396	34,628
Net Position - End of Year	($55,276)	($50,297)	$83,138	$81,693	$27,862	$31,396

The City's total net position decreased by $3.534 million in 2017.

Governmental Activities



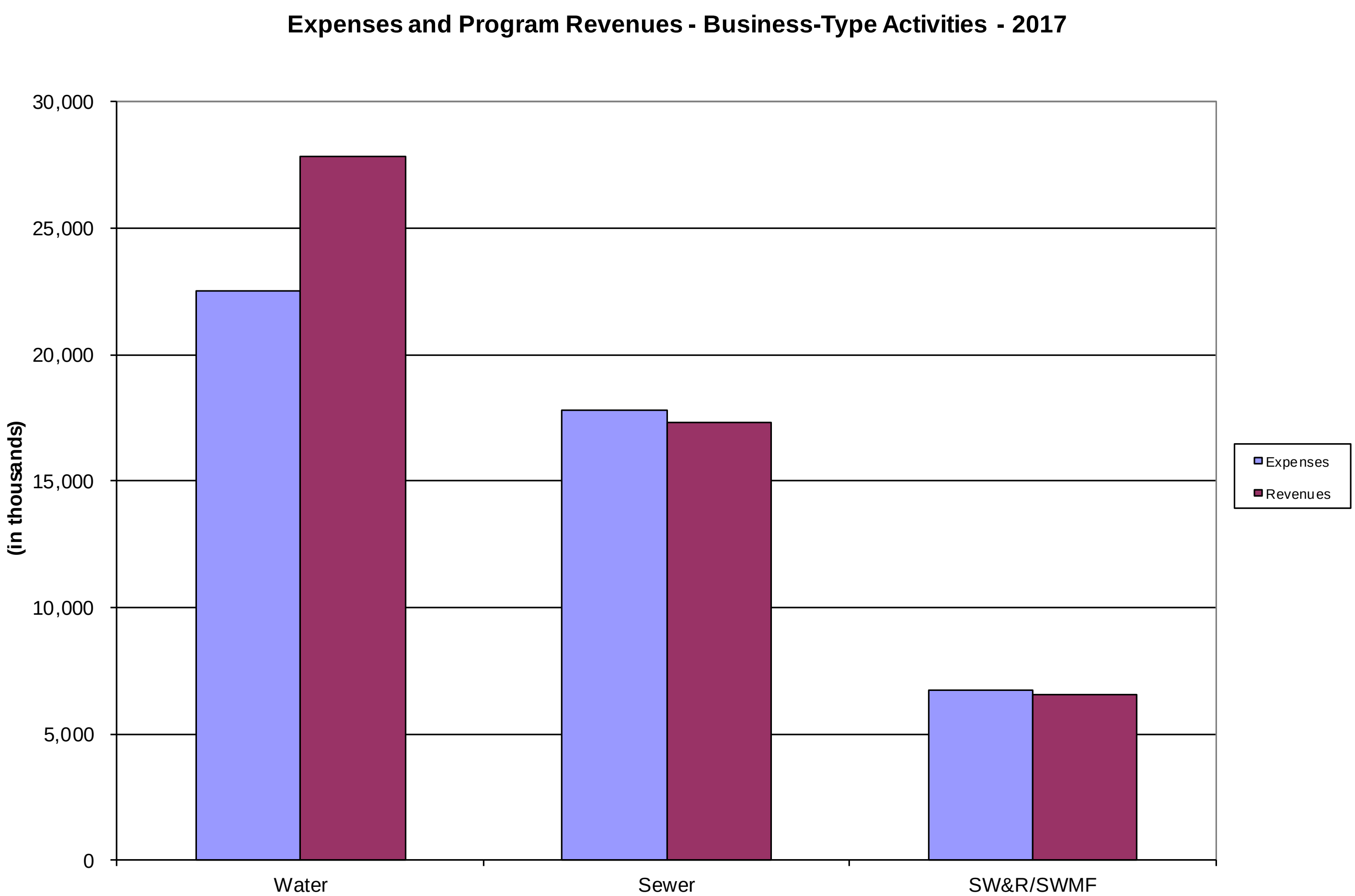
Revenues by Source - Governmental Activities - 2017



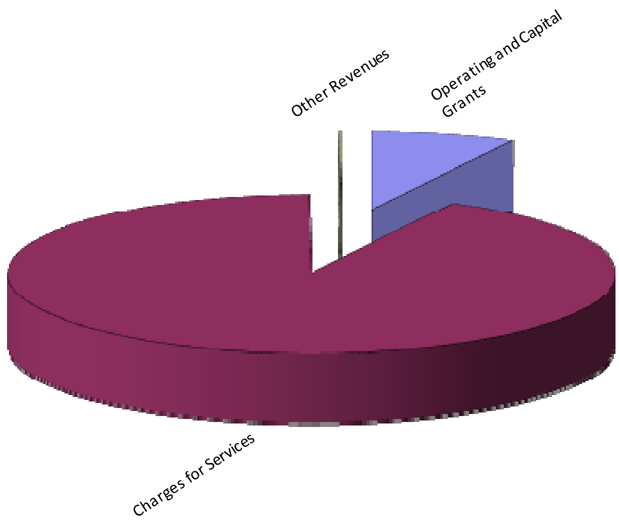
Governmental activities. Governmental activities decreased the City's net position by $4.979 million. In 2017, total revenues for governmental activities were $57.951 million, $2.525 million or 4.556 percent higher than 2016. Total expenses for governmental activities, which were $66.236 million, were $.934 million or 1.430 percent higher than 2016. The decrease in net position is mainly due to wage, fringe benefits, and pension increases during 2017.

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

Business-Type Activities



Revenues by Source - Business-Type Activities - 2017



Business-Type activities. Business-type activities increased the City's net position by $1.445 million to $83.138 million, an increase of 1.769 percent. Charges for services in the business-type activities increased $.732 million from the prior year due in part to a sewer rate increase that went into effect on January 1, 2017. Operating and Capital Grants and Contribution revenue decreased by $.553 million, a decrease of 12.157 percent, primarily due to decreased capital grants and construction project activity from 2016. Expenses for water, sewer, LOOP, solid waste and recycling and stormwater management operations increased $1.603 million from 2016 due primarily to adjustments given to two municipalities for prior bulk treatment billings.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At the end of the current fiscal year the City's governmental funds reported combined ending fund balances of $25.293 million. Approximately $1.983 million of that amount constitutes unassigned fund balance, which is available for discretionary spending. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form ($.171 million), 2) restricted for particular purposes ($13.331 million), 3) committed for particular purposes ($.663 million), or 4) assigned for particular purposes ($9.145 million).

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

Net position of the Water, Sewer, LOOP, Stormwater, and Solid Waste and Recycling Funds at the end of the year amounted to $83.823 million. Net position of the LOOP, Stormwater, and Solid Waste and Recycling Funds increased $.144 million. Net position of the Water and Sewer Funds increased $1.538 million and decreased $.518 million, respectively.

Fiduciary Funds. The City maintains fiduciary funds for the assets of City of Lancaster Cash Balance Pension Plan, Defined Contribution Plan, the Police Pension Plan, the Fire Pension Plan, OPEB trusts, and various agency and private-purpose trust funds. The total net position of the combined fiduciary funds is $142.776 million. The City's employee pension plans and OPEB trusts represent 99.8 percent of that amount. During 2017, the net position of the Pension Trust Funds increased by $12.202 million to $137.075 million. The change is related to the appreciation of the retirement plans' investments compared to 2016. Additionally, the OPEB Trust Funds increased by $1.022 million to $5.418 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget contained $54.307 million in appropriations, and $52.311 million in estimated revenues, with $1.996 million of required resources coming from the unassigned fund balance. Overall, revenues were higher than anticipated by $1.412 million. Key factors for the increase are as follows:

- Real estate transfer taxes were $0.447 million higher than the budgeted amount due to the improving economic health of the City and a receipt of real estate transfer taxes from the sale of Rose City HMA property to Pinnacle Health.

- Earned income taxes collected by the Lancaster County Tax Collection Bureau were higher than the budgeted amount by $0.241 million as a result of an improving economy and better collection efforts by the Bureau.

- Fines and forfeitures were $0.646 million over budget due in part to the first full year of the agreement between the Lancaster Parking Authority (LPA) and the City for LPA to enforcement of all parking regulations of the City.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017 amounts to $343.844 million (net of accumulated depreciation). This investment includes land, buildings, improvements, infrastructure, vehicles, machinery and equipment. More detail about the City's capital assets is presented in Note 6 to the financial statements.

During 2016, the City sold the SPCA Animal Shelter. This building had a net book value of $1.090 million. In 2017, the SPCA Animal Shelter was returned to the City. The City also had $2.265 million of ADA ramps and street improvements and purchased a fire truck for $.590 million.

During 2017, the business-type activities had the following additions:

- $ 5.995 million sewer system additions
- $ 14.557 million water system additions
- $ 1.152 stormwater system additions

Debt administration. At the end of 2017, the City had $254.466 million outstanding bonded debt, compared to $258.680 million in 2016. More detailed information about the City's long-term debt is presented in Note 10 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The City of Lancaster continues to thrive as the economic, cultural and social hub of Lancaster County and is beginning to be recognized regionally and nationally as a model small city. This has happened despite the fiscal challenges common to many urban communities across Pennsylvania and the nation; a low-growth tax base due to the lack of open and developable land, inflationary pressures on labor costs and benefits and a high number of tax-exempt properties (28% of all assessed property value) which reduces the revenue available to support City services. The City’s financial management has resulted in an A3 bond rating from Moody’s, among the highest of all Pennsylvania cities. Indicators of local economic health such as Real Estate Transfer taxes and Earned Income taxes are growing, with the 2017 revenues from each of those two sources hitting their highest totals for the second consecutive year. A renewed focus on city living and strong private investment has created a vibrant and growing downtown business, retail, and arts environment as well as strong neighborhoods.

A new economic development plan, titled Building on Strength, recently released by the Lancaster City Alliance (available at http://www.lancastercityalliance.org/building-on-strength) noted the City’s strong development and business activity since 2007. During the eight-year period from 2007 through 2014, the City saw $1.5 billion in economic investment, a net increase of 100 new businesses and expansion of an additional 60 businesses. The City also continued to experience high levels of construction and renovation activity in 2017 with 2,355 building permits (a 10+ year high) issued for projects worth a total of nearly $135,000,000. Lancaster also saw a population increase in the past decade with the 2010 U.S. Census showing a population increase of 5.3% since 2000. While challenges for cities will always be present, the City of Lancaster remains a strong and vibrant city with a bright future ahead.

REQUESTS FOR INFORMATION

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

BASIC
FINANCIAL
STATEMENTS

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2017

	Primary Government				
	Governmental Activities	Business-type Activities	Total	Component Units	Total
Assets and Deferred Outflows of Resources					
Assets:					
Cash and cash equivalents	$ 364,271	$ 850	$ 365,121	$ 6,877,263	$ 7,242,384
Cash and cash equivalents - restricted	9,758,075	29,926,329	39,684,404	4,738,403	44,422,807
Investments	436,697	-	436,697	2,824,517	3,261,214
Investments - restricted	1,377	-	1,377	2,725	4,102
Receivables (net of allowance for uncollectibles):					
Taxes	2,885,027	-	2,885,027	-	2,885,027
Accounts	540,193	14,116,139	14,656,332	968,081	15,624,413
Notes	8,098,272	-	8,098,272	1,985,990	10,084,262
Investment income	154,367	-	154,367	-	154,367
Other	-	200,061	200,061	67,438	267,499
Internal balances	15,690,471	(15,690,471)	-	-	-
Accrued interest	-	-	-	536,728	536,728
Prepaid expenses	171,037	927,363	1,098,400	167,779	1,266,179
Lease rental receivable	-	-	-	22,807,800	22,807,800
Due from other governments	2,710,179	147,336	2,857,515	6,658,539	9,516,054
Due from component unit	805,288	-	805,288	-	805,288
Due from developer	-	-	-	500,000	500,000
Prepaid debt insurance	208,443	1,267,194	1,475,637	-	1,475,637
Properties held for resale	-	-	-	651,194	651,194
Capital assets, not being depreciated	9,939,039	36,362,399	46,301,438	4,892,638	51,194,076
Capital assets, being depreciated, net	62,828,407	234,714,796	297,543,203	23,393,496	320,936,699
Net pension asset	-	-	-	14,115	14,115
Total Assets	114,591,143	301,971,996	416,563,139	77,086,706	493,649,845
Deferred Outflows of Resources:					
Deferred outflows of resources for pensions	3,514,159	157,589	3,671,748	88,725	3,760,473
Deferred charge on refunding	1,626,382	6,970,293	8,596,675	1,246,840	9,843,515
Total Deferred Outflows of Resources	5,140,541	7,127,882	12,268,423	1,335,565	13,603,988
Total Assets and Deferred Outflows of Resources	$ 119,731,684	$ 309,099,878	$ 428,831,562	$ 78,422,271	$ 507,253,833

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	Primary Government Governmental Activities	Primary Government Business-type Activities	Primary Government Total	Component Units	Total
Liabilities:					
Accounts payable	$ 2,562,464	$ 5,697,604	$ 8,260,068	$ 813,874	$ 9,073,942
Accrued salaries and benefits	958,962	247,957	1,206,919	48,295	1,255,214
Accrued expenses	335,956	1,184,835	1,520,791	422,185	1,942,976
Line of credit	-	-	-	498,911	498,911
Due to primary government	-	-	-	1,067,202	1,067,202
Unearned revenue	851,932	261,034	1,112,966	7,690,861	8,803,827
Contingent liability from property resettlements	-	-	-	174,500	174,500
Other liabilities	30,590	-	30,590	-	30,590
Long-term liabilities:					
Portion due or payable within one year:					
Long-term obligation	4,031,539	4,972,285	9,003,824	-	9,003,824
Due to other governments	-	8,131,254	8,131,254	-	8,131,254
Due to lessee	-	-	-	3,372,445	3,372,445
Loans payable	-	-	-	150,000	150,000
Convention Center Authority obligation	-	-	-	100,000	100,000
Notes payable	-	-	-	204,000	204,000
Bonds payable	-	-	-	3,763,613	3,763,613
Portion due or payable after one year:					
Long-term obligation	62,792,146	194,829,240	257,621,386	-	257,621,386
Net pension liability	34,490,993	1,886,528	36,377,521	-	36,377,521
Net other post-employment liability	65,980,578	8,552,342	74,532,920	-	74,532,920
Due to lessee	-	-	-	1,263,287	1,263,287
Convention Center Authority obligation	-	-	-	2,050,000	2,050,000
Notes payable	-	-	-	3,517,333	3,517,333
Bonds payable	-	-	-	46,314,277	46,314,277
Total Liabilities	172,035,160	225,763,079	397,798,239	71,450,783	469,249,022
Deferred Inflows of Resources:					
Deferred inflows of resources for pensions	2,972,047	199,101	3,171,148	-	3,171,148
Total Deferred Inflows of Resources	2,972,047	199,101	3,171,148	-	3,171,148
Net Position:					
Net investment in capital assets	37,536,973	94,551,440	132,088,413	3,963,488	136,051,901
Restricted for:					
Capital acquisition	-	6,528,834	6,528,834	-	6,528,834
Housing and neighborhood development	291,570	-	291,570	-	291,570
Economic and community development	2,141,190	-	2,141,190	-	2,141,190
Public works	1,027,178	-	1,027,178	-	1,027,178
Parks and recreation	179,227	-	179,227	-	179,227
Debt service	751	-	751	957,313	958,064
Unrestricted	(96,452,412)	(17,942,576)	(114,394,988)	2,050,687	(112,344,301)
Total Net Position	(55,275,523)	83,137,698	27,862,175	6,971,488	34,833,663
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 119,731,684	$ 309,099,878	$ 428,831,562	$ 78,422,271	$ 507,253,833

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

Functions/Programs:	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Executive department	$ 686,845	$ -	$ -	$ -
Legislative department	141,356	-	-	-
Office of the City Treasurer/Controller	17,000	-	-	-
General government	7,229,544	2,604,767	2,226,156	-
Public safety	38,359,208	3,683,954	684,545	-
Economic development and neighborhood revitalization	7,005,897	2,322,387	1,891,526	-
Public works	10,408,717	81,601	2,975,001	1,590,463
Miscellaneous	85,062	29,112	23,079	-
Interest	2,302,333	-	-	-
Total governmental activities	66,235,962	8,721,821	7,800,307	1,590,463
Business-type activities:				
Sewer	17,817,654	14,528,438	168,742	2,619,066
Water	22,502,379	27,003,405	264,296	550,928
Other enterprise funds	6,707,695	6,190,633	393,201	-
Total business-type activities	47,027,728	47,722,476	826,239	3,169,994
Total Primary Government	$ 113,263,690	$ 56,444,297	$ 8,626,546	$ 4,760,457
Component Units:				
Lancaster Industrial Development Authority	$ 22,224	$ 17,404	$ -	$ -
Lancaster Recreation Commission	4,036,840	3,642,130	475,356	-
The Parking Authority of the City of Lancaster	6,770,916	8,999,681	-	-
Redevelopment Authority of the City of Lancaster	4,737,318	1,030,208	799,816	-
Lancaster Downtown Investment District Authority	430,741	424,383	68,043	-
City of Lancaster Land Bank Authority	3,272	-	1,000,000	-
City of Lancaster City Revitalization and Improvement Zone Authority	2,542,992	3,984	3,752,263	-
Total Component Units	$ 18,544,303	$ 14,117,790	$ 6,095,478	$ -

General revenues:
Taxes:
Property taxes for general purposes
Real estate transfer tax
Earned income tax
Local services tax
Grants not restricted to specific programs
Investment earnings
Gain on disposal of capital assets
Transfers

Total general revenues and transfers

Change in Net Position

Net Position:
Beginning of year

End of year

Net (Expenses) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
$ (686,845)	$ -	$ (686,845)	$ -	$ (686,845)
(141,356)	-	(141,356)	-	(141,356)
(17,000)	-	(17,000)	-	(17,000)
(2,398,621)	-	(2,398,621)	-	(2,398,621)
(33,990,709)	-	(33,990,709)	-	(33,990,709)
(2,791,984)	-	(2,791,984)	-	(2,791,984)
(5,761,652)	-	(5,761,652)	-	(5,761,652)
(32,871)	-	(32,871)	-	(32,871)
(2,302,333)	-	(2,302,333)	-	(2,302,333)
(48,123,371)	-	(48,123,371)	-	(48,123,371)
-	(501,408)	(501,408)	-	(501,408)
-	5,316,250	5,316,250	-	5,316,250
-	(123,861)	(123,861)	-	(123,861)
-	4,690,981	4,690,981	-	4,690,981
(48,123,371)	4,690,981	(43,432,390)	-	(43,432,390)
-	-	-	(4,820)	(4,820)
-	-	-	80,646	80,646
-	-	-	2,228,765	2,228,765
-	-	-	(2,907,294)	(2,907,294)
-	-	-	61,685	61,685
-	-	-	996,728	996,728
-	-	-	1,213,255	1,213,255
-	-	-	1,668,965	1,668,965
27,666,594	-	27,666,594	-	27,666,594
1,197,274	-	1,197,274	-	1,197,274
6,080,711	-	6,080,711	-	6,080,711
1,664,127	-	1,664,127	-	1,664,127
2,810,616	-	2,810,616	-	2,810,616
100,693	59,775	160,468	1,289,611	1,450,079
319,058	-	319,058	-	319,058
3,306,090	(3,306,090)	-	-	-
43,145,163	(3,246,315)	39,898,848	1,289,611	41,188,459
(4,978,208)	1,444,666	(3,533,542)	2,958,576	(574,966)
(50,297,315)	81,693,032	31,395,717	4,012,912	35,408,629
$ (55,275,523)	$ 83,137,698	$ 27,862,175	$ 6,971,488	$ 34,833,663

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET
GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 4,600	$ 359,671	$ 364,271
Cash and cash equivalents - restricted	100,000	9,658,075	9,758,075
Investments	-	436,697	436,697
Investments - restricted	1,377	-	1,377
Receivables (net of allowance for uncollectibles):			
Taxes	2,885,027	-	2,885,027
Accounts	455,038	20,128	475,166
Investment income	-	154,367	154,367
Due from other funds	11,900,282	3,989,789	15,890,071
Due from other governments	471,732	2,238,447	2,710,179
Due from component unit	805,288	-	805,288
Prepaid expenditures	171,037	-	171,037
Total Assets	$ 16,794,381	$ 16,857,174	$ 33,651,555
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities:			
Accounts payable	$ 635,589	$ 1,036,894	$ 1,672,483
Due to other funds	-	3,000,000	3,000,000
Accrued salaries and benefits	958,962	-	958,962
Unearned revenue	83,604	768,328	851,932
Other liabilities	30,590	-	30,590
Workers' compensation liability	326,693	-	326,693
Total Liabilities	2,035,438	4,805,222	6,840,660
Deferred Inflows of Resources:			
Unavailable revenue - taxes	1,056,407	-	1,056,407
Unavailable revenue - fines, forfeitures, and other	461,848	-	461,848
Total Deferred Inflows of Resources	1,518,255	-	1,518,255
Fund Balance:			
Nonspendable:			
Prepaid expenditures	171,037	-	171,037
Restricted for:			
Capital acquisition	-	9,690,869	9,690,869
Housing and neighborhood development	-	291,570	291,570
Economic and community development	-	2,141,190	2,141,190
Public works	-	1,027,178	1,027,178
Parks and recreation	-	179,227	179,227
Debt service	-	751	751
Committed for:			
Economic and community development	-	663,207	663,207
Assigned for:			
2018 budget	2,979,690	-	2,979,690
Debt service	5,415,000	-	5,415,000
Excess workers' compensation expenditures	750,000	-	750,000
Unassigned	3,924,961	(1,942,040)	1,982,921
Total Fund Balance	13,240,688	12,051,952	25,292,640
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 16,794,381	$ 16,857,174	$ 33,651,555

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

CITY OF LANCASTER, PENNSYLVANIA

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2017

Total Fund Balance - Governmental Funds		$ 25,292,640
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		72,767,446
Some of the City's taxes, fines, forfeitures, and other revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.		1,518,255
Notes receivable are long-term in nature and are not available to pay current period expenditures and, therefore, are not reported in the funds.		8,098,272
Prepaid debt insurance resulting from insurance paid with the issuance of debt is not a financial resource and, therefore, is not reported in the funds.		208,443
Deferred charges on refunding resulting from the issuance of debt are not financial resources and, therefore, are not reported in the funds.		1,626,382
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.		
General obligation bonds	$ (49,396,907)	
General obligation notes	(14,069,600)	
Accrued interest on general obligation bonds and notes	(335,956)	
Capital leases	(1,277,239)	
Compensated absences payable	(1,200,314)	
Workers' compensation liability	(552,932)	
Net pension liability, net of related deferred outflows and inflows of resources	(33,948,881)	
Net other post-employment liability	(65,980,578)	(166,762,407)
Internal service funds are used by management to charge the costs of insurance services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal service fund net position	1,289,854	
Adjustment related to proprietary funds	685,592	1,975,446
Total Net Position - Governmental Activities		$ (55,275,523)

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

CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 36,453,507	$ -	$ 36,453,507
Intergovernmental revenues	2,947,734	5,824,496	8,772,230
Licenses and permits	2,168,647	-	2,168,647
Fines and forfeitures	2,125,720	-	2,125,720
Rents and charges for services	1,305,481	52,547	1,358,028
Program income	-	309,817	309,817
Investment income	195	100,498	100,693
Miscellaneous	2,605,408	23,079	2,628,487
Total revenues	47,606,692	6,310,437	53,917,129
Expenditures:			
Executive department	535,749	151,096	686,845
Legislative department	141,356	-	141,356
Office of the City Treasurer/Controller	17,000	-	17,000
General government	6,081,206	60,161	6,141,367
Public safety	34,220,555	384,455	34,605,010
Economic development and neighborhood revitalization	2,912,940	4,780,853	7,693,793
Public works	5,881,458	2,251,320	8,132,778
Miscellaneous	-	97,229	97,229
Capital outlay	-	1,983,332	1,983,332
Debt service:			
Principal	202,461	1,853,186	2,055,647
Interest	15,394	2,392,153	2,407,547
Total expenditures	50,008,119	13,953,785	63,961,904
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,401,427)	(7,643,348)	(10,044,775)
Other Financing Sources (Uses):			
Interfund reimbursements	2,550,768	-	2,550,768
Capital leases	763,291	72,597	835,888
Sale of general capital assets	41,364	-	41,364
Transfers in	3,524,854	4,156,989	7,681,843
Transfers out	(3,756,838)	(618,915)	(4,375,753)
Total other financing sources (uses)	3,123,439	3,610,671	6,734,110
Net Change in Fund Balance	722,012	(4,032,677)	(3,310,665)
Fund Balance:			
Beginning of year	12,518,676	16,084,629	28,603,305
End of year	$ 13,240,688	$ 12,051,952	$ 25,292,640

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

CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2017

Net Change in Fund Balance - Governmental Funds			$	(3,310,665)
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Depreciation expense	$	(3,622,492)		
Capital outlay		4,102,927		480,435
Donation of capital assets is reported in governmental activities as a contribution.				1,112,183
When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported with the governmental activities.				(15,307)
Bond, note, and capital lease proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.				
Payment of long-term liabilities		2,055,647		
Issuance of capital leases		(835,888)		1,219,759
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.				
Change in compensated absences payable		(553)		
Change in workers' compensation liability		(119,624)		
Change in net pension liability, net of related deferred outflows and inflows of resources		331,685		
Change in other post-employment liability		(6,321,640)		
Change in accrued interest on debt		2,916		
Amortization of prepaid debt insurance		(26,600)		
Amortization of debt premium		343,074		
Amortization of deferred charge on refunding		(214,176)		(6,004,918)
The issuance of notes receivable are reported as expenditures in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing notes receivable increases assets and does not affect the statement of activities. Similarly, repayment of principal is program income in the governmental funds, but reduces the assets in the statement of net position.				
Notes receivable issued		2,209,503		
Principal payments received		(286,827)		
Change in allowance		(523,365)		1,399,311
Under the modified accrual basis of accounting used in the governmental funds, certain revenues are not recognized unless they are both available to pay current year expenditures and measurable. In the statement of activities, however, which is presented on the accrual basis, revenues and assets are reported regardless of when financial resources are available.				
Change in unavailable tax revenue		155,199		
Change in unavailable fines, forfeitures, and other revenue		461,848		617,047
Internal service funds are used by management to charge the costs of insurance services to individual funds. The net revenue of certain activities of the internal service fund is reported within governmental activities.				
Internal service fund change in net position		(195,222)		
Adjustment related to proprietary funds		(280,831)		(476,053)
Change in Net Position - Governmental Activities			$	(4,978,208)

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET
PROPRIETARY FUNDS

DECEMBER 31, 2017

	Enterprise Funds				
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Internal Service Fund
Assets and Deferred Outflows of Resources					
Assets:					
Current assets:					
Cash and cash equivalents	$ 300	$ 550	$ -	$ 850	$ -
Cash and cash equivalents - restricted	20,654,076	9,068,659	203,594	29,926,329	-
Receivables (net of allowance for uncollectibles):					
Accounts	7,395,564	4,671,783	2,048,792	14,116,139	65,027
Other	118,532	36,005	45,524	200,061	-
Due from other funds	-	-	-	-	2,114,808
Prepaid expenses	6,563	917,065	3,735	927,363	-
Total current assets	28,175,035	14,694,062	2,301,645	45,170,742	2,179,835
Long-term assets:					
Due from other funds	-	1,500,000	-	1,500,000	-
Due from other governments	147,336	-	-	147,336	-
Prepaid debt insurance	389,682	877,512	-	1,267,194	-
Capital assets, not being depreciated	21,774,865	14,410,334	177,200	36,362,399	-
Capital assets, being depreciated, net	86,401,344	143,902,672	4,410,780	234,714,796	-
Total long-term assets	108,713,227	160,690,518	4,587,980	273,991,725	-
Total Assets	136,888,262	175,384,580	6,889,625	319,162,467	2,179,835
Deferred Outflows of Resources:					
Deferred outflows of resources for pension	54,302	83,773	19,514	157,589	-
Deferred charge on refunding	676,783	6,293,510	-	6,970,293	-
Total Deferred Outflows of Resources	731,085	6,377,283	19,514	7,127,882	-
Total Assets and Deferred Outflows of Resources	$ 137,619,347	$ 181,761,863	$ 6,909,139	$ 326,290,349	$ 2,179,835

(Continued)

	Enterprise Funds				
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Internal Service Fund
Liabilities, Deferred Inflows of Resources, and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable	$ 2,284,551	$ 2,677,179	$ 735,874	$ 5,697,604	$ -
Claims payable	-	-	-	-	889,981
Accrued salaries and benefits	76,756	128,609	42,592	247,957	-
Accrued expenses	294,743	884,574	5,518	1,184,835	-
Due to other funds	7,611,997	6,746,458	2,146,424	16,504,879	-
Due to other governments	8,131,254	-	-	8,131,254	-
Unearned revenue	178,060	-	82,974	261,034	-
Compensated absences, current portion	25,168	26,607	6,332	58,107	-
Capital lease, current portion	121,380	121,960	102,518	345,858	-
Notes payable, current portion	707,155	519,600	366,565	1,593,320	-
Bonds payable, current portion	1,750,000	1,180,000	45,000	2,975,000	-
Total current liabilities	21,181,064	12,284,987	3,533,797	36,999,848	889,981
Long-term liabilities:					
Compensated absences	84,211	89,023	33,350	206,584	-
Workers' compensation liability	-	29,883	-	29,883	-
Net pension liability	627,834	1,043,734	214,960	1,886,528	-
Net other post-employment liability	4,498,058	3,297,390	756,894	8,552,342	-
Capital lease	124,386	199,575	195,524	519,485	-
Notes payable	12,115,182	9,210,800	2,381,626	23,707,608	-
Bonds payable	33,608,308	136,429,142	328,230	170,365,680	-
Total long-term liabilities	51,057,979	150,299,547	3,910,584	205,268,110	-
Total Liabilities	72,239,043	162,584,534	7,444,381	242,267,958	889,981
Deferred Inflows of Resources:					
Deferred inflows of resources for pension	68,368	101,734	28,999	199,101	-
Total Deferred Inflows of Resources	68,368	101,734	28,999	199,101	-
Net Position:					
Net investment in capital assets	67,696,675	25,482,654	1,372,111	94,551,440	-
Restricted	6,528,834	-	-	6,528,834	-
Unrestricted	(8,913,573)	(6,407,059)	(1,936,352)	(17,256,984)	1,289,854
Total Net Position	65,311,936	19,075,595	(564,241)	83,823,290	1,289,854
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 137,619,347	$ 181,761,863	$ 6,909,139	$ 326,290,349	$ 2,179,835
Total net position of enterprise funds				$ 83,823,290	
Adjustment to reflect the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time.				(685,592)	
Net position of business-type activities				$ 83,137,698	

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2017

	Enterprise Funds				
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Internal Service Fund
Operating Revenues:					
Charges for services	$ 14,226,743	$ 26,530,944	$ 6,104,699	$ 46,862,386	$ 12,134,451
Miscellaneous	274,926	472,461	85,934	833,321	-
Total operating revenues	14,501,669	27,003,405	6,190,633	47,695,707	12,134,451
Operating Expenses:					
Sewage pumping stations	1,175,590	-	-	1,175,590	-
Susquehanna treatment plant	-	2,739,219	-	2,739,219	-
Conestoga treatment plant	-	2,300,648	-	2,300,648	-
Collection system	1,480,548	-	579,379	2,059,927	-
Hauling and tipping	-	-	3,088,856	3,088,856	-
Transmission and distribution	-	1,348,785	-	1,348,785	-
Meters and meter labor	-	651,371	-	651,371	-
Laboratory	-	280,780	-	280,780	-
Sewage treatment plant	4,602,625	-	-	4,602,625	-
Administration	4,093,719	6,293,117	1,407,281	11,794,117	-
Grounds maintenance	27,965	432,154	293,037	753,156	-
Street cleaning	-	-	586,345	586,345	-
Wastewater and green initiatives	-	-	275,264	275,264	-
Health insurance claims	-	-	-	-	11,609,293
Insurance premiums	-	-	-	-	720,408
Special events	-	-	207,792	207,792	-
Depreciation expense	3,262,285	3,116,947	158,609	6,537,841	-
Total operating expenses	14,642,732	17,163,021	6,596,563	38,402,316	12,329,701
Operating Income (Loss)	(141,063)	9,840,384	(405,930)	9,293,391	(195,250)
Nonoperating Revenues (Expenses):					
State pension contribution	168,742	264,296	80,530	513,568	-
Investment income	13,486	45,046	1,243	59,775	28
Intergovernmental revenue	-	-	312,671	312,671	-
Insurance proceeds	26,769	-	-	26,769	-
Bulk treatment adjustment	(1,367,812)	-	-	(1,367,812)	-
Economic development contribution	-	(198,128)	-	(198,128)	-
Amortization expense	(45,969)	(74,961)	-	(120,930)	-
Interest expense	(1,791,117)	(5,389,403)	(38,853)	(7,219,373)	-
Total nonoperating revenues (expenses)	(2,995,901)	(5,353,150)	355,591	(7,993,460)	28
Income (loss) before transfers and capital contributions	(3,136,964)	4,487,234	(50,339)	1,299,931	(195,222)
Transfers in (out)	-	(3,500,000)	193,910	(3,306,090)	-
Capital contributions	2,619,066	550,928	-	3,169,994	-
Change in Net Position	(517,898)	1,538,162	143,571	1,163,835	(195,222)
Net Position:					
Beginning of year	65,829,834	17,537,433	(707,812)		1,485,076
End of year	$ 65,311,936	$ 19,075,595	$ (564,241)		$ 1,289,854
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds				280,831	
Changes in net position of business-type activities				$ 1,444,666	

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2017

	Enterprise Funds				
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Internal Service Fund
Cash Flows From Operating Activities:					
Cash received from users	$ 13,053,363	$ 26,824,869	$ 6,048,755	$ 45,926,987	$ 12,134,451
Cash paid to suppliers	(8,789,936)	(7,990,192)	(4,309,453)	(21,089,581)	(12,377,519)
Cash paid to employees	(2,879,196)	(5,458,174)	(2,424,206)	(10,761,576)	-
Net cash provided by (used in) operating activities	1,384,231	13,376,503	(684,904)	14,075,830	(243,068)
Cash Flows From Investing Activities:					
Investment income received	13,486	45,046	1,243	59,775	28
Net cash provided by investing activities	13,486	45,046	1,243	59,775	28
Cash Flows From Capital and Related Financing Activities:					
Principal payments on capital leases	(275,643)	(151,457)	(129,428)	(556,528)	-
Principal payments on notes payable	(621,577)	(498,400)	(381,474)	(1,501,451)	-
Principal payments on bonds payable	(1,415,000)	(1,140,000)	(40,000)	(2,595,000)	-
Proceeds from note payable	179,656	-	1,473,830	1,653,486	-
Interest paid	(2,007,589)	(5,611,159)	(45,067)	(7,663,815)	-
Acquisition of capital assets	(5,992,646)	(12,701,702)	(988,076)	(19,682,424)	-
Insurance proceeds	26,769	-	-	26,769	-
Net change in escrow deposits	7,602	-	-	7,602	-
Net cash used in capital and related financing activities	(10,098,428)	(20,102,718)	(110,215)	(30,311,361)	-
Cash Flows From Noncapital Financing Activities:					
Transfer in (out)	-	(3,500,000)	193,910	(3,306,090)	-
Econcomic development contribution	-	(198,128)	-	(198,128)	-
Due to (from) other funds	2,109,431	(1,625,861)	(122,618)	360,952	243,040
State pension contribution	168,742	264,296	80,530	513,568	-
Intergovernmental revenue	-	-	312,671	312,671	-
Net cash provided by (used in) noncapital financing activities	2,278,173	(5,059,693)	464,493	(2,317,027)	243,040
Net Decrease in Cash and Cash Equivalents	(6,422,538)	(11,740,862)	(329,383)	(18,492,783)	-
Cash and Cash Equivalents:					
Beginning of year	27,076,914	20,810,071	532,977	48,419,962	-
End of year	$ 20,654,376	$ 9,069,209	$ 203,594	$ 29,927,179	$ -

(Continued)

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2017
(Continued)

	Enterprise Funds				
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	$ (141,063)	$ 9,840,384	$ (405,930)	$ 9,293,391	$ (195,250)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	3,262,285	3,116,947	158,609	6,537,841	-
Amortization	21,441	33,886	10,003	65,330	-
(Increase) decrease in assets and deferred outflows of resources:					
Receivables	(1,432,936)	(178,536)	(136,114)	(1,747,586)	168,223
Due from other governments	(8,430)	-	-	(8,430)	-
Deferred outflows of resources for pension	(54,302)	(83,773)	4,031	(134,044)	-
Prepaid expenses	11,328	(141,809)	5,303	(125,178)	-
Increase (decrease) in liabilities and deferred inflows of resources:					
Accounts payable	(660,468)	683,284	(405,580)	(382,764)	-
Claims payable	-	-	-	-	(216,041)
Accrued expenses	6,162	32,938	450	39,550	-
Unearned revenue	(6,940)	-	(5,764)	(12,704)	-
Compensated absences	16,694	15,113	2,666	34,473	-
Workers' compensation liability	(1,276)	26,022	-	24,746	-
Net pension liability	(62,908)	(95,217)	(65,673)	(223,798)	-
Net other post-employment liability	337,586	(19,790)	134,266	452,062	-
Deferred inflows of resources for pension	97,058	147,054	18,829	262,941	-
Total adjustments	1,525,294	3,536,119	(278,974)	4,782,439	(47,818)
Net cash provided by (used in) operating activities	$ 1,384,231	$ 13,376,503	$ (684,904)	$ 14,075,830	$ (243,068)
Noncash Capital Financing Activities:					
Issuance of capital lease	$ 165,155	$ 180,863	$ 164,325	$ 510,343	$ -
Developers' contribution	$ -	$ 550,928	$ -	$ 550,928	$ -

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

DECEMBER 31, 2017

	Pension and OPEB Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	$ -	$ -	$ 231,014
Investments	142,249,776	282,584	-
Receivables:			
Accounts	-	-	27,745
Investment income	379,385	-	-
Other	-	-	1,490
Total Assets	142,629,161	282,584	260,249
Liabilities			
Benefits payable	135,738	-	24,428
Other liabilities	-	-	235,821
Total Liabilities	135,738	-	$ 260,249
Net Position			
Restricted for pension and OPEB benefits and other purposes	$ 142,493,423	$ 282,584	

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2017

	Pension and OPEB Trust Funds	Private-Purpose Trust Funds
Additions:		
Contributions:		
Employees	$ 1,481,857	$ -
Employer	7,382,969	-
Total contributions	8,864,826	-
Investment income:		
Net appreciation in fair value of investments	11,770,009	-
Interest and dividends	3,430,232	45,564
Total investment income	15,200,241	45,564
Less: investment expenses	(537,349)	-
Net investment income	14,662,892	45,564
Total additions	23,527,718	45,564
Deductions:		
Benefits	10,186,093	30,240
Administrative expenses	117,112	-
Total deductions	10,303,205	30,240
Change in Net Position	13,224,513	15,324
Net Position:		
Beginning of year	129,268,910	267,260
End of year	$ 142,493,423	$ 282,584

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET
COMPONENT UNITS

DECEMBER 31, 2017

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	City of Lancaster Land Bank Authority	City of Lancaster City Revitalization and Improvement Zone Authority	Total Component Units
Assets and Deferred Outflows of Resources								
Assets:								
Current assets:								
Cash and cash equivalents	$ 344,293	$ 918,814	$ 2,048,830	$ 601,595	$ 237,455	$ 496,728	$ 2,229,548	$ 6,877,263
Cash and cash equivalents - restricted	-	-	-	2,982,336	-	-	1,756,067	4,738,403
Investments	-	-	2,824,517	-	-	-	-	2,824,517
Investments - restricted	-	-	2,725	-	-	-	-	2,725
Receivables (net of allowance for uncollectibles)								
Accounts	-	187,571	248,083	532,029	398	-	-	968,081
Other	-	-	-	17,114	50,324	-	-	67,438
Accrued interest	-	-	-	536,728	-	-	-	536,728
Current portion:								
Lease rental receivable	-	-	-	5,282,882	-	-	-	5,282,882
Due from other governments	-	-	-	558,664	-	-	-	558,664
Due from developer	-	-	-	-	-	250,000	-	250,000
Notes receivable	100,000	-	-	885,990	-	-	-	985,990
Properties held for resale	-	-	-	651,194	-	-	-	651,194
Prepaid expenses	-	-	157,544	-	10,235	-	-	167,779
Total current assets	444,293	1,106,385	5,281,699	12,048,532	298,412	746,728	3,985,615	23,911,664
Long-term assets:								
Lease rental receivable	-	-	-	17,524,918	-	-	-	17,524,918
Due from other governments	-	-	-	6,099,875	-	-	-	6,099,875
Due from developer	-	-	-	-	-	250,000	-	250,000
Notes receivable	100,000	-	-	900,000	-	-	-	1,000,000
Capital assets, not being depreciated	-	-	3,695,871	1,196,767	-	-	-	4,892,638
Capital assets, being depreciated, net	-	164,199	15,430,125	7,798,122	1,050	-	-	23,393,496
Net pension asset	-	-	14,115	-	-	-	-	14,115
Total long-term assets	100,000	164,199	19,140,111	33,519,682	1,050	250,000	-	53,175,042
Total Assets	544,293	1,270,584	24,421,810	45,568,214	299,462	996,728	3,985,615	77,086,706
Deferred Outflows of Resources:								
Deferred charge on refunding	-	-	1,246,840	-	-	-	-	1,246,840
Deferred outflows of resources for pension	-	-	88,725	-	-	-	-	88,725
Total Deferred Outflows of Resources	-	-	1,335,565	-	-	-	-	1,335,565
Total Assets and Deferred Outflows of Resources	$ 544,293	$ 1,270,584	$ 25,757,375	$ 45,568,214	$ 299,462	$ 996,728	$ 3,985,615	$ 78,422,271

(Continued)

* - As of April 30, 2017

Liabilities and Net Position	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	City of Lancaster Land Bank Authority	City of Lancaster City Revitalization and Improvement Zone Authority	Total Component Units
Liabilities:								
Current liabilities:								
Accounts payable	$ -	$ 96,343	$ 546,319	$ 164,272	$ 1,940	$ -	$ 5,000	$ 813,874
Accrued salaries and benefits	-	-	48,295	-	-	-	-	48,295
Accrued expenses	-	130,120	59,283	225,243	-	-	7,539	422,185
Line of credit	-	-	-	498,911	-	-	-	498,911
Due to primary government	-	-	527,594	539,608	-	-	-	1,067,202
Unearned revenue	-	56,640	55,243	987,454	6,300	-	-	1,105,637
Contingent liability from property resettlements	-	-	-	174,500	-	-	-	174,500
Due to lessee, current portion	-	-	-	3,372,445	-	-	-	3,372,445
Loans payable, current portion	-	-	150,000	-	-	-	-	150,000
Convention Center Authority obligation, current portion	-	-	-	100,000	-	-	-	100,000
Notes payable, current portion	-	-	-	204,000	-	-	-	204,000
Bonds payable, current portion	-	-	930,000	2,558,613	-	-	275,000	3,763,613
Total current liabilities	-	283,103	2,316,734	8,825,046	8,240	-	287,539	11,720,662
Long-term liabilities:								
Unearned revenue	-	-	-	6,585,224	-	-	-	6,585,224
Due to lessee	-	-	-	1,263,287	-	-	-	1,263,287
Convention Center Authority obligation	-	-	-	250,000	-	-	1,800,000	2,050,000
Notes payable	-	-	-	3,517,333	-	-	-	3,517,333
Bonds payable	-	-	20,770,878	19,738,399	-	-	5,805,000	46,314,277
Total long-term liabilities	-	-	20,770,878	31,354,243	-		7,605,000	59,730,121
Total Liabilities	-	283,103	23,087,612	40,179,289	8,240	-	7,892,539	71,450,783
Net Position:								
Net investment in capital assets	-	164,199	(1,475,317)	5,273,556	1,050	-	-	3,963,488
Restricted	-	-	-	957,313	-	-	-	957,313
Unrestricted	544,293	823,282	4,145,080	(841,944)	290,172	996,728	(3,906,924)	2,050,687
Total Net Position	544,293	987,481	2,669,763	5,388,925	291,222	996,728	(3,906,924)	6,971,488
Total Liabilities and Net Position	$ 544,293	$ 1,270,584	$ 25,757,375	$ 45,568,214	$ 299,462	$ 996,728	$ 3,985,615	$78,422,271

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES
COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2017

		Program Revenues		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Lancaster Industrial Development Authority	$ 22,224	$ 17,404	$ -	$ -
Lancaster Recreation Commission	4,036,840	3,642,130	475,356	-
The Parking Authority of the City of Lancaster	6,770,916	8,999,681	-	-
Redevelopment Authority of the City of Lancaster	4,737,318	1,030,208	799,816	-
Lancaster Downtown Investment District Authority *	430,741	424,383	68,043	-
City of Lancaster Land Bank Authority **	3,272	-	1,000,000	-
City of Lancaster City Revitalization and Improvement Zone Authority	2,542,992	3,984	3,752,263	-
Total component units	$ 18,544,303	$ 14,117,790	$ 6,095,478	$ -

General revenues:
Investment earnings

Total general revenues

Change in Net Position

Net Position:

Beginning of year

End of year

* - Year ended April 30, 2017
** - April 12, 2017 (date of inception) to December 31, 2017

Net (Expenses) Revenue and Changes in Net Position							
Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	City of Lancaster Land Bank Authority **	City of Lancaster Revitalization and Improvement Zone Authority	Total
$ (4,820)	$ -	$ -	$ -	$ -	$ -	$ -	$ (4,820)
-	80,646	-	-	-	-	-	80,646
-	-	2,228,765	-	-	-	-	2,228,765
-	-	-	(2,907,294)	-	-	-	(2,907,294)
-	-	-	-	61,685	-	-	61,685
-	-	-	-	-	996,728	-	996,728
-	-	-	-	-	-	1,213,255	1,213,255
(4,820)	80,646	2,228,765	(2,907,294)	61,685	996,728	1,213,255	1,668,965
-	908	20,891	1,267,812	-	-	-	1,289,611
-	908	20,891	1,267,812	-	-	-	1,289,611
(4,820)	81,554	2,249,656	(1,639,482)	61,685	996,728	1,213,255	2,958,576
549,113	905,927	420,107	7,028,407	229,537	-	(5,120,179)	4,012,912
$ 544,293	$ 987,481	$ 2,669,763	$ 5,388,925	$ 291,222	$ 996,728	$ (3,906,924)	$ 6,971,488

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

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

The City is financially accountable for:

- Organizations that make up its legal entity.

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

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

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

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

Component Units

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

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

Lancaster Industrial Development Authority (LIDA)

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

Lancaster Recreation Commission (Commission)

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

As a member of the Commission, the City is required to make a quarterly contribution to the Commission. For the year ended December 31, 2017, the City contributed $305,656 to the Commission, which was reported as an expenditure of the General Fund.

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

The Parking Authority Board is comprised of five members, the majority of whom must be city residents, appointed by the Mayor to serve a term of five years. The terms are staggered so that only one term expires each year. The Board is charged with the duty to acquire, construct, improve, and maintain parking projects; to conduct research of parking problems; to establish a permanent coordinated system of parking facilities; and to borrow money and issue bonds as required. During the year ended December 31, 2017, the Parking Authority began enforcement of all on-street and off-street parking regulations of the City. The Parking Authority operates on a fiscal year ending December 31.

During the year ended December 31, 2017, the City paid the Parking Authority $163,801 for employee parking.

On June 23, 2016, the City and the Parking Authority entered into an Agreement, with the commencement date of January 1, 2017, whereby the Parking Authority will enforce all on-street and off-street parking regulations of the City. The term of the Agreement is three years and may be extended upon agreement by the City and the Parking Authority. In accordance with the Agreement, the Parking Authority shall receive 10% of gross parking enforcement revenue. The Parking Authority is required to annually pay a minimum guaranteed amount of $500,000 to the City and the City receives the remaining net income for parking enforcement, as defined in Exhibit A of the Agreement. Amounts due to the City, as calculated in accordance with Exhibit A of the Agreement, were $1,640,507 for the year ended December 31, 2017. Of this amount, $527,594 is outstanding and due to the City as of December 31, 2017.

Eighteen months after the date of the Agreement, the City and Parking Authority agree to meet and review the performance of the Parking Authority and the formula established in Exhibit A of the Agreement. After such meeting, both the City and the Parking Authority have the option to terminate the Agreement upon five months' written notice.

Redevelopment Authority of the City of Lancaster (Redevelopment Authority)

The Redevelopment Authority consists of five city residents who are appointed by the Mayor to serve a term of five years. The purpose of the Redevelopment Authority is to: 1) promote the elimination of blighted areas and supply decent housing; 2) replan such areas that are certified by the Lancaster City Planning Commission; 3) contract with private, corporate, or governmental entities for the redevelopment of blighted commercial, industrial, or residential areas; 4) acquire properties in blighted areas by purchase, gift, or eminent domain; and 5) contract with private, corporate, or governmental entities desiring to provide funding for the redevelopment of commercial, industrial, or residential properties. The Redevelopment Authority operates on a fiscal year ending December 31.

Lancaster Downtown Investment District Authority (LDIDA)

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

City of Lancaster Land Bank Authority (LLBA)

The LLBA board consists of seven members, five of which are appointed by the Mayor while the remaining two members are appointed by City Council. The LLBA was created to facilitate the return of vacant, abandoned, and tax delinquent land/properties to productive use. The LLBA operates on a fiscal year ending December 31.

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

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

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

Related Organizations

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

Lancaster Municipal Authority

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

Metropolitan Lancaster Authority

The Metropolitan Lancaster Authority consists of seven members who are appointed to five-year terms by the Mayor with City Council approval. The Board has the authority to acquire, hold, construct, improve, maintain, operate, own, and lease (either in the capacity of lessor or lessee) waterworks, water supply works, and water distribution systems for the City and other authorized areas in Lancaster County. The Metropolitan Lancaster Authority is currently inactive.

Lancaster Airport Authority (Airport Authority)

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

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

Lancaster Higher Education Authority

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

Housing Authority of the City of Lancaster (Housing Authority)

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

Lancaster County Convention Center Authority (Convention Center Authority)

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

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

Lancaster Emergency Municipal Services Association (LEMSA)

The LEMSA Board consists of thirteen trustees, of which one is appointed by the City. LEMSA's mission is to provide comprehensive, skillful, cost-effective emergency and non-emergency health care services to the Lancaster community while continuing to evolve with changing health care needs. During the year ended December 31, 2017, the City contributed $150,000 to LEMSA.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental fund:

General Fund

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

Internal Service Fund

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

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

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

Private-Purpose Trust Fund

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

Agency Funds

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

Component units are accounted for as follows:

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The Water and Sewer Funds also recognize, as operating revenue, the portion of tap fees intended to recover the cost of certain prior capital outlays. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Cash and Cash Equivalents

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

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

Investments

Investments are stated at fair value The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Loans Receivable

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

Property Taxes

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

Due from Developer Receivable

LLBA’s receivables relate to a single receivable due from a local developer. The amount due is based on an agreement made between the developer and the City as a funding mechanism for LLBA. Receivables are recorded at carrying value. LLBA considers the receivable to be collectable in full and did not record an allowance for uncollectible amounts.

Interfund Receivables and Payables

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

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

Unavailable/Unearned Revenue

Unavailable revenue is recorded for governmental fund receivables that are not both measurable and available. Unavailable revenue consists of real estate taxes, earned income taxes, local services taxes, certain fines, forfeitures, and other revenue. Collections of such types of revenue sources are recognized as revenue in the year in which they are measurable and available (within 60 days of year-end).

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

Deferred Inflows and Outflows of Resources for Pensions

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

Long-Term Obligations

Long-term obligations, such as bonds and notes, are recorded at the fund level in the proprietary funds and at the government-wide level for the governmental and business-type activities. Amounts payable within one year are classified as current liabilities on the proprietary fund's balance sheet and the government-wide statement of net position.

Fund Balance

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

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and inventory.

- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by City Council. Such commitment is made via a resolution by City Council and must be made prior to the end of the year. Removal of this commitment requires a resolution by City Council.

- Assigned – This category represents intentions of the Mayor to use the funds for specific purposes. Through a resolution of City Council, the Mayor or his/her designee has been delegated the responsibility to assign funds.

- Unassigned – This category represents all other funds not otherwise defined.

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

Net Position

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

Capital Assets

Capital assets of the primary government, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of three years for general capital assets and other enterprise funds and one year for Sewer Fund and Water Fund capital assets. Such assets are recorded at estimated historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the City would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

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

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

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

Useful lives are as follows:

General Fund and other enterprise funds capital assets:

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

Sewer Fund capital assets:

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

Water Fund capital assets:

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

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

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

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

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

Buildings	40 years

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

Equipment	5 - 7 years

Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest is capitalized in the business-type activities and enterprise fund financial statements. Total interest capitalized for the year ended December 31, 2017 amounted to $549,637 for business-type activities, $114,854 for Sewer Fund, and $434,783 for Water Fund.

D. Other Policies

Budgetary Data

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

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

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

Property Taxes

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

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

In 2017, the City assessed 14.44 mills for general government purposes.

Tax Abatements

The City's tax abatements are authorized by City Council ordinance. Under the Local Economic Revitalization Tax Assistance (LERTA) program, recipients are eligible for property tax abatement on certain improvements to deteriorated residential or commercial property and new construction of residential structures in deteriorated areas. Deteriorated property must be certified by a health, housing, or building inspection agency as unfit for human habitation. Improvements must increase the assessed property value by more than $25,000 and make the property habitable.

The City's tax abatement agreements do not contain recapture provisions for non-compliance. There were no amounts received or receivable from other governments in association with the forgone taxes. The City did not make other commitments other than to reduce taxes as part of the tax abatement agreements.

During 2017, the City's LERTA property tax abatements totaled $259,989.

CRIZ Tax Revenue

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

Compensated Absences

The City allows nonuniformed employees and uniformed police officers to accumulate up to a maximum of 200 hours and uniformed firefighters to accumulate up to a maximum of 480 hours of compensatory time. The compensatory time is paid to the employee at termination. The accumulated hours are multiplied by the employee’s current salary rate to determine the aggregate cost. As of December 31, 2017, the aggregate cost to the City for the accumulated compensatory time has been estimated at $890,128 and $169,578 for governmental activities and business-type activities, respectively.

The City allows nonuniformed union and nonunion employees to accumulate up to a maximum of 200 and 360 days of sick leave, respectively. Upon retirement, at age sixty-two, after twenty years of service, the employee would be paid $10 per day for unused sick leave up to a maximum of 120 days. The City allows firefighters to accumulate up to 297 days of sick leave. Upon retirement, the employee would be paid $20 per day for unused sick leave up to 150 days. The City allows police officers to accumulate up to 500 days of sick leave and effective August 8, 2008, new police hires only accumulate up to 297 days. Upon retirement, the employee would be paid $10 per day for unused sick leave, to a maximum of 40% of the accrued sick leave. As of December 31, 2017, the aggregate cost to the City for accumulated vested sick days has been estimated at $118,427 and $16,348 for governmental activities and business-type activities, respectively.

The City allows employees to accumulate up to a maximum of five vacation days each year. Vacation days are paid to the employee at termination. The accumulated days are multiplied by the employee’s current salary rate to determine the aggregate cost. As of December 31, 2017, the aggregate cost to the City for accumulated vacation days has been estimated at $191,759 and $78,765 for governmental activities and business-type activities, respectively.

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

Retirement and OPEB Plans

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

Use of Estimates

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

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This Statement enhances note disclosures and required supplementary information (RSI) for the City's other post-employment benefit (OPEB) plan.

Pending Pronouncements

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 January of 2017, the GASB issued Statement No. 84, *"Fiduciary Activities."* This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB Statement No. 84 are effective for the City's December 31, 2019 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.

In June of 2017, the GASB issued Statement No. 87, *"Leases."* This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the City's December 31, 2020 financial statements.

In March of 2018, the GASB issued Statement No. 88, *"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements."* This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the City's December 31, 2019 financial statements.

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

2. Deposits and Investments

Primary Government

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury obligations, other short-term U.S. and Pennsylvania government obligations, 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. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

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

The City maintains a cash and investment pool that is available for use by all funds with the exception of the Pension and OPEB Trust Funds. At December 31, 2017, the book balance of the pooled funds was $26,611,373 and the bank balance was $28,243,374.

A. *Deposits*

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2017, the City's book balance was $40,280,539 and the bank balance was $41,862,495. Of the bank balance, $555,817 was covered by federal depository insurance and the remaining $41,306,678 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Cash and cash equivalents:	
Governmental activities:	
Unrestricted	$ 364,271
Restricted	9,758,075
Business-type activities:	
Unrestricted	850
Restricted	29,926,329
Fiduciary funds	231,014
Total cash and cash equivalents	$ 40,280,539

B. Investments

Investments consist of the following as of December 31, 2017:

	Level 1	Level 2	Total
Money market funds	$ 13,507,511	$ -	$ 13,507,511
Mutual funds:			
Equity	1,873,142	-	1,873,142
Fixed income	194,574	-	194,574
Balanced	7,727,634	-	7,727,634
Common stock:			
Energy	8,182,888	-	8,182,888
Information technology	15,884,269	-	15,884,269
Consumer discretionary	6,165,319	-	6,165,319
Consumer staples	12,938,459	-	12,938,459
Industrials	5,172,049	-	5,172,049
Financials	8,623,868	-	8,623,868
Healthcare	11,684,220	-	11,684,220
Utilities	5,649,465	-	5,649,465
Telecom service	8,248,226	-	8,248,226
Exchange-traded funds:			
Equity	1,820,674	-	1,820,674
Fixed income	85,250	-	85,250
U.S. government obligations	13,301,067	-	13,301,067
U.S. government agency obligations	61,288	-	61,288
Corporate bonds:			
Domestic	-	14,135,291	14,135,291
Foreign	-	7,715,240	7,715,240
Total investments	$ 121,119,903	$ 21,850,531	$ 142,970,434

Investments	
Governmental activities:	
Unrestricted	$ 436,697
Restricted	1,377
Fiduciary funds	142,532,360
Total investments	$ 142,970,434

Corporate bonds are valued utilizing several points for price calculation, including quantity, bid/ask spread, historical comparisons, pricing models, and matrices. The valuation techniques used reflect market participants' assumptions and maximize the use of relevant observable inputs including quoted prices for similar assets, the issuer, credit rating, coupon rate, time left until maturity, and special redemption features. Due to the valuation process used, corporate bonds are within Level 2 of the fair value hierarchy.

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City does not have an investment policy for custodial credit risk. Investments of the City are held by the counterparty, with $133,424,054 held in the City's name or in the name of the City's multiple Pension Plans and $9,546,380 registered in the name of the Trustee.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. At December 31, 2017, none of the City's investments with a single issuer were in excess of five percent of the City's portfolio.

Credit risk. The City does not have a formal policy that would limit its investment choices with regard to credit risk. The City's investments had the following level of exposure to credit risk as of December 31, 2017:

	Fair Value	Rating
Money market funds	$ 13,507,511	Unrated
U.S. government agency obligations	61,288	Unrated
Corporate bonds	3,032,060	AAA
Corporate bonds	2,940,196	AA+
Corporate bonds	3,481,534	AA-
Corporate bonds	3,923,496	A+
Corporate bonds	869,493	A
Corporate bonds	1,654,455	A-
Corporate bonds	5,949,297	Unrated

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

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

		Investment Maturity			
	Fair Value	2018	2019-2023	2024-2028	Subsequent to 2028
Money market funds	$ 13,507,511	$ 13,507,511	$ -	$ -	$ -
U.S. government obligations	13,301,067	10,138,274	3,162,793	-	-
U.S. government agency obligations	61,288	203	-	16,375	44,710
Corporate bonds and notes	21,850,531	471,906	16,201,789	5,176,836	-
	$ 48,720,397	$ 24,117,894	$ 19,364,582	$ 5,193,211	$ 44,710

C. Restricted Cash, Cash Equivalents, and Investments

Governmental Activities

As of December 31, 2017, the City had restricted cash, cash equivalents, and investments of $9,759,452, which represents $100,000 restricted for the payment of workers' compensation claims, and $9,659,452 restricted for various City projects.

Business-Type Activities

As of December 31, 2017, the City had cash and cash equivalents of $29,926,329 restricted for various sewer, water, trash, and stormwater projects.

Component Units

LIDA

Custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, LIDA's deposits may not be returned. LIDA does not have a formal deposit policy for custodial credit risk. At December 31, 2017, LIDA's total bank deposits were $346,069 (including cash and cash equivalents and certificates of deposit) and the carrying value was $344,293. The deposits that were not covered by depository insurance were collateralized with securities held by the pledging financial institution, but not in LIDA's name.

Commission

The carrying amount of the Commission's deposits was $918,814 as of December 31, 2017. The bank balance totaled $909,468 as of December 31, 2017.

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

The bank balance of the Commission's cash deposits is categorized as follows to give an indication of the level of risk assumed by the Commission at December 31, 2017:

Insured	$ 373,810
Collateralized	
Collateral held by pledging bank's trust department not in the Commission's name	535,658
Total	$ 909,468

Parking Authority

A. Deposits

The Parking Authority's available cash is invested in demand deposit accounts and petty cash. The carrying amounts of the cash deposits at December 31, 2017 consist of the following:

Cash Deposits:	
Cash and cash equivalents	$ 2,015,617
Petty cash	33,213
	$ 2,048,830

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

As of December 31, 2017, the Parking Authority's cash deposits were $2,048,830. The bank balance as of December 31, 2017 was $2,066,648. At December 31, 2017, $250,000 was covered by federal depository insurance and $1,816,648 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.

In July 2017, the Parking Authority Board approved a Board Restricted Cash Reserve Policy (Policy) as a reserve fund to be designated for uses approved by the Board. The Policy sets a target reserve amount of $3,000,000, with the initial $500,000 funded by accumulated liquid net assets as the beginning balance, and the remaining $2,500,000 to be funded over the next five years in increments of $500,000 per year through funding strategies incorporated into the Parking Authority's annual operating budget.

B. Investments

The Parking Authority is permitted to invest its funds as defined in the Pennsylvania Parking Authorities Law. Authorized types of investments include 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. Investment income is recognized when earned.

The Parking Authority's investments are considered Level 1 based on quoted market prices. As of December 31, 2017, the Parking Authority had the following investments:

Investments	Fair Value
Restricted:	
Money market funds	$ 2,725
Unrestricted:	
Money market funds	$ 2,824,517

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Parking Authority does not have a formal policy that would limit its investment choices with regard to custodial credit risk. At December 31, 2017, all investments of the Parking Authority are held by the financial institution’s department or agency, in the Parking Authority’s name.

Concentration of credit risk. The Parking Authority places no limits on the amount it may invest in any one issuer.

Credit risk. The Parking Authority does not have a formal policy that would limit its investment choices with regard to credit risk. As of December 31, 2017, the Parking Authority’s investments in the money market funds were rated AAA.

Interest rate risk. As a means of managing its exposure to fair value losses arising from changes in interest rates, the Parking Authority's investment policy permits investments with a maturity date in excess of 18 months, provided market conditions and projected use of funds warrant a longer term. At December 31, 2017, the Parking Authority’s money market funds had average maturities of less than one year.

C. Restricted Cash, Cash Equivalents, and Investments

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

Redevelopment Authority

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

> Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision, or (d) certain other high-quality bank and corporate instruments.
>
> Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

A. Deposits

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Redevelopment Authority's deposits may not be returned to it. The Redevelopment Authority does not have a policy for custodial credit risk. As of December 31, 2017, $1,039,057 of the Redevelopment Authority's bank balance of $1,995,129 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the Redevelopment Authority's name	$ 1,039,057
Reconciliation to financial statements:	
Uninsured amount above	$ 1,039,057
Insured amount	956,072
Outstanding checks	(3,179)
Money market fund shown as cash and cash equivalents	1,591,981
	$ 3,583,931
Cash and cash equivalent - unrestricted per financial statements	$ 601,595
Cash and cash equivalent - restricted per financial statements	2,982,336
Total cash per financial statements	$ 3,583,931

B. Restrictions

Restrictions on cash and cash equivalents pertain to future redevelopment purposes as stipulated in grant agreements, future debt service requirements as per certain loan and bond documents, and other miscellaneous purposes.

C. Investments

As of December 31, 2017, the Redevelopment Authority held investments in the GS Financial Square Treasury Obligations money market fund with a fair value of $1,591,981, which is included as cash and cash equivalents - restricted in the financial statements. The money market fund, which is categorized as Level 1, is valued based on prices quoted in active markets for those securities.

Interest Rate Risk and Credit Risk. The Redevelopment Authority invests certain bond and note proceeds required to be kept on deposit as a result of the Guaranteed Special Revenue

Bonds, Series of 2005 Special Revenue Indenture and the Tax Increment Notes Trust Indenture (Note 10). The guidelines set forth in these indentures limit the Redevelopment Authority's interest rate and credit risk by limiting investment choices to certain U.S. government and other select high-grade investments and certain maturities. There are no requirements pertaining to investment diversification to limit exposure to custodial credit risk. At December 31, 2017, 100% of the Redevelopment Authority's investments are in the GS Financial Square Treasury Obligations money market fund and are rated AAAm by Standard & Poor’s.

LDIDA

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

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

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, LDIDA's deposits may not be returned to it. LDIDA does not have a policy for custodial credit risk. As of April 30, 2017, none of LDIDA’s bank balance was exposed to custodial credit risk.

LLBA

Under section 2007.11 of the Pennsylvania Land Bank Act, LLBA is permitted to invest its monies at the discretion of the Board in instruments, obligations, securities, or property determined proper by the Board and to name and use depositories for its money. LLBA has not yet established formal policies about investments and deposits with financial institutions. LLBA’s cash is deposited in a bank account with a financial institution where balances customarily exceed FDIC limits.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, LLBA’s deposits may not be returned to it. LLBA does not have a policy for custodial credit risk. As of December 31, 2017, $246,728 of LLBA's bank balance of $496,728 was exposed to custodial credit risk and the remaining $250,000 was insured.

CRIZ

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

Custodial credit risk is the risk that, in the event of a bank failure, the CRIZ's deposits may not be returned. The CRIZ does not have a deposit policy for custodial credit risk. At December 31, 2017, the CRIZ's total bank deposits were $4,521,812. The deposits not covered by depository insurance were collateralized with securities held by the pledging financial institution, but not in the CRIZ's name.

The 2015 Tax Revenue Bonds require the following amounts be held as restricted cash as of December 31, 2017:

Debt service reserve	$ 304,596
Bond revenue reserve	479,086
Unused bond proceeds	972,385
	$ 1,756,067

3. Receivables

Primary Government

Governmental Activities

Receivables as of December 31, 2017, for the City's governmental activities, individual major governmental funds, non-major funds in the aggregate, and applicable allowances for uncollectible accounts, are as follows:

	General	Non-major funds	Internal Services Fund	Governmental Activities
Receivables:				
Taxes, gross	$ 2,885,027	$ -	$ -	$ 2,885,027
Allowances for uncollectibles	-	-	-	-
Taxes, net	2,885,027	-	-	2,885,027
Accounts, gross	455,038	20,128	65,027	540,193
Allowances for uncollectibles	-	-	-	-
Accounts, net	455,038	20,128	65,027	540,193
Notes, gross	-	10,258,015	-	10,258,015
Allowances for uncollectibles	-	(10,258,015)	-	(2,159,743)
Notes, net	-	-	-	8,098,272
Investment income	-	154,367	-	154,367
Total receivables	$ 3,340,065	$ 174,495	$ 65,027	$ 11,677,859

Notes Receivable

In April 2017, the City entered into a Loan Agreement with MAW Communications in the principal amount of $1.5 million. The loan was made from a newly created LanCity Connect Special Revenue Fund, which was established through General Fund appropriations in the amount of $1.5 million. The loan will be repaid with monthly payments of $14,671 over 13 years, which includes a 7% annual interest rate. The purpose of the loan is to assist MAW Communications with the upfront costs in relation to the LanCity Connect Initiative, which provides high-speed fiber optic internet to City residents. The loan is secured with MAW assets, including the fiber optic network. The outstanding amount of $1.5 million is included in notes receivable as of December 31, 2017.

As of December 31, 2017, the City has outstanding program loans (notes receivable) aggregating $10,258,015. These various program loans bear interest at rates ranging from 0% to 7%, maturing over terms of 1 to 30 years, through 2040.

A summary of notes receivable activity for the year ended December 31, 2017 is as follows:

Balance January 1, 2017	New Loans Issued	Forgiveness/ Write-offs/ Principal Receipts	Balance December 31, 2017
$ 6,698,961	$ 2,209,503	$ (810,192)	$ 8,098,272

In addition, as of December 31, 2017, there were $2,159,743 in loans that are forgivable over a period of time, subject to the terms of the loan agreement. The City does not expect to receive any payments on these loans. Therefore, an allowance for doubtful accounts has been established in the fund and the government-wide financial statements at 100% of the note receivable balance.

Business-Type Activities

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

	Sewer Fund	Water Fund	Other Enterprise Funds	Total
Receivables:				
Accounts, gross	$ 7,395,564	$ 4,671,783	$ 2,048,792	$ 14,116,139
Allowances for uncollectibles	-	-	-	-
Accounts, net	7,395,564	4,671,783	2,048,792	14,116,139
Other, gross	118,532	36,005	45,524	200,061
Allowances for uncollectibles	-	-	-	-
Other, net	118,532	36,005	45,524	200,061
Total receivables	$ 7,514,096	$ 4,707,788	$ 2,094,316	$ 14,316,200

Component Units

LIDA

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

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

Parking Authority

Accounts receivable are stated at outstanding balances. With the exception of accrued parking enforcement revenue, which is adjusted for estimated uncollectible amounts, the Parking Authority considers accounts receivable to be fully collectible. If collection becomes doubtful, an allowance for doubtful accounts will be established, or accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged-off accounts are recorded when received. As of December 31, 2017, the Parking Authority’s allowance for uncollectible accrued parking enforcement revenue was $233,814.

Redevelopment Authority

The Redevelopment Authority's receivables relate to grants receivables, notes receivables, lease rental receivables, and delinquent real estate tax claims purchased from the City. The delinquent real estate tax receivables are recorded at carrying value, including base, penalty, and interest, offset by commission payable. Notes receivables are recorded at carrying value. The Redevelopment Authority reduces the receivable for delinquent real estate tax claims by an allowance for doubtful accounts as determined based on the Redevelopment Authority's best estimate.

Accounts Receivable

A summary of receivables at December 31, 2017 follows:

Delinquent taxes receivable	$	534,535
Less: Allowance for doubtful accounts		(2,506)
Total receivables	$	532,029

Annually, the Redevelopment Authority purchases the delinquent real estate tax claims of the City. During the year ended December 31, 2017, the Redevelopment Authority purchased the full amount of delinquent real estate tax claims from the City for the year 2016 with a total carrying value of $937,521 for total consideration of $897,403. The City's continuing involvement with the delinquent real estate tax receivables is effectively terminated.

In the event that this annual cycle of purchasing delinquent tax claims would be discontinued, the Redevelopment Authority would essentially return any accumulated cash balances to the City. Therefore, the Redevelopment Authority has recorded a payable to the City in the amount of $261,914 as of December 31, 2017, which reflects the cumulative positive results of the tax claim collections. Under certain circumstances, the City has the right or the obligation to repurchase all or a portion of the delinquent tax claims from the Redevelopment Authority.

Lease Rental Receivable

The Redevelopment Authority has entered into a lease agreement with Penn Square Partners as further outlined in Note 16 for the hotel unit of the Penn Square Hotel and Convention Center. The Redevelopment Authority classifies this lease as a capital lease and utilizes direct financing lease accounting.

The lease rental receivable represents the discounted future minimum lease payments, which are comprised of base rent and minimum participation rent. The base rental payments are required to be used to meet debt service requirements on the Series of 2005 and 2017 Taxable Bonds. The discount rate is the interest rate applicable to the Series of 2005 and 2017B Taxable Bonds, the proceeds of which were used to finance the underlying hotel construction costs. The imputed interest income of $4,841,060 as of December 31, 2017 is presented as part of unearned revenue. With respect to the second hotel tower, any project costs incurred to date that were financed by the Series 2017B Taxable Bond proceeds and amounts advances by the lessee is included in the determination of the future minimum lease payments.

Future Minimum Rental Payments:

The following schedule represents the future minimum rental payments due to the Redevelopment Authority as of December 31, 2017:

2018	$ 5,282,882
2019	2,430,710
2020	2,427,238
2021	2,483,911
2022	2,544,198
2023-2027	6,655,363
2028-2029	983,498
Total	$ 22,807,800

Due from Other Governments

A summary of grants receivable due from other governmental units at December 31, 2017 follows:

Commonwealth of Pennsylvania:	
Infrastructure and Facilities Improvement Program Grant	$ 6,658,539
Current portion	558,664
Long-term portion	$ 6,099,875

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

A summary of interest due from other governmental units which has been accrued on grants at December 31, 2017 follows:

Commonwealth of Pennsylvania:	
Interest accrued on Infrastructure and Facilities Improvement Program Grant, carried at present value	$ 475,762
Other accrued interest	60,966
Total	$ 536,728

Notes Receivable

Notes receivable at December 31, 2017 were as follows:

Note receivable from Lancaster Press Partners, originally due December 2017 and extended through June 2019. The loan has one scheduled payment at maturity for principal and interest of 1.50% through December 31, 2015 and 2.00% starting January 1, 2016. The loan is secured by a mortgage on property at 401-403 North Prince Street and at 37 and 39 West Lemon Street.	$ 900,000
Note receivable from Penn Square Partners. This loan of originally $2,250,000 accrued interest at 2.00% through November 2007. Beginning December 2007, the loan became payable in monthly installments of $15,539 including interest at 2.00%. This loan is secured by a mortgage on the leasehold interest held by Penn Square Partners in the site of the Penn Square Hotel. A final balloon payment of $872,490 was due in November 2017, but was extended through February 2018.	872,490
Mortgage receivable from IMPACT! Missions. This noninterest-bearing purchase money mortgage of $13,500 is due upon the sale of the property, provided that the sale proceeds exceed the amount required to reimburse IMPACT! Missions for its "all-in" costs. If proceeds exceed IMPACT! Missions costs, but are not sufficient to pay the principal amount, a partial payment will be accepted with the remaining portion of the note forgiven.	13,500
	1,785,990
Current portion	885,990
Long-term portion	$ 900,000

LDIDA

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

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

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

LLBA

The City entered into an agreement with the developer of a mixed-use development. Amongst the various terms and conditions, the developer is required to pay $1,000,000 to the City. The agreement stated that all funds were to be paid to LLBA. LLBA recognized a $1,000,000 developer contribution in 2017. LLBA received $500,000 of these funds during the year ended December 31, 2017. The remaining funds are due and payable to LLBA as follows:

2018	$ 250,000
2019	250,000
	$ 500,000

4. Delinquent Tax Lien Receivables

In January 2017, the City sold the full amount of delinquent real estate tax lien receivables for the 2016 tax year. The delinquent real estate tax lien receivables are the total assessed value of real estate taxes, plus any applicable penalties, less collections received from the County. Since the City's continuing involvement with the delinquent real estate tax liens is effectively terminated, these transactions were treated as a sale, as opposed to a collateralized borrowing. The full amount received by the City for this sale was $800,078 and the revenue was recognized in the year of sale.

In January 2018, the City sold the full amount of delinquent real estate tax lien receivables for the 2017 tax year. The full amount received by the City for this sale was $876,369 and the revenue was recognized in the year of sale.

5. Properties Held for Resale

Component Unit

Redevelopment Authority

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

As of December 31, 2017, the following properties were held for resale:

318 Beaver Street	$ 17,500
434 East Strawberry Street	12,000
12 Coral Street	2,200
543 South Christian Street	2,700
639 Beaver Street	1,200
423 East Strawberry Street	13,000
339 Beaver Street	11,000
563 South Lime Street	23,000
230 West Strawberry Street	3,000
666 Columbia Avenue	58,000
423 North Pine Street	55,000
529 St. Joseph Street	30,000
618 Manor Street	12,500
545 St. Christian Street	8,500
903 Manor Street	55,000
437 East Strawberry Street	4,400
127 East New Street	14,000
110 Green Street	3,500
140 Old Dorwart Street	15,000
120 Filbert Street	32,000
212 Hazel Street *	66,348
230 Hazel Street *	91,374
100 South Queen Street *	5,900
550 South Water Street *	114,072
	$ 651,194

*These properties were conveyed to the Redevelopment Authority from the City.

6. Capital Assets

Primary Government

Capital asset activity for the year ended December 31, 2017 is as follows:

	December 31, 2016	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2017
Governmental activities				
Capital assets not being depreciated:				
Land, easements, right of ways	$ 9,077,905	$ 22,579	$ (163,622)	$ 8,936,862
Construction in progress	631,560	872,615	(501,998)	1,002,177
Total capital assets not being depreciated	9,709,465	895,194	(665,620)	9,939,039
Capital assets being depreciated:				
Land improvements	14,162,806	-	-	14,162,806
Buildings	41,925,975	1,143,332	(338,599)	42,730,708
Machinery and equipment	4,729,932	821,339	(45,425)	5,505,846
Vehicles	7,634,858	756,322	(780,278)	7,610,902
Infrastructure	44,256,707	2,264,543	-	46,521,250
Total capital assets being depreciated	112,710,278	4,985,536	(1,164,302)	116,531,512
Less accumulated depreciation for:				
Land improvements	(5,129,796)	(673,492)	-	(5,803,288)
Buildings	(9,050,277)	(870,667)	338,599	(9,582,345)
Machinery and equipment	(3,045,623)	(373,537)	45,425	(3,373,735)
Vehicles	(5,067,344)	(547,292)	764,971	(4,849,665)
Infrastructure	(28,936,568)	(1,157,504)	-	(30,094,072)
Total accumulated depreciation	(51,229,608)	(3,622,492)	1,148,995	(53,703,105)
Total capital assets being depreciated, net	61,480,670	1,363,044	(15,307)	62,828,407
Governmental activities, capital assets, net	$ 71,190,135	$ 2,258,238	$ (680,927)	$ 72,767,446

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

Governmental Activities:	
General government	$ 182,672
Public safety	839,124
Economic development and neighborhood revitalization	12,723
Public works	2,587,973
Total depreciation expense - governmental activities	$ 3,622,492

	December 31, 2016	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2017
Business-type activities:				
Sewer Fund:				
Capital assets not being depreciated:				
Land	$ 1,484,824	$ -	$ -	$ 1,484,824
Construction in progress	17,312,369	4,087,706	(1,110,034)	20,290,041
Total capital assets not being depreciated	18,797,193	4,087,706	(1,110,034)	21,774,865
Capital assets being depreciated:				
Sewer system	158,392,830	2,699,742	-	161,092,572
Equipment and vehicles	3,122,818	318,080	(92,595)	3,348,303
Total capital assets being depreciated	161,515,648	3,017,822	(92,595)	164,440,875
Less accumulated depreciation for:				
Sewer system	(73,754,980)	(3,027,837)	-	(76,782,817)
Equipment and vehicles	(1,114,861)	(234,448)	92,595	(1,256,714)
Total accumulated depreciation	(74,869,841)	(3,262,285)	92,595	(78,039,531)
Total capital assets being depreciated, net	86,645,807	(244,463)	-	86,401,344
Sewer Fund capital assets, net	105,443,000	3,843,243	(1,110,034)	108,176,209

	December 31, 2016	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2017
Water Fund:				
Capital assets not being depreciated:				
Land	1,070,600	-	-	1,070,600
Construction in progress	6,843,137	7,021,220	(524,623)	13,339,734
Total capital assets not being depreciated	7,913,737	7,021,220	(524,623)	14,410,334
Capital assets being depreciated:				
Water system	192,547,236	7,164,289	-	199,711,525
Equipment and vehicles	3,146,686	895,883	(91,655)	3,950,914
Total capital assets being depreciated	195,693,922	8,060,172	(91,655)	203,662,439
Less accumulated depreciation for:				
Water system	(54,637,018)	(2,842,567)	-	(57,479,585)
Equipment and vehicles	(2,097,456)	(274,380)	91,654	(2,280,182)
Total accumulated depreciation	(56,734,474)	(3,116,947)	91,654	(59,759,767)
Total capital assets being depreciated, net	138,959,448	4,943,225	(1)	143,902,672
Water Fund capital assets, net	146,873,185	11,964,445	(524,624)	158,313,006

	December 31, 2016	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2017
Other enterprise funds:				
Capital assets not being depreciated:				
Land	177,200	-	-	177,200
Total capital assets not being depreciated	177,200	-	-	177,200
Capital assets being depreciated:				
Buildings	300,086	-	-	300,086
Infrastructure	2,368,797	988,076	-	3,356,873
Equipment and vehicles	1,112,524	164,325	-	1,276,849
Total capital assets being depreciated	3,781,407	1,152,401	-	4,933,808
Less accumulated depreciation for:				
Buildings	(69,169)	(4,995)	-	(74,164)
Infrastructure	(39,747)	(59,220)	-	(98,967)
Equipment and vehicles	(255,503)	(94,394)	-	(349,897)
Total accumulated depreciation	(364,419)	(158,609)	-	(523,028)
Total other enterprise funds capital assets, net	3,416,988	993,792	-	4,410,780
Other enterprise funds capital assets, net	3,594,188	993,792	-	4,587,980
Business-type activities capital assets, net	$ 255,910,373	$ 16,801,480	$ (1,634,658)	$ 271,077,195

Component Units

Commission

Major classifications of capital assets and their respective depreciable lives consist of the following as of December 31, 2017:

	December 31, 2016	Additions	Deletions	December 31, 2017	Depreciable Lives
Capital assets being depreciated:					
Equipment	$ 202,455	$ 23,688	$ (38,391)	$ 187,752	3 - 10 years
Furniture and improvements	212,664	22,714	-	235,378	5 - 15 years
Vehicles	94,407	-	-	94,407	5 - 10 years
Total capital assets being depreciated	509,526	46,402	(38,391)	517,537	
Accumulated depreciation	(338,331)	(53,398)	38,391	(353,338)	
Capital assets being depreciated, net	$ 171,195	$ (6,996)	$ -	$ 164,199	

Parking Authority

Capital asset activity for the year ended December 31, 2017 is as follows:

	December 31, 2016	Increase	Decrease	December 31, 2017
Capital assets not being depreciated:				
Land	$ 3,695,871	$ -	$ -	$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, rental complex, and administrative building	34,945,173	1,111,472	(12,500)	36,044,145
Office furnishings and equipment	94,224	5,366	(2,305)	97,285
Equipment	3,644,383	17,607	(17,279)	3,644,711
Vehicles	193,264	56,695	-	249,959
Total capital assets being depreciated	38,877,044	1,191,140	(32,084)	40,036,100
Less accumulated depreciation for:				
Parking garages, lots, rental complex, and administrative building	(20,994,982)	(803,324)	11,667	(21,786,639)
Office furnishings and equipment	(58,446)	(7,185)	1,344	(64,287)
Equipment	(2,346,278)	(307,537)	5,946	(2,647,869)
Vehicles	(71,190)	(35,990)	-	(107,180)
Total accumulated depreciation	(23,470,896)	(1,154,036)	18,957	(24,605,975)
Total capital assets being depreciated, net	15,406,148	37,104	(13,127)	15,430,125
Total capital assets, net	$ 19,102,019	$ 37,104	$ (13,127)	$ 19,125,996

Redevelopment Authority

Capital asset activity for the year ended December 31, 2017 is as follows:

	December 31, 2016	Increase	Decrease	December 31, 2017
Capital assets not being depreciated:				
Land and improvements	$ 917,883	$ -	$ -	$ 917,883
Construction in progress	201,398	77,486	-	278,884
Total capital assets not being depreciated	1,119,281	77,486	-	1,196,767
Capital assets being depreciated:				
Buildings	8,624,651	-	-	8,624,651
Less accumulated depreciation for:				
Buildings	(610,913)	(215,616)	-	(826,529)
Total capital assets being depreciated, net	8,013,738	(215,616)	-	7,798,122
Total capital assets, net	$ 9,133,019	$ (138,130)	$ -	$ 8,994,889

7. Line of Credit

Component Units

Commission

The Commission had a renewable $250,000 line of credit agreement with PNC Bank, National Association during the year ended December 31, 2017. The line expires on October 6, 2018 and bears interest at a variable rate, which was 5.5% at December 31, 2017. There were no borrowings on the line of credit as of December 31, 2017.

Redevelopment Authority

The Redevelopment Authority entered into a revolving line of credit agreement with a bank which is secured by the Redevelopment Authority's interest in the City's delinquent tax receivables. Interest accrues at a variable rate measured by interest rates on corporate loans at large U.S. Money Center Commercial Banks as published in the Money Rates column of the Wall Street Journal, Eastern Editions. The rate shall not exceed 8.40% per annum or fall below 5.00% per annum for the year ended December 31, 2017. The interest rate was 5.00% as of December 31, 2017. Interest payments are due monthly. Principal payments are due quarterly based on availability of funds from the collection of delinquent tax receivables. The line will expire on February 26, 2020. During the year ended December 31, 2017, the Redevelopment Authority borrowed on this note to facilitate the purchase of delinquent real estate tax claims from the City (Note 3).

Short-term debt activity for the year ended December 31, 2017 was as follows:

	January 1, 2017	Increases	Decreases	December 31, 2017
Line of credit - delinquent real estate taxes	$ 649,277	$ 897,403	$ 1,047,769	$ 498,911

8. Due to the Primary Government

Component Unit

Redevelopment Authority

As of December 31, 2017, the following amounts were due to the primary government:

Accumulated gain on tax collections (Note 3)	$	261,914
Amounts due for conveyed properties		277,694
	$	539,608

The City conveyed four properties to the Redevelopment Authority during the year ended December 31, 2017, with the expectation that the Redevelopment Authority will sell these properties and pass the proceeds back to the City. The Redevelopment Authority recorded the properties and the due to the City at the carrying value of $277,694.

9. Unearned Revenue

Component Unit

Redevelopment Authority

A summary of unearned revenue at December 31, 2017 follows:

Unearned rent	$	16,667
Unearned grant revenue		2,714,951
Unearned interest income - capital lease (Note 3)		4,841,060
		7,572,678
Current portion		987,454
Long-term portion	$	6,585,224

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

10. Long-term Obligations

Primary Government

A summary of bonds and notes payable outstanding as of December 31, 2017 is as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2017
2009/2030	$ 43,990,000	General Obligation Notes, 2.50%-4.875%	$ 25,735,000
2011/2041	38,860,000	General Obligation Bonds, 1.75%-5.00%	33,970,000
2013/2035	7,000,000	Note Payable to Financing Agency, 1.495%-2.965%	2,748,191
2014/2037	5,500,000	Note Payable to Financing Agency, 1.00%-1.74%	4,757,337
2014/2044	42,490,000	General Obligation Bonds, 3.00%-5.00%	40,320,000
2015/2034	11,840,000	General Obligation Bonds, 0.85%-4.30%	11,305,000
2015/2028	6,950,000	General Obligation Note, 2.41%	6,130,000
2016/2046	118,820,000	General Obligation Bonds, 3.00-5.00%	117,940,000
2016/2036	11,560,000	General Obligation Bonds, 2.25-5.00%	11,560,000
			$ 254,465,528

Bonds Payable

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

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

In 2006, the City issued $13,455,000 of general obligation bonds, bearing interest at rates ranging from 5.00% to 5.59%. The proceeds of the bond issuance were used to fund the unfunded actuarial accrued liability associated with fire and police pension. These bonds were advance refunded through the issuance of General Obligation Bonds, Series of 2015.

In 2007, the City issued $125,315,000 of general obligation bonds, bearing interest at rates from 4.00% to 5.00%. The proceeds of the bond issuance were used to fund general municipal projects, upgrades and improvements to the City's sewer system, the current refunding of the 2004 notes payable, and the water system membrane project. The debt service on these bonds was paid by the General Fund, Sewer Fund, and Water Fund. These bonds were advance refunded through the issuance of General Obligation Bonds, Series of 2016, resulting in a defeasance of the 2007 general obligation bonds. These bonds were fully redeemed on May 1, 2017.

In 2010, the City issued $8,635,000 of general obligation bonds, bearing interest at rates ranging from 2.00% to 4.00%. The proceeds of the bond issuance were used to currently refund the General Obligation Bonds, Series of 2003. These bonds were currently refunded through the issuance of General Obligation Note, Series of 2015.

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

In 2014, the City issued $42,490,000 of general obligation bonds, bearing interest at rates ranging from 3.00% to 5.00%. The proceeds of the bond issuance were used for the purposes of financing improvements and upgrades to water treatment facilities, improving and upgrading wastewater treatment and collection facilities, and other miscellaneous capital projects. The debt service on these bonds is paid by the General Fund, Sewer Fund, Water Fund, and Stormwater Fund, an other enterprise fund.

In 2015, the City issued $11,840,000 of general obligation bonds, bearing interest at rates ranging from .85% to 4.30%. The proceeds of the bond issuance were used to advance refund the General Obligation Bonds, Series of 2006. The debt service on these bonds is paid by the General Fund.

In 2016, the City issued $118,820,000 of general obligation bonds, 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 debt service on these bonds is paid by the General Fund, Sewer Fund, and Water Fund.

In 2016, the City issued $11,560,000 of general obligation bonds, Series A of 2016, bearing interest at rates ranging from 2.25% to 5.00%. The proceeds of the bond issuance will be used for the acquisition, construction, equipping and furnishing of various City facilities and infrastructure. The debt service on these bonds is paid by the General Fund.

Notes Payable

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

In 2013, the City issued $7,000,000 Guaranteed Revenue Note of 2012. This is a Pennvest drawdown loan that is for the construction of a series of green infrastructure source control practices, including porous pavement in parking lots, paths, alleys, and streets; infiltration and bio-retention systems; green roofs; rain gardens and rain barrels in order to capture storm water runoff, various other green infrastructure improvements throughout the City, and other ongoing capital improvement projects of the City. This note bears interest at a rate of 1.495% for the first five years and 2.965% thereafter. As of December 31, 2017, $3,477,510 was drawn down on this note. The debt service on this note is paid by the Stormwater Fund, an other enterprise fund.

In 2014, the City issued $5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest loan for the construction of a preliminary treatment facility and diversion chamber. The note bears interest at a rate of 1.00% for the first five years and 1.74% thereafter. As of December 31, 2017, $4,948,914 was drawn down on this note. The debt service on this note is paid by the Sewer Fund.

In 2015, the City issued a general obligation note in the amount of $6,950,000, bearing a fixed interest rate of 2.41%. The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series of 2010. The debt service on this note is paid by the General Fund and Water Fund.

Bonds and Notes Payable

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

Year Ending December 31,	Principal Maturity	Interest Maturity	Total
2018	$ 3,110,400	$ 2,356,098	$ 5,466,498
2019	3,219,600	2,242,600	5,462,200
2020	3,343,800	2,118,529	5,462,329
2021	3,472,600	1,987,894	5,460,494
2022	3,611,400	1,849,077	5,460,477
2023-2027	20,316,800	7,003,633	27,320,433
2028-2032	15,555,000	2,915,618	18,470,618
2033-2036	8,185,000	704,503	8,889,503
	$ 60,814,600	$ 21,177,952	$ 81,992,552

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

Year Ending December 31,	Principal Maturity	Interest Maturity	Total
2018	$ 4,568,320	$ 7,468,137	$ 12,036,457
2019	4,887,199	7,281,900	12,169,099
2020	6,551,209	7,076,263	13,627,472
2021	6,842,500	6,821,691	13,664,191
2022	7,168,117	6,538,053	13,706,170
2023-2027	34,004,317	28,366,792	62,371,109
2028-2032	34,301,867	21,935,401	56,237,268
2033-2037	33,317,399	15,970,576	49,287,975
2038-2042	36,220,000	9,521,305	45,741,305
2043-2046	25,790,000	2,506,000	28,296,000
	$ 193,650,928	$ 113,486,118	$ 307,137,046

Capital Leases

Governmental Activities

In 2013 through 2017, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. The assets were purchased from the General Fund and non-major governmental funds. As of December 31, 2017, the assets are included as governmental activities in the government-wide financial statements at a cost of $1,825,372 and accumulated depreciation of $234,685.

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2017 are as follows:

Year Ending December 31,	Total
2018	$ 358,241
2019	295,786
2020	276,998
2021	136,478
2022	101,087
2023-2026	238,175
Total minimum lease payments	1,406,765
Less amount representing interest	(129,526)
Present value of future minimum lease payments	$ 1,277,239

Business-type Activities

In 2013 through 2017, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. A majority of these assets were purchased from the Sewer Fund and the Water Fund. The City also purchased equipment, a portion of which is allocated to the Sewer Fund, Water Fund, and Stormwater and Trash Funds, two other enterprise funds. As of December 31, 2017, the assets are included as business-type activities in the government-wide financial statements at a cost of $1,650,596 and accumulated depreciation of $310,621.

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2017 are as follows:

Year Ending December 31,	Total
2018	$ 372,089
2019	274,105
2020	176,520
2021	95,067
Total minimum lease payments	917,781
Less amount representing interest	(52,438)
Present value of future minimum lease payments	$ 865,343

Changes in long-term obligations for the year ended December 31, 2017 are as follows:

	December 31, 2016	Increase	Decrease	December 31, 2017	Amount Due Within One Year
Governmental activities:					
Bonds payable	$ 47,680,000	$ -	$ (935,000)	$ 46,745,000	$ 2,240,000
Unamortized premium	2,994,981	-	(343,074)	2,651,907	-
Notes payable	14,906,200	-	(836,600)	14,069,600	870,400
Compensated absences	1,199,761	3,315,834	(3,315,281)	1,200,314	276,192
Capital leases	725,398	835,888	(284,047)	1,277,239	318,254
Workers' compensation payable	699,787	309,658	(129,820)	879,625	326,693
Total governmental activities	$ 68,206,127	$ 4,461,380	$ (5,843,822)	$ 66,823,685	$ 4,031,539

	December 31, 2016	Increase	Decrease	December 31, 2017	Amount Due Within One Year
Business-type activities:					
Bonds payable	$ 170,945,000	$ -	$ (2,595,000)	$ 168,350,000	$ 2,975,000
Unamortized premium	5,495,826	-	(505,146)	4,990,680	-
Notes payable	25,148,893	1,653,486	(1,501,451)	25,300,928	1,593,320
Compensated absences	230,218	1,519,252	(1,484,779)	264,691	58,107
Capital leases	911,528	510,343	(556,528)	865,343	345,858
Workers' compensation payable	5,137	30,432	(5,686)	29,883	-
Total business-type activities	$ 202,736,602	$ 3,713,513	$ (6,648,590)	$ 199,801,525	$ 4,972,285

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

During the year ended December 31, 2017, the City borrowed $4,000,000 in the form of a Tax and Revenue Anticipation Note, Series of 2017, bearing interest at an annual rate of 1.97% per annum. The full amount was repaid in March 2017.

Tax anticipation note transactions for the year ended December 31, 2017 were as follows:

Outstanding at December 31, 2016	$ -
New borrowings	4,000,000
Repayments	(4,000,000)
Outstanding at December 31, 2017	$ -

Component Units

Parking Authority

Long-term Debt

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

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

On December 15, 2016, the 2007 Series A Bonds were advance refunded and defeased with the issuance of Series of 2016 Parking Revenue Bonds (Series of 2016 Bonds). The Series of 2016 Bonds are secured by a trust indenture dated February 11, 2016. Debt service payments are guaranteed by the City with a guaranty agreement dated February 11, 2016. The Series of 2016 Bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the Series of 2016 Bonds are at a fixed rate of 2.85% through December 1, 2026. Thereafter, the Series of 2016 Bonds will bear interest at a variable rate equal to 85% of the prime rate until maturity on December 1, 2035, provided that such variable rate shall not exceed 3.95%.

On December 15, 2016, the 2007 Series B Bonds were advance refunded and defeased with the issuance of Series A of 2016 Parking Revenue Bonds (Series A of 2016 Bonds). The Series A of 2016 Bonds are secured by a trust indenture dated December 15, 2016. Debt service payments are guaranteed by the City with a guaranty agreement dated December 15, 2016. The Series A of 2016 Bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the Series A of 2016 Bonds range from 1.10% to 5.00% through the maturity date of December 1, 2025.

	December 31, 2016	Increase	Decrease	December 31, 2017	Amount Due Within One Year
Series of 2016 Parking Revenue Bonds	$ 13,620,000	$ -	$ (15,000)	$ 13,605,000	$ -
Series of A of 2016 Parking Revenue Bonds	8,630,000	-	(935,000)	7,695,000	930,000
	$ 22,250,000	$ -	$ (950,000)	$ 21,300,000	$ 930,000

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2018	$ 930,000	$ 645,666	$ 1,575,666
2019	945,000	627,066	1,572,066
2020	970,000	605,566	1,575,566
2021	1,000,000	580,166	1,580,166
2022	1,030,000	555,150	1,585,150
2023-2027	5,900,000	2,241,961	8,141,961
2028-2032	6,935,000	1,554,320	8,489,320
2033-2035	3,590,000	236,138	3,826,138
Total	$ 21,300,000	$ 7,046,033	$ 28,346,033

Elevator Loan

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

	December 31, 2016	Increase	Decrease	December 31, 2017	Amount Due Within One Year
Elevator loan payable	$ 300,000	$ -	$ (150,000)	$ 150,000	$ 150,000

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2018	$ 150,000	$ 3,755	$ 153,755

Interest Expense

Interest expense on all bonds totaled $657,271 for the year ended December 31, 2017. Interest expense on the elevator loan totaled $13,068 for the year ended December 31, 2017.

Defeased Debt

On December 15, 2016, the Parking Authority funded the outstanding balance of $15,355,000 of the 2007 Series A Bonds and $8,485,000 of the 2007 Series B Bonds, by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. The 2007 Series A Bonds and 2007 Series B Bonds are considered to be extinguished for financial reporting purposes and are excluded from the statement of net position. The debt was fully retired during the year ended December 31, 2017.

Redevelopment Authority

Due to Lessee

The lessee of the Penn Square Hotel advanced $1,000,000 to the Redevelopment Authority to facilitate debt service payments. Upon full payment of the related debt, these funds and any interest earned will be returned to the lessee. At December 31, 2017, the amount due is $1,002,414.

For the second tower, there was an additional advance from the lessee of Penn Square Hotel for $3,360,964 at December 31, 2017 to the Redevelopment Authority to facilitate debt service payments and construction costs on the hotel expansion. These amounts will eventually become borrowings on the Series 2017 A and B Bonds at which time the lessee will be reimbursed for the advances.

At December 31, 2017, the Redevelopment Authority also has an amount due to the lessee of $260,873 which represents an additional deposit into a debt service account.

At December 31, 2017, the lessee is also due a reimbursement of $11,481 related to a construction project at the Penn Square Hotel. These funds are expected to be paid during 2018.

Convention Center Authority Obligation

During the year ended December 31, 2017, Penn Square Partners (PSP) and the Redevelopment Authority together with other parties began construction on the second hotel tower. The total remaining construction project related costs are anticipated to be $22,500,000. The costs will be financed with additional draws on the Series 2017 A and B Taxable Bonds.

During the year ended December 31, 2014, the Redevelopment Authority Board of Directors, together with other parties, executed the Marketing Consortium Agreement. The Redevelopment Authority agreed to pay $100,000 annually to the consortium for a period of seven years to provide funding for marketing activities related to the convention center. This future obligation is presented on the statement of net position as the Convention Center Authority obligation.

As of December 31, 2017, the remaining payments, which will be funded from a portion of the minimum participation rent payments to the Convention Center Authority, are as follows:

2018	$ 100,000
2019	100,000
2020	100,000
2021	50,000
	$ 350,000

Notes Payable

During the year ended December 31, 2013, the Redevelopment Authority entered into a non-revolving, multi-advance time loan. The maximum amount the Redevelopment Authority can borrow on this loan is $5,075,000 to be used for the parking garage construction through December 15, 2014, at which point semi-annual payments are required to be made. The loan bears interest at 3.30% until December 22, 2022, then moves to 65% of 30-day LIBOR, plus 200 basis points, with a floor of 5.75%. The note is secured with the intergovernmental tax increment financing (TIF) revenues (Note 17). The lender can put a lien on the property being constructed, if desired. The loan matures December 15, 2028. The outstanding balance as of December 31, 2017 was $3,721,333, of which $204,000 is due within one year.

Bonds Payable

The Redevelopment Authority issued Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of $8,000,000 in a private placement at a premium of $1,540,000. The bonds bear interest of 6.99% per annum. Bond proceeds were used to fund the construction of the Penn Square Hotel (Note 16). Proceeds from the Infrastructure and Facilities Improvement Grant (Notes 3 and 15) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The bonds mature in December 2025. The outstanding balance at December 31, 2017 is $3,889,126, of which $377,491 is due within one year.

The Redevelopment Authority issued additional bonds as the First Supplemental Indenture to the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of $4,000,000 in a private placement at a premium of $983,716. The bonds bear interest of 6.39% per annum. Bond proceeds were used to fund construction of the Penn Square Hotel (Note 16). Proceeds from the Infrastructure and Facilities Improvement Grant (Notes 3 and 15) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The bonds mature in December 2025. The outstanding balance at December 31, 2017 is $2,210,749 of which $219,600 is due within one year.

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

On April 1, 2009, the Redevelopment Authority issued the Federally Taxable Hotel Lease Revenue Bonds, Series of 2005 in the amount of $21,456,414 in a private placement. The bonds bear interest at a variable rate which is related to the bondholder’s funding interest rate with a third party. This rate is 4.45% as of December 31, 2017. The bonds are secured with the Redevelopment Authority's interest in the lease rental payments from the Penn Square Hotel lessee and a limited guarantee from the City in the event of the imposition of certain taxes on the project. The bonds mature in December 2024. The outstanding balance as of December 31, 2017 was $12,328,609, of which $1,414,674 is due within one year.

In April 2017, the Redevelopment Authority issued the Federally Taxable Hotel Lease Revenue Bonds, Series A of 2017 in the maximum amount of $9,021,397 in a private placement. The Bonds bear interest at 4.88% until June 5, 2029. The bonds will be paid exclusively using funding to be received as a grant from the CRIZ. The bonds are not general obligation debt of the Redevelopment Authority. The Bonds are secured equally on a pari passu basis with the 2005 Bonds and any additional bonds issued. The Bonds mature in June 2029. The outstanding balance as of December 31, 2017, was $3,506,950, of which $233,113 is due within one year.

Also in April 2017, the Redevelopment Authority issued the Federally Taxable Hotel Lease Revenue Bonds, Series B of 2017 in the maximum amount of $27,872,000 in a private placement. The bonds bear interest at a variable rate which is related to the bondholder’s funding interest rate with a third-party. This rate is 5.06% for the year ended December 31, 2017. The Bonds are secured with the Redevelopment Authority’s interest in the lease rental payments from the Penn Square Hotel lessee. The bonds mature in June 2029. The outstanding balance as of December 31, 2017, was $362,033, of which $313,735 is due within one year.

Aggregate maturities required on bonds and notes payable at December 31, 2017 are as follows:

	Principal	Interest	Total
2018	$ 2,762,613	$ 1,261,184	$ 4,023,797
2019	2,901,143	1,125,475	4,026,618
2020	3,119,130	981,428	4,100,558
2021	3,461,694	825,803	4,287,497
2022	3,726,560	654,957	4,381,517
2023 - 2027	9,258,327	918,971	10,177,298
2028 - 2029	788,878	23,830	812,708
Total	$ 26,018,345	$ 5,791,648	$ 31,809,993

Long-term obligation activity for the year ended December 31, 2017 can be summarized as follows:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Due to lessee	$ 1,000,246	$ 2,168	$ -	$ 1,002,414
LCCCA Obligation	450,000	-	(100,000)	350,000
Notes payable	3,919,333	-	(198,000)	3,721,333
Bonds payable	20,306,448	4,059,883	(2,069,319)	22,297,012
	$ 25,676,027	$ 4,062,051	$ (2,367,319)	$ 27,370,759

As described in the Guaranty Agreement between the City, the Redevelopment Authority, and the trustee, the City guarantees the full amount of the outstanding two indentures totaling $6,099,876 as of December 31, 2017, all interest payments, as well as any fees and expenses resulting from events of default of the Redevelopment Authority. Future scheduled interest payments on these bonds amount to $1,900,322 as of December 31, 2017. The guaranty remains in effect until the bonds are repaid. The bonds mature in 2025. The Redevelopment Authority is required to use special revenues (Infrastructure and Facilities Improvement Grant funds Notes 3 and 15) and reserve fund balances before requesting debt service assistance of the City under this guaranty. Since inception of the bonds, the City has not made any debt service payments under the terms of the guaranty on behalf of the Redevelopment Authority. If any payment were made under the guaranty, the City could seek reimbursement from the Redevelopment Authority's subsequent receipt of special revenues.

As described in the Limited Guaranty Agreement between the City, the Redevelopment Authority, and the trustee, the City guarantees any shortfall in debt service payments by the Redevelopment Authority that could occur if the property became subject to real estate tax, because the lease rental payments would not be sufficient to meet the debt service obligations if real estate taxes have to be paid by the Redevelopment Authority. If the property is determined to be taxable, then the lease rental payments will not be sufficient to meet the debt service obligations if the taxes have to be paid by the Redevelopment Authority. In that case, the City would be liable for payment of the shortfall in the debt service payments per the terms of the limited guaranty. The total bond principal outstanding at December 31, 2017 is $12,328,609 and future interest payments, based on current interest rates, are $2,347,136. The current tax-exempt assessment for the property is $52,320,200 and the applicable combined millage rate is 46.4318. The bonds are scheduled to be paid in full in 2024. The amount of the guaranty cannot be further quantified because it is not known if the property will become taxable in the future and how future real estate tax rates and assessment will develop. Since inception of the bonds, the City has not made any debt service payments under the terms of the guaranty on behalf of the Redevelopment Authority.

CRIZ

During the year ended December 31, 2014, the CRIZ entered into a collaboration agreement with the Convention Center Authority, for purposes of funding a portion of the Convention Center Authority's obligations for the replacement of furniture, fixtures, and equipment within the Convention Center under the Joint Development Agreement and Condominium Declaration. The obligation had an outstanding balance of $1,800,000 at December 31, 2017 with maturity in 2020. The interest rate for the loan has been set at 0%.

During the year ended December 31, 2015, the CRIZ issued $6,080,000 of Tax Revenue Bonds, Series 2015. The Tax Revenue Bonds, Series 2015 are due in varying annual installments beginning December 2017 through December 2041, plus interest. The initial rate of interest applicable to the bond is 2.79% for a period beginning at the date of issuance through and including December 15, 2020. Beginning on December 16, 2020, the interest rate will be adjusted to 70% of the sum of the one-month LIBOR and 2.50%. Under no circumstances shall the variable rate exceed 6.00% at any time. The CRIZ then assigned the bonds to the Trustee, Fulton Bank, and pledged tax revenue, as defined in the Trust

Indenture that the CRIZ would have been paid from the Commonwealth of Pennsylvania for payment on the debt obligation. The interest rate at December 31, 2017 is 2.79%.

Long-term debt obligations consist of the following at December 31, 2017:

Convention Center Authority (LCCCA) Obligation	$ 1,800,000
Tax Revenue Bonds, Series 2015	6,080,000
	$ 7,880,000

The following is a summary of debt transactions for the year ended December 31, 2017:

Long-term debt at January 1, 2017	$ 8,680,000
Payments	(800,000)
Long-term debt at December 31, 2017	7,880,000
Current portion	(275,000)
Long-term debt, net	$ 7,605,000

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

Year Ending December 31,	LCCCA Obligation	Tax Revenue Bonds 2015	Total
2018	$ -	$ 275,000	$ 275,000
2019	900,000	283,000	1,183,000
2020	900,000	291,000	1,191,000
2021	-	131,000	131,000
2022	-	139,000	139,000
2023-2027	-	828,000	828,000
2028-2032	-	1,109,000	1,109,000
2033-2037	-	1,483,000	1,483,000
2038-2041	-	1,541,000	1,541,000
	$ 1,800,000	$ 6,080,000	$ 7,880,000

11. Retirement Plans

Primary Government

Defined Benefit Plans

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

FPP and PPP

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

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

Investments of the FPP and PPP are reported at fair value.

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

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

At December 31, 2017, none of the FPP's and PPP's investments were more than five percent of the total asset value for each plan.

Plan Participants

At December 31, 2017, employee membership data related to the FPP and PPP was as follows:

	FPP	PPP
Inactive plan members or beneficiaries currently receiving benefits	129	177
Inactive plan members entitled to but not yet receiving benefits	2	1
Active plan members	63	139
Total	194	317

Plan Descriptions and Administration

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

Normal Retirement

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

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

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

Disability Retirement

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

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

Survivor Benefit

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

If an active FPP member dies other than in the line of duty and has completed more than ten years of service but less than 20 years, the surviving spouse shall receive a pension based on the normal retirement benefit, multiplied by a fraction equal to the years of service divided by 20. If there is no surviving spouse, then the pension is paid to children under the age of 18. If there are no such children, the pension is paid to the dependent parents of the member, if any.

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

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

Deferred Retirement Option Program (DROP)

An active member in the FPP who has attained age 51 and completed 25 years of service may elect to participate in the DROP. As of December 31, 2017, there were eight participants in the DROP. As of December 31, 2017, the balance held by the FPP pursuant to the DROP totaled $594,175.

Contributions

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

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

The City contributed $2,257,853 and $2,996,610 for the year ended December 31, 2017 to the FPP and PPP, respectively.

Administrative Expenses

FPP and PPP administration costs are financed through investment income.

Changes in Net Pension Liability

The changes in the net pension liability for the FPP and PPP at December 31, 2017 were as follows:

	Increase (Decrease)		
FPP:	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	$ 53,166,004	$ 39,195,104	$ 13,970,900
Changes for the year:			
Service cost	669,779	-	669,779
Interest	4,010,127	-	4,010,127
Changes for experience	(3,048,275)	-	(3,048,275)
Changes of assumptions	1,004,921	-	1,004,921
Contributions - employer	-	2,257,853	(2,257,853)
Contributions - employees	-	274,034	(274,034)
Net investment income	-	4,556,627	(4,556,627)
Benefit payments, including refunds	(3,726,084)	(3,726,084)	-
Administrative expenses	-	(8,700)	8,700
Net changes	(1,089,532)	3,353,730	(4,443,262)
Balances at December 31, 2017	$ 52,076,472	$ 42,548,834	$ 9,527,638
Plan fiduciary net position as a percentage of the total pension liability			81.70%

PPP:	Increase (Decrease) Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	$ 87,716,768	$ 65,398,639	$ 22,318,129
Changes for the year:			
Service cost	1,697,416	-	1,697,416
Interest	7,156,987	-	7,156,987
Changes for experience	1,124,608	-	1,124,608
Changes of assumptions	1,556,000	-	1,556,000
Contributions - employer	-	2,996,610	(2,996,610)
Contributions - employees	-	621,225	(621,225)
Net investment income	-	7,547,203	(7,547,203)
Benefit payments, including refunds	(5,264,907)	(5,264,907)	-
Administrative expenses	-	(4,170)	4,170
Net changes	6,270,104	5,895,961	374,143
Balances at December 31, 2017	$ 93,986,872	$ 71,294,600	$ 22,692,272
Plan fiduciary net position as a percentage of the total pension liability			75.86%

The net pension liability was measured as of December 31, 2017 and was determined by rolling forward liabilities from the January 1, 2017 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year-end.

Actuarial Assumptions - The January 1, 2017 actuarial valuation used the entry age normal actuarial cost method and IRS 2017 Static Combined Table for Small Plans mortality table. The actuarial assumptions for both the FPP and PPP include the following: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c) 3.00% inflation rate, d) level dollar closed amortization method, and e) 5-year remaining amortization period for FPP and 11-year remaining amortization period for PPP. These assumptions were applied to all periods included in the measurement of total pension liability.

Change in Actuarial Assumptions - In the January 1, 2017 actuarial valuations, the mortality tables were updated from the RP2000 Table to the IRS 2017 Static Combined Table for Small Plans for both the FPP and PPP. The remaining amortization periods were also updated from 8 years to 5 years for the FPP and from 12 years to 11 years for the PPP.

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

Long-Term Expected Rate of Return - The long-term expected rates of return on both Plans' investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the both Plans as of December 31, 2017 are summarized in the following table:

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

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on Plan investments, net of investment expense, was 12.22% and 12.04% for the FPP and PPP, respectively.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2017 was 8.00% for both the FPP and PPP. The Plans' fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
FPP	$ 14,809,429	$ 9,527,638	$ 5,081,776
PPP	$ 34,109,814	$ 22,692,272	$ 13,140,392

CBPP

The CBPP does not issue stand-alone financial reports.

A. *Summary of Significant Accounting Policies*

Basis of Accounting

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

Method Used to Value Investments

Investments are reported at fair value.

B. Plan Description and Contribution Information

Plan Participants

At December 31, 2017, employee membership data related to the CBPP was as follows:

Inactive plan members or beneficiaries currently receiving benefits	55
Inactive plan members entitled to but not yet receiving benefits	35
Active members	318
Total	408

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

Benefits Provided

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

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

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

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

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

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

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

The death benefit for an active vested participant who has completed five years of service is a 50% survivor pension for his/her 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 $1,050,161 to the CBPP for the year ended December 31, 2017.

Changes in the Net Pension Liability

The changes in the net pension liability for the CBPP at December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	$ 16,519,032	$ 11,972,620	$ 4,546,412
Service cost	617,998	-	617,998
Interest	1,270,257	-	1,270,257
Changes for experience	(208,366)	-	(208,366)
Changes of assumptions	372,079	-	372,079
Contributions - employer	-	1,050,161	(1,050,161)
Net investment income	-	1,419,263	(1,419,263)
Benefit payments, including refunds	(727,961)	(727,961)	-
Administrative expenses	-	(28,655)	28,655
Net changes	1,324,007	1,712,808	(388,801)
Balances at December 31, 2017	$ 17,843,039	$ 13,685,428	$ 4,157,611
Plan fiduciary net position as a percentage of the total pension liability			76.70%

The net pension liability of the pension plan is allocated between governmental activities and business-type activities in the amounts of $2,271,083 and $1,886,528 respectively, at December 31, 2017.

The net pension liability was measured as of December 31, 2017 and was determined by rolling forward liabilities from the January 1, 2017 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year-end.

Actuarial Assumptions - The January 1, 2017 actuarial valuation included the following assumptions:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	13 years
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50%
Underlying inflation rate	3.00%
Basis for Mortality Rates	IRS 2017 Static Combined Table for Small Plans

Change in Actuarial Assumptions - In the January 1, 2017 actuarial valuation for CBPP, the mortality tables were updated from the RP2000 Table to the IRS 2017 Static Combined Table for Small Plans and the projected salary increases updated from 5.00% to 4.50%. The remaining amortization periods were also updated from 14 years to 13 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, 2017 are summarized in the following table:

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

Rate of Return – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 12.15%.

Concentrations – At December 31, 2017, none of 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, 2017 was 7.50%. The CBPP's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

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

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
$ 6,698,890	$ 4,157,611	$ 2,040,691

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

For the year ended December 31, 2017, the governmental activities and business-type activities recognized pension expense of $5,487,410 and $559,421, respectively.

At December 31, 2017, the governmental activities and business-type activities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources	Governmental Activities	Business-type Activities
Differences between expected and actual experience	$ 937,173	$ -
Changes of assumptions	2,236,227	157,589
Net difference between projected and actual earnings on pension plan investments	340,759	-
Total Deferred Outflows of Resources	$ 3,514,159	$ 157,589
Deferred Inflows of Resources		
Differences between expected and actual experience	$ 2,933,828	$ 157,699
Net difference between projected and actual earnings on pension plan investments	38,219	41,402
Total Deferred Inflows of Resources	$ 2,972,047	$ 199,101

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

Year ending December 31,	Governmental Activities	Business-type Activities
2018	$ 740,786	$ 53,452
2019	905,486	53,452
2020	(507,118)	(8,691)
2021	(151,047)	(16,967)
2022	(333,495)	(16,967)
Thereafter	(112,500)	(105,791)
	$ 542,112	$ (41,512)

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, 2017, there were 187 plan participants. The SSP participants may elect to contribute up to 10% of their after-tax pay. The City will match 25% of the participant's contribution, on the first 5% contributed by each participant. Participant contributions in excess of 5% of compensation will not be matched. The SSP provisions are established and may be amended by the Board. During the year ended December 31, 2017, SSP participants and the City made contributions of $536,562 and $110,305, respectively.

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

Pension Financial Statements

Financial statements for the individual pension plans are presented below:

Statement of Net Position
December 31, 2017

	FPP	PPP	CBPP	SPP
Assets:				
Investments	$ 42,556,327	$ 71,084,971	$ 13,643,917	$ 9,546,380
Receivables:	.			
Investment income	128,245	209,629	41,511	-
Total Assets	42,684,572	71,294,600	13,685,428	9,546,380
Liabilities:				
Benefits payable	135,738	-	-	-
Net position restricted for pension benefits	$ 42,548,834	$ 71,294,600	$ 13,685,428	$ 9,546,380

Statement of Changes in Net Position
Year Ended December 31, 2017

	FPP	PPP	CBPP	SPP
Additions:				
Contributions:				
Employees	$ 274,034	$ 621,225	$ -	$ 536,562
Employer	2,257,853	2,996,610	1,050,161	110,305
Total contributions	2,531,887	3,617,835	1,050,161	646,867
Investment income:				
Net appreciation in fair value of investments	3,665,587	6,058,474	1,147,776	898,172
Interest and dividends	1,072,289	1,791,412	324,904	215,941
Total investment income	4,737,876	7,849,886	1,472,680	1,114,113
Less: investment expenses	(181,249)	(302,683)	(53,417)	-
Net investment income	4,556,627	7,547,203	1,419,263	1,114,113
Total additions	7,088,514	11,165,038	2,469,424	1,760,980
Deductions:				
Benefits	3,726,084	5,264,907	727,961	467,141
Administrative expenses	8,700	4,170	28,655	54,090
Total deductions	3,734,784	5,269,077	756,616	521,231
Change in net position	3,353,730	5,895,961	1,712,808	1,239,749
Net position restricted for pension benefits:				
Beginning of year	39,195,104	65,398,639	11,972,620	8,306,631
End of year	$ 42,548,834	$ 71,294,600	$ 13,685,428	$ 9,546,380

Component Units

Commission

The Commission established a non-contributory, money purchase retirement plan for all eligible employees. The Corporation contributes 6% of eligible employees' earnings during the Plan year. Retirement expense totaled $54,282 for the year ended December 31, 2017.

Parking Authority

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

Benefits Provided

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

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

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

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

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

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

Plan Membership

Membership of the Plan consisted of the following at the most recent actuarial valuation date of December 31, 2016:

Active employees	18
Inactive employees and beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	1
Total	33

Contributions

Active members are required to contribute 3.50% of their total compensation. Effective February 1, 2016, active members may also contribute up to an additional 16.5% to fund an optional member annuity. The Parking Authority is required to contribute at an actuarially determined rate, as in accordance with Act 205.

During the year ended December 31, 2016, the Parking Authority made a contribution to the Plan in the amount of $20,875. The minimum municipal obligation (MMO) for the year ended December 31, 2016 was $20,835. During the year ended December 31, 2017, the Parking Authority made a contribution of $19,000. The MMO for the year ended December 31, 2017 was $18,720. The 2017 contribution is reported as a deferred outflow of resources at December 31, 2017.

Changes in the Net Pension Asset

The changes in the net pension asset of the Parking Authority for the year ended December 31, 2017 were as follows:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	$ 1,314,115	$ 1,347,199	$ (33,084)
Changes for the year:			
Service cost	69,238	-	69,238
Interest	72,523	-	72,523
Changes of assumptions	30,135	-	30,135
Differences between expected and actual experience	38,482	-	38,482
Contributions - employer	-	20,875	(20,875)
Contributions - employee	-	31,547	(31,547)
Net investment income	-	143,577	(143,577)
Benefit payments, including refunds	(123,976)	(123,976)	-
Administrative expenses	-	(4,590)	4,590
Net changes	86,402	67,433	18,969
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	$ 1,400,517	$ 1,414,632	$ (14,115)
Plan fiduciary net position as a percentage of the total pension liability			101.01%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2017, with liabilities measured at December 31, 2016, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:	
Investment rate of return	5.25%
Projected salary increases	2.8% - 7.05% *
* includes inflation rate of 2.8%	
Post retirement cost-of-living adjustments	2.8%, subject to plan limitations

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2009 to December 31, 2013.

Pre-retirement mortality:
Males: RP 2000 Male Non-Annuitant table projected 15 years with Scale AA
Females: RP 2000 Female Non-Annuitant table projected 15 years with Scale AA and then set back 5 years
Post-retirement mortality:
Males: RP 2000 Male Non-Annuitant table projected 5 years with Scale AA
Females: RP 2000 Female Non-Annuitant table projected 10 years with Scale AA

Changes in Actuarial Assumptions – The actuarial assumptions noted above were used for the prior measurement date of December 31, 2015 except for investment return assumption for municipal assets decreased from 5.50% to 5.25%.

Long-Term Expected Rate of Return – The PMRS System's (System) long-term expected rate of return on plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to the method used by the System and an in-depth description of the process, including the anticipated rate of return by asset class, can be found at www.pmrs.state.pa.us. Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.5%. The rationale for the difference between the System's long-term expected rate of return and the discount rate can be found at www.pmrs.state.pa.us.

Discount Rate – The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2016 was 5.25%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
$ 118,529	$ (14,115)	$ (128,232)

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2017, the Parking Authority recognized pension expense of $58,616. At December 31, 2017, the Parking Authority reported deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	$ 32,020
Parking Authority contributions subsequent to the measurement date	19,000
Changes of assumptions	26,040
Net difference between projected and actual earnings on pension plan investments	11,665
Total	$ 88,725

The differences in the Parking Authority's expected and actual experience and changes of assumptions 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. Parking Authority contributions subsequent to the measurement date will be recorded as an increase to the pension asset during the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,	
2018	$ 21,586
2019	21,587
2020	25,987
2021	565
	$ 69,725

12. Other Post-employment Benefits

The City administers three single-employer defined benefit OPEB plans for all employees – the OPEB Plan (excludes Water and Sewer employees), Water OPEB Plan, and Sewer OPEB Plan (collectively, OPEB Plans). The City has established Water and Sewer OPEB Trust Funds to fund the Water OPEB Plan and Sewer OPEB Plan. The Water and Sewer OPEB Plans do not issue stand-alone financial reports.

A. Summary of Significant Accounting Policies

Basis of Accounting

The OPEB's financial statements are prepared using the accrual basis of accounting. Monthly retiree contributions to the OPEB Plans are recognized when due. Monthly employer contributions to the OPEB Plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and administrative expenses are recognized when due and payable in accordance with terms of the OPEB Plans.

Method Used to Value Investments

Investments are reported at fair value.

B. Plan Description and Contribution Information

At December 31, 2017, participants in the OPEB Plans were as follows:

	OPEB Plan	Water OPEB Plan	Sewer OPEB Plan
Inactive plan members or beneficiaries currently receiving benefits	320	32	17
Inactive plan members entitled to but not yet receiving benefits	35	-	-
Active plan members	402	82	40
	757	114	57

Plan Description and Administration

In addition to the retirement benefits described in Note 11, the City provides 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. Union labor contracts for the police, firefighters, and nonuniformed union employees establish the OPEB plan provisions. Such union contracts do not require City Council approval and may be amended through future negotiations. The OPEB plan provisions for non-organized employees are established through the City's human resources policies, which are approved by the Mayor.

Benefits Provided

Police officers and firefighters are eligible to retire with benefits after completion of 20 years of service or upon disability. Mandatory retirement with benefits occurs when police officers and firefighters reach age 60 regardless of service. Nonuniformed employees are eligible to retire after completion of 10 years of service and attainment of age 55 or upon disability after completion of 10 years of service.

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

Any police officer hired on or before December 26, 2011 who is eligible to retire will receive fully paid medical and prescription drug coverage for the member, spouse, and eligible dependent children unless the retiree becomes employed by another employer. For any police officer hired after December 26, 2011 who is eligible to retire, the City will pay 50% of the premium for member, spouse, and eligible dependent children for medical and prescription drug coverage unless the retiree becomes employed by another employer. Upon employment with a subsequent employer, the retiree, spouse, and eligible dependent children must accept the medical coverage offered by the subsequent employer and terminate coverage under the City’s group plan. Upon termination of employment with any subsequent employer, the retiree, spouse, and eligible dependent children must elect, in writing within sixty days of the termination of employment, to re-enroll under the City’s plan or otherwise forfeit reinstatement. Eligibility for post-retirement medical insurance coverage paid for by the City ends at Medicare eligibility.

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

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

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

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.

Contributions

The City's Water and Sewer Funds have been making contributions to the respective OPEB trust funds based on a percentage of the annual required contribution, as determined by an actuarial valuation. The balance of the City's contribution is based on projected pay-as-you-go financing requirements through the General Fund. For the year ended December 31, 2017, the City's net cost of providing health benefits and life insurance for retired employees was $5,122,539. During the year ended December 31, 2017, portions of the contribution were made directly to the Water and Sewer OPEB trust funds by the City's Water and Sewer Funds in the amounts of $878,844 and $89,196, respectively. Plan members receiving benefits contributed $35,041 and $14,995 to the City's Water and Sewer OPEB Funds, respectively, as required by the cost sharing provisions of the plans for the year ended December 31, 2017.

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

For police officers hired on or before December 26, 2011 and firefighters eligible to retire, the City pays the entire cost of medical and prescription drug coverage for the retiree, spouse and eligible dependent children. For police officers hired after December 26, 2011 eligible to retire, the City pays 50% of medical and prescription drug coverage for the retiree, spouse, and eligible dependent children. Retired firefighters will also receive dental coverage of the member only. Any nonuniformed employee who elects coverage will make monthly contributions. For eligible nonuniform individuals under the age of 65, the monthly costs for the retiree, spouse, and eligible dependent children are $65, $110, and $60, respectively. For eligible nonuniformed individuals over the age of 65, the monthly costs for the retiree and spouse are $50 and the monthly costs for eligible dependent children is $65.

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

Net OPEB Liability

The components of the net OPEB liability of the OPEB Plans at December 31, 2017 were as follows:

OPEB Plan:

Total OPEB Liability	$ 149,326,775
Plan fiduciary net position	-
Net OPEB liability	$ 149,326,775
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%

Water OPEB Plan:

Total OPEB Liability	$ 18,793,489
Plan fiduciary net position	4,919,522
Net OPEB liability	$ 13,873,967
Plan fiduciary net position as a percentage of the total OPEB liability	26.18%

Sewer OPEB Plan:

Total OPEB Liability	$ 9,745,524
Plan fiduciary net position	498,659
Net OPEB liability	$ 9,246,865
Plan fiduciary net position as a percentage of the total OPEB liability	5.12%

The total OPEB liability was measured as of December 31, 2017 and was determined by rolling forward the liabilities from the January 1, 2016 actuarial valuation, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	3.17%
Salary increases	5% per year
Medical inflation	6.0% in 2017 and 2018 and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later
Mortality table	IRS 2017 Static Combined Table for Small Plans
Retirement age	Nonuniformed employees are assumed to retire at age 62 and completion of 10 years of service. Uniformed employees are eligible to retire after completion of 20 years of service with mandatory retirement at age 60.

Change in actuarial assumptions: The interest rate was decreased from 4.50% to 3.17% in the January 1, 2016 actual valuation. In addition, mortality rates were updated from the RP2000 Table to the IRS 2017 Static Combined Table for Small Plans and medical inflation periods were also updated.

Investment Policy - The City has not yet adopted an investment policy for the Sewer and Water OPEB Trust Funds. Policies regarding the allocation of invested assets in the Sewer and Water OPEB Trust are established and may be amended by the Mayor and/or the Mayor's designee at the recommendation of the Business Administrator. Upon creation of the Sewer and Water OPEB Trusts, the City's priority was to build up an invested balance over a period of years and to preserve invested principal by investing 100% of the Sewer and Water OPEB Trusts in a Fidelity Money Market Fund managed by the Trust administrator, ICMA-RC.

Until the principal balance, invested in a moderate-risk portfolio, could reasonably be expected to produce investment earnings higher than the annual medical insurance expenses for Sewer and Water Fund retirees, the Sewer and Water OPEB Trusts would remain invested in the Money Market Fund. As of June 30, 2018, the Sewer and Water OPEB Trusts reached a balance where, with a modest 4% annual return, the Sewer and Water Fund OPEB Trusts would provide sufficient investment return to cover retiree medical insurance expenses (based on annual expenses for 2017).

With this milestone reached, the City will work to establish an investment policy for the Sewer and Water OPEB Trusts to establish guidelines for a moderate-risk portfolio of investments in 2019 and begin paying a portion of the Sewer and Water Fund retiree medical insurance expenses from the Sewer and Water OPEB Trusts.

Long-Term Expected Rate of Return - The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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 OPEB Plans as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Money market	100.0%	4.5%

Rate of Return – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on the Sewer and Water OPEB Plan investments, net of investment expense, was .52%.

Concentrations – At December 31, 2017, none of the OPEB Plans' investments were more than five percent of the OPEB Plans' total asset value.

Discount Rate – The discount rate used to measure the total OPEB liability as of December 31, 2017 was 3.17%. The projection of cash flows used to determine the discount rate assumed that annual employer contributions are equal to pay-as-you-go costs plus $950,000 (which represents the average employer contributions to the OPEB trust over the last five years).

The rate of 3.17% as of December 31, 2017 is the single-effective discount rate using 4.50% on projected assets sufficient to cover expected cash flows and 3.16% on remaining cash flows expected to be paid from the OPEB Trust, not already funded for by current assets, on a projected basis. As the January 1, 2016 discount rate of 4.50% resulted in a projected depletion of OPEB Trust net position, a rate of 3.17% was used beginning in the cross-over depletion year of 2021, which is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

In using the discount rate of 3.17% as of December 31, 2017, the OPEB Plans' fiduciary net position is projected to only be available to make projected future benefit payments of current active and inactive employees through the year 2024. Therefore, the long-term expected rate of return on OPEB Plans' investments was applied to periods of projected benefit payments through year 2024 to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability Changes in the Discount Rate – The following presents the net OPEB liability of the OPEB Plans calculated using the discount rate described above, as well as what the OPEB Plans' net OPEB liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates as of December 31, 2017:

	1% Decrease (2.17%)	Current Discount Rate (3.17%)	1% Increase (4.17%)
OPEB Plan	$ 175,244,939	$ 149,326,775	$ 128,813,655
Water OPEB Plan	$ 16,969,143	$ 13,873,967	$ 11,363,242
Sewer OPEB Plan	$ 10,826,688	$ 9,246,865	$ 7,974,678

Sensitivity of the Net OPEB Liability Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability of the OPEB Plans calculated using the healthcare cost trend rates described above, as well as what the OPEB Plans' net OPEB liabilities would be if they were calculated using a healthcare cost trend rate that is one-percentage-point lower (5.0% decreasing to 2.8%) or higher (7.0% decreasing to 4.8%) than the current rates (6.0% decreasing to 3.8%) as of December 31, 2017:

	1% Decrease	Current Rates	1% Increase
OPEB Plan	$ 123,684,140	$ 149,326,775	$ 182,721,434
Water OPEB Plan	$ 10,521,418	$ 13,873,967	$ 18,202,711
Sewer OPEB Plan	$ 7,594,057	$ 9,246,865	$ 11,371,760

Additional Employer Disclosures Required by GASB Statement No. 45

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.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB costs and net OPEB obligations to the plan for the year ended December 31, 2017 were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	$ 10,855,871	$ 2,151,047	$ 13,006,918
Interest on net OPEB obligation	2,684,652	364,512	3,049,164
Adjustment to annual required contribution	(3,662,552)	(497,289)	(4,159,841)
Annual OPEB cost	9,877,971	2,018,270	11,896,241
Contribution made	(3,556,331)	(1,566,208)	(5,122,539)
Change in Net OPEB obligation	6,321,640	452,062	6,773,702
Net OPEB obligation, beginning	59,658,938	8,100,280	67,759,218
Net OPEB obligation, ending	$ 65,980,578	$ 8,552,342	$ 74,532,920

Three-Year Trend Information -

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2015	$ 12,485,405	41%	$ 60,783,424
2016	12,010,586	42%	67,759,218
2017	11,896,241	43%	74,532,920

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	$ 3,386,332	$ 123,377,143	$ 119,990,811	2.74%	$ 28,761,088	417.20%

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

Financial statements for the OPEB Trust Funds are presented below:

Statement of Net Position
December 31, 2017

	Sewer OPEB Trust	Water OPEB Trust
Assets:		
Investments	$ 498,659	$ 4,919,522
Total Assets	498,659	4,919,522
Net position restricted for other post-employment benefits	$ 498,659	$ 4,919,522

Statement of Changes in Net Position
Year Ended December 31, 2017

	Sewer OPEB Trust	Water OPEB Trust
Additions:		
Contributions:		
Employees	$ 14,995	$ 35,041
Employer	89,196	878,844
Total contributions	104,191	913,885
Investment income:		
Interest and dividends	2,340	23,346
Total investment income	2,340	23,346
Total additions	106,531	937,231
Deductions:		
Administrative expenses	1,948	19,549
Total deductions	1,948	19,549
Change in net position	104,583	917,682
Net position restricted for other post-employment benefits:		
Beginning of year	394,076	4,001,840
End of year	$ 498,659	$ 4,919,522

13. 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 2017, the City was limited to $750,000 per employee per accident and $750,000 per employee for disease. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

A summary of workers' compensation claims for the years ended December 31, 2017 and 2016 is as follows:

Unpaid claims as of January 1, 2016	$ 734,106
Incurred claims and change in estimates during 2016	111,779
Payments during 2016	(140,961)
Unpaid claims as of January 1, 2017	704,924
Incurred claims and change in estimates during 2017	340,090
Payments during 2017	(135,506)
Unpaid claims as of December 31, 2017	$ 909,508

Self-Insurance-Health Insurance

The City is exposed to various risks of loss related to major medical self-insurance. The City has a stop/loss agreement with an insurance company which covers all individual claim amounts exceeding $150,000. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program.

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

Changes in the balance of claims liability (net of excess insurance) during the years ended December 31, 2017 and 2016 is as follows:

Unpaid claims as of January 1, 2016	$ 1,270,101
Incurred claims and change in estimates during 2016	10,734,746
Payments during 2016	(10,898,825)
Unpaid claims as of December 31, 2016	1,106,022
Incurred claims and change in estimates during 2017	11,609,293
Payments during 2017	(11,825,334)
Unpaid claims as of December 31, 2017	$ 889,981

14. Property Sales

Component Unit

Redevelopment Authority

During the year ended December 31, 2017, nineteen properties, which were acquired by purchase or eminent domain, were resold to private or corporate entities for rehabilitation. The just compensation cannot always be realized when properties are resold as the cost of the rehabilitation work required when added to the just compensation would prohibit the property from being marketable to low or moderate income families. As a result, the Redevelopment Authority may have losses from time to time on the sale or transfer of properties held for resale. Grant funding received from Community Development Block Grant allocations are used by the Redevelopment Authority to absorb these losses. Cost of property sold represents the inventoried value at the time of the sale, after any possible prior-period losses from lower of cost or market inventory adjustments.

Properties sold during the year ended December 31, 2017:

Property	Net Proceeds from Property Sales	Cost of Property Sold	Gain (Loss)
8 North Marshall Street	$ 38,516	$ 39,000	$ (484)
459 Manor Street	9,850	19,000	(9,150)
219 Juniata Street	13,500	32,500	(19,000)
816 Garnet Avenue	64,250	52,000	12,250
765 Hager Alley	31,130	28,500	2,630
575 Pershing Avenue	3,700	2,200	1,500
593 North Plum Street	42,727	40,000	2,727
114 North Marshall Street	40,750	37,000	3,750
546 Lake Street	31,750	17,000	14,750
546 North Plum Street	21,250	20,000	1,250
605 North Queen Street	28,250	25,000	3,250
714 Fourth Street	57,750	53,000	4,750
328 West King Street	465	-	465
675 St. Joseph Street	17,750	14,000	3,750
501 Green Street	14,227	13,000	1,227
455 Fremont Street	29,500	32,000	(2,500)
550 Spruce Street	49,750	43,000	6,750
Additional Allocations	1,000	27,617	(26,617)
	$ 496,115	$ 494,817	$ 1,298

15. Grants

Component Unit

Redevelopment Authority

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

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

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

On April 20, 2009, the Redevelopment Authority entered into an Infrastructure and Facilities Improvement Program Grant with the Commonwealth of Pennsylvania. The Redevelopment Authority will receive annual grant proceeds of up to $1,000,000 based on stipulations included in the grant agreement for a period of ten years. Upon receipt, the Redevelopment Authority will forward those proceeds to a third-party developer to assist with debt service related to the Lancaster Stockyard project. The Redevelopment Authority received and subsequently disbursed $784,816 under this grant agreement during the year ended December 31, 2017.

In addition, the Redevelopment Authority has been awarded an Infrastructure and Facilities Improvement Program Grant through the Commonwealth of Pennsylvania, which is payable in annual increments of up to $1,000,000 over twenty years to be used for debt service of equal annual amount on the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and First Supplemental Indenture (Note 10) on a reimbursement basis. The Redevelopment Authority has discounted the future grant receipts (Note 3) and offset construction expenses related to the Penn Square Hotel project in the amount of $12,000,000 with the Bond proceeds. During the year ended December 31, 2017, $999,999 was received under this grant agreement for reimbursement of debt service requirements.

Receipt of annual grant funding of the Infrastructure and Facilities Improvement Program Grant is contingent upon the Redevelopment Authority demonstrating to the Commonwealth of Pennsylvania that anticipated tax revenues generated for the Commonwealth as a result of the Penn Square Hotel project equal or exceed the grant amount of the year. The Redevelopment Authority has offset the hotel construction costs by the maximum grant award of $1,000,000 per year. Actual annual amounts received may be reduced by an amount that cannot be reasonably estimated at this time. The maximum annual grant award equals the debt service requirements of the Guaranteed Special Revenue Bonds, Series of 2005. The debt service is guaranteed by the City. For the year ended December 31, 2017, a shortfall of $1 was recognized in changes in net position.

The Redevelopment Authority has been awarded a CRIZ Grant through the CRIZ in April 2017 which is payable in annual increments of up to the annual debt service of the Federally Taxable Hotel Lease Revenue Bonds, Series A of 2017 on a reimbursement basis for a maximum total estimated grant amount of $9,021,397. The Redevelopment Authority has not yet received any CRIZ grant proceeds, and will recognize grant amounts in the future annually based on the grant formula once formula inputs can be estimated. Any such grant amounts are pledged for the payment of the Series A of 2017 bonds.

16. Penn Square Hotel Project

Component Unit

Redevelopment Authority

Acquisition, Construction, and Project Financing

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

Second Hotel Tower

During 2017, PSP and the Redevelopment Authority together with other parties finalized agreements to proceed with the Redevelopment Authority's construction of a second hotel tower. PSP leased the hotel expansion, by means of amending the existing hotel lease which is treated as a direct financing lease. The total construction project related costs are anticipated to be $39,400,000. To date, the Redevelopment Authority has entered into contract commitments in the amount of $25,330,000 and has agreed to reimburse PSP for project related costs incurred to date in the amount of $7,383,841. The project will be financed through two bond issues of the Redevelopment Authority in the total principal amount of $36,900,000 bearing interest at 4.88% and 5.06% (Note 10).

Hotel Lease and Operation

The Redevelopment Authority has entered into a lease agreement with PSP. Rent is comprised of the amounts required as debt service on certain bonds issued by the Redevelopment Authority (base rent), other charges in connection with the bonds, plus any costs incurred by the Redevelopment Authority relative to the administration of the lease that are not provided for in the bond financing documents (additional rent). PSP pays the Redevelopment Authority minimum participant rent. The minimum participation rent for the year ended December 31, 2017 was $200,000 and $150,000 for the existing and new tower, respectively. For the remainder of the lease, these amounts will increase at 3% per annum. The minimum participant rent will be increased if certain hotel operating results, as defined in the lease agreement, are met.

PSP has the option to purchase the property from the Redevelopment Authority based on a formula set forth in the agreement. The purchase price will include the payment of any bonds outstanding and amounts owed to the Redevelopment Authority by PSP at the time of the purchase, in addition to the amount derived by the formula. In no event shall the purchase price be less than $1,000. The lease is set to expire on June 30, 2029.

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

Pledged Revenues

All future base rent payments have been pledged for the payment of the debt service related to the Redevelopment Authority's Federally Taxable Hotel Lease Revenue Bonds, Series of 2005 and 2017. For the year ended December 31, 2017, the Redevelopment Authority recognized interest income from the underlying capital lease in the amount of $956,400 and received base rent cash flow in the amount of $2,364,769. These funds were utilized to make principal payments in the amount of $1,350,896 and interest payments in the amount of $607,356.

17. North Queen Street Parking Garage and Intergovernmental Tax Increment Financing Revenue

<u>Component Unit</u>

Redevelopment Authority

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

The following TIF revenues were received by the Redevelopment Authority during the year ended December 31, 2017:

City of Lancaster	$	112,488
Lancaster County		29,510
School District of Lancaster		222,733
Total	$	364,731

The TIF revenues are restricted to be used for debt service on the TIF note payable and certain other permissible project related expenses. Any related cash balances of the Redevelopment Authority are presented as restricted cash and restricted net position. Any residual cash balances upon payment of the TIF note payable, in full, would be returned to the three taxing bodies noted above.

During the year ended December 31, 2013, the Redevelopment Authority Board approved the pursuit of purchasing three properties located adjacent to the parking garage with the intention of demolishing the structures to create a public urban park area. Two properties were purchased in 2014 for $198,000. During 2017, the third property was purchased for $77,486. Any construction contracts are not yet finalized.

18. Payment in Lieu of Taxes Agreement with Redevelopment Authority

During the year ended December 31, 2017, the City and the Redevelopment Authority entered into an Agreement for Payment in Lieu of Taxes (PILOT) in connection with the Marriott Hotel Penn Square project. In accordance with this agreement, the Redevelopment Authority will make annual guaranteed minimum annual PILOT payments from 2017 through 2029 equal to the annual minimum base rent paid to the Redevelopment Authority by PSP (Note 16). The City may impose a late charge to the annually scheduled PILOT payment in the event that the Redevelopment Authority fails to make all or any portion of the guaranteed minimum payments. The late charge shall accrue on the unpaid balance, whether an annual payment or a monthly payment, in the amount of 6% per annum, accruing monthly. During the year ended December 31, 2017, the Redevelopment Authority made the required annual payment totaling $350,000.

As of December 31, 2017, the remaining PILOT payments to be received by the City in accordance with the agreement are as follows:

2018	$ 360,500
2019	371,315
2020	382,454
2021	393,928
2022	405,746
2023-2027	2,218,786
2028-2029	983,498
	$ 5,116,227

19. Interfund Receivables/Payables and Transfers

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

A reconciliation of the interfund receivables and payables at December 31, 2017 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	$ 11,900,282	$ -
Non-major governmental funds	3,989,789	3,000,000
Proprietary funds:		
Sewer Fund	-	7,611,997
Water Fund	1,500,000	6,746,458
Other Enterprise Funds	-	2,146,424
Internal Service Fund	2,114,808	-
	$ 19,504,879	$ 19,504,879

During the year ended December 31, 2017, the General Fund and Water Fund provided interfund loans of $1,500,000 each to the LanCity Connect Fund, an Other Governmental Fund. The total interfund loan of $3,000,000 is to be repaid through a 13% surcharge on LanCity Connect customer bills and will be repaid beyond one year.

Other than the General Fund, Water Fund, and and LanCity Connect Fund interfund balances disclosed above, interfund balances represent short-term borrowings between funds for the purpose of eliminating negative cash.

Interfund transfers for the year ended December 31, 2017 are as follows:

	Interfund Transfers In	Interfund Transfers Out
Governmental funds:		
General Fund	$ 3,524,854	$ 3,756,838
Non-major governmental funds	4,156,989	618,915
Proprietary funds:		
Water Fund	-	3,500,000
Other Enterprise Funds	193,910	-
	$ 7,875,753	$ 7,875,753

These amounts primarily represent transfers for debt service for principal and interest payments, transfers of grant related capital projects, and to fulfill budgetary transfer requirements.

20. Commitments and Contingencies

Primary Government

Litigation

In the normal course of business, there are various claims and lawsuits pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss, if any, of all claims and lawsuits will not materially affect the City's financial position. With the exception of workers' compensation and health insurance, the City purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2017.

Grants

The City participates in various federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors. Any liability for reimbursement of unallowed costs, which may arise as a result of these audits, if any, would not materially affect the City's financial position.

Contract Commitments

During the year ended December 31, 2017, the City, through a non-major governmental fund, entered into contracts with construction contractors totaling $2,011,531. The commitment remaining on the contracts at December 31, 2017 was $1,604,530.

During the years ended December 31, 2017, 2016, and 2015, the Sewer Fund contracted for pumping stations upgrades and maintenance and collection system improvements. As a result of this, the City entered into contracts with construction contractors totaling $24,053,537. The commitment remaining on the contracts at December 31, 2017 was $6,432,791.

During the years ended December 31, 2017, 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 $10,082,900. The commitment remaining on the contracts at December 31, 2017 was $1,715,285.

Guarantee

The City is guarantor of the outstanding revenue bonds of the Parking Authority. As of December 31, 2017, the outstanding bonds amounted to $21,300,000. In accordance with the Guaranty Agreement, the City is required to make principal and interest payments on the bonds if the Parking Authority fails to generate sufficient revenues to pay debt service. In accordance with the Reimbursement Agreement, if such payments are made by the City, the Parking Authority is required to reimburse the City from any monies available for that purpose under the Trust Indenture.

The City is guarantor of certain bonds of the Redevelopment Authority. The Redevelopment Authority issued $12 million Bonds under the State's Infrastructure and Facilities Improvement Program Grant. The City has guaranteed the debt service payments due and owing under the Bonds. The Redevelopment Authority is expected to use its annual grant from the State to pay the debt service. In the event of a shortfall in the grant amount, the City is liable under the Guaranty agreement for payment of the shortfall in the annual debt service payment. Additionally, the Redevelopment Authority issued $24 million in Bonds under a lease agreement with Penn Square Partners. The City has guaranteed, on a limited basis, the debt service payments due and owing under the bonds. The guarantee is limited to the shortfall in any debt service payment owed by the Redevelopment Authority as the result of a shortfall in amounts available to the Redevelopment Authority under the lease because the Redevelopment Authority must apply amounts to the payment of real estate taxes on the property subject to the lease. If the property is determined to be taxable, then the lease rental payments will not be sufficient to meet the debt service obligations if the taxes have to be paid by the Redevelopment Authority. In that case, the City would be liable for payment of the shortfall in the debt service payments per the terms of the limited guaranty.

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

The City was not required to make payments under any of the above guarantees during the year ended December 31, 2017.

Component Units

LIDA

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

As of December 31, 2017, there were bonds and notes issued and outstanding of $117,694,338.

Parking Authority

In 2007, the Parking Authority entered into a lease agreement with Penn Square Partners. The lease provides Penn Square Partners with 300 guaranteed spaces, and the option to modify the Penn Square Garage. All modifications are to be paid by the Parking Authority upon approval and are then reimbursed by the lessee. In the event of lease termination or cancellation, the lessee is responsible for all expenses required to revert the Penn Square Garage to its original form that existed prior to the lease agreement.

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

Redevelopment Authority

The just compensation of properties acquired by the Redevelopment Authority under the power of eminent domain may be subject to change. Such changes could take place in the event of a court-mandated change in the estimated value of the property. The Redevelopment Authority estimates just compensation liabilities based on real estate appraisals. The ultimate just compensation, after all uncertainties and proceedings surrounding these settlements are finalized, could materially differ from the amounts recorded. The Redevelopment Authority has accrued the following amounts as of December 31, 2017:

Property	Accrued Loss
423 North Pine Street	$ 55,000
903 Manor Street	55,000
127 East New Street	14,000
110 Green Street	3,500
140 Old Dorwart Street	15,000
120 Filbert Street	32,000
	$ 174,500

21. Negative Fund Balance of Governmental Fund and Negative Net Position of Proprietary Funds

As of December 31, 2017, LanCity Connect Fund (other governmental fund), had a deficit in fund balance of $1,942,040.

As of December 31, 2017, LOOP (other enterprise fund) had a deficit in net position totaling $21,488. Since LOOP was established, it has operated as a separate 501(c)(3) organization with its financial management performed within the City's accounting system and management oversight provided by the Mayor's Office and Director of Economic Development and Neighborhood Revitalization (EDNR). It has proven difficult to fully fund LOOP operations (including personnel costs) through sponsorships and other fundraising methods as originally intended. Additionally, with the opening of the Lancaster City Visitor Center in July 2016, the mission of LOOP as an organization has changed significantly since it was established. Due to these and other factors, in February 2017, the Board approved the dissolution of LOOP. The dissolution of LOOP was finalized on February 28, 2018 when LOOP's Articles of Dissolution-Domestic were approved by the Pennsylvania Bureau of Corporations and Charitable Organizations.

Sewer rate increases for inside City customers were approved by City Council in 2010 (10%), 2011 (20%), 2012 (35%), 2016 (10%), 2017 (10%), and again in 2018 (12%). The Pennsylvania Public Utility Commission (PUC) also approved a rate increase for outside City sewer customers in April 2013 for an annualized revenue increase of $399,000. The City is currently reviewing options for another PUC sewer rate case with its PUC counsel and consulting engineers.

In 2014, the City also created the Stormwater Management Fund (SWMF) as a new enterprise fund with its own dedicated revenue source (stormwater management fees). The creation of the SWMF removed stormwater related expenses from the Sewer Fund. The additional revenues to the Sewer Fund generated by the series of rate increases and the movement of stormwater related expenses to the SWMF has incrementally improved the Sewer Fund's operating budget results and cash flow.

In March 2015, following a binding arbitration decision favorable to the City in 2014, East Lampeter Township made a payment to the City of $1.685 million. In mid-June 2015 another payment on the amount due from East Lampeter Township was made in the amount of $171,000. Final payment from East Lampeter Township is anticipated to be received by year-end 2018 in conjunction with the adoption of a bulk sewer agreement amendment with the City's bulk sewer partners as described below.

In March 2015, the City initiated the process to begin binding arbitration with the Lancaster Area Sewer Authority (LASA) to resolve this bulk sewer treatment expense dispute. Through 2018, the amount due to the City for the period from January 2003 to March 2018, based on the East Lampeter Township arbitration award and subsequent modifications to the City's billing process, was just over $5.2 million. Subsequent to year-end 2017, arbitration had yet to be scheduled. In early July 2018, City Administration and LASA officials began meeting to resolve the ongoing billing dispute and negotiate the terms of the bulk sewer agreement amendment outside the arbitration process. While those negotiations are ongoing, LASA has paid the City $3 million in good-faith payments to move the negotiations to a positive outcome. It is anticipated that a final agreement will be reached before year-end 2018 with a full resolution and payment by LASA to the City for all outstanding amounts.

In the Water Fund, a series of inside City rate increases and a nearly 75% increase in rates for outside City customers approved by the PUC in July 2011 had begun to gradually improve operating results and cash flow. Following the lengthy PUC review process for an outside City customer rate increase proposal filed in 2014, the City settled with the State parties for a $4.2 million revenue increase applied to outside City customers. This increase, paired with a City Council approved rate increase for inside City customers of $1.3 million, went into effect on March 5, 2015 per the PUC approved settlement agreement. An additional rate increase of 7% for inside City customers was approved by City Council in January 2016. The City looks to initiate a PUC rate filing before year-end 2019 for an outside customer water rate increase.

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 more than $6,000,000 since December 31, 2015.

22. Bulk Treatment Adjustment

During the year ended December 31, 2017, the City reevaluated the amounts charged to two municipalities for prior bulk treatment billings and agreed to provide credits to these two municipalities in the amount of $1,367,812. The adjustment has been presented on the statement of revenues, expenses and changes in fund net position – proprietary funds as a non-operating expense for the year ended December 31, 2017.

23. Subsequent Events

<u>Primary Government</u>

During 2018, the City borrowed $4,000,000 in the form of a Tax and Revenue Anticipation Note, Series of 2018, bearing interest at a fixed interest rate of 2.49%. The full amount borrowed was repaid in March of 2018. The maximum principal amount of the Tax and Revenue Anticipation Note, Series of 2018 was $6,000,000.

Subsequent to year-end, the City experienced a significant decline in fair value due to changing market conditions. The decline through the second quarter of 2018 was approximately $.9 million for FPP, $1.3 million for PPP, $.1 million for CBPP, and $.3 million for SPP. The City is aware of this decline and will continue to closely monitor these changes in fair value.

In August 2018, the City issued General Obligation Bonds, Series of 2018, in the aggregate amount of $113,325,000. Bond proceeds are to be used for general municipal projects including upgrades and improvements to the City's sewer system, the City's water system, and the City's stormwater system. The bonds bear interest ranging from 2.00% and 5.00% until maturity on November 1, 2048. The principal will be allocated as follows: $14,440,000 to General Fund, $11,420,000 to Stormwater Fund, $20,330,000 to Sewer Fund, and $67,135,000 to Water Fund.

In September 2018, the City entered into a capital lease in the principal amount of $582,248 for a fire truck. Annual payments of $74,019 will commence September 2019, with the final payment to be made September 2028. Payments on the capital lease will be made out of the City's General Fund

Component Units

Redevelopment Authority

Following the process described in Note 3, subsequent to December 31, 2017, the Redevelopment Authority purchased the City's 2017 delinquent real estate taxes. The Redevelopment Authority drew down approximately $942,000 on its line of credit (Note 7) to finance the purchase price of approximately $876,000 payable to the City and the related transaction costs.

In February 2018, PSP and the Redevelopment Authority had a note modification agreement relating to the note receivable from PSP (Note 3). This modification extended the maturity date of the note receivable to June 2029.

REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLANS

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

	2017*	2016*	2015*	2014*
Total Pension Liability:				
Service cost	$ 669,779	$ 701,974	$ 668,547	$ 646,693
Interest	4,010,127	4,093,510	3,963,234	3,820,058
Changes for experience	(3,048,275)	-	(658,793)	-
Changes of assumptions	1,004,921	-	-	-
Benefit payments, including refunds	(3,726,084)	(4,162,059)	(3,517,597)	(3,163,900)
Net Changes in Total Pension Liability	(1,089,532)	633,425	455,391	1,302,851
Total Pension Liability - Beginning	53,166,004	52,532,579	52,077,188	50,774,337
Total Pension Liability - Ending (a)	$ 52,076,472	$ 53,166,004	$ 52,532,579	$ 52,077,188
Plan Fiduciary Net Position:				
Contributions - employer	$ 2,257,853	$ 2,153,346	$ 2,059,043	$ 1,623,658
Contributions - employees	274,034	288,150	290,678	293,263
Net investment income	4,556,627	2,547,826	531,376	3,312,384
Benefit payments, including refunds	(3,726,084)	(4,162,059)	(3,517,597)	(3,163,900)
Administrative expenses	(8,700)	(6,380)	(32,701)	(5,690)
Net Change in Plan Fiduciary Net Position	3,353,730	820,883	(669,201)	2,059,715
Plan Fiduciary Net Position - Beginning	39,195,104	38,374,221	39,043,422	36,983,707
Plan Fiduciary Net Position - Ending (b)	$ 42,548,834	$ 39,195,104	$ 38,374,221	$ 39,043,422
Net Pension Liability - Ending (a-b)	$ 9,527,638	$ 13,970,900	$ 14,158,358	$ 13,033,766
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.70%	73.72%	73.05%	74.97%
Covered Employee Payroll	$ 4,822,392	$ 4,832,626	$ 4,521,715	$ 4,122,312
Net Pension Liability as a Percentage of Covered Employee Payroll	197.57%	289.10%	313.12%	316.18%

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

See accompanying note to required supplementary information - pension plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2017*	2016*	2015*	2014*
Total Pension Liability:				
Service cost	$ 1,697,416	$ 1,811,305	$ 1,725,052	$ 1,755,477
Interest	7,156,987	6,673,575	6,375,804	6,117,633
Changes for experience	1,124,608	-	(613,024)	-
Changes of assumptions	1,556,000	-	-	-
Benefit payments, including refunds	(5,264,907)	(4,752,979)	(4,176,983)	(3,828,043)
Net Changes in Total Pension Liability	6,270,104	3,731,901	3,310,849	4,045,067
Total Pension Liability - Beginning	87,716,768	83,984,867	80,674,018	76,628,951
Total Pension Liability - Ending (a)	$ 93,986,872	$ 87,716,768	$ 83,984,867	$ 80,674,018
Plan Fiduciary Net Position:				
Contributions - employer	$ 2,996,610	$ 2,814,350	$ 2,748,596	$ 2,439,350
Contributions - employees	621,225	699,760	636,599	723,981
Net investment income	7,547,203	4,172,859	809,462	5,207,899
Benefit payments, including refunds	(5,264,907)	(4,752,979)	(4,176,983)	(3,828,043)
Administrative expenses	(4,170)	(26,100)	(11,344)	(4,540)
Net Change in Plan Fiduciary Net Position	5,895,961	2,907,890	6,330	4,538,647
Plan Fiduciary Net Position - Beginning	65,398,639	62,490,749	62,484,419	57,945,772
Plan Fiduciary Net Position - Ending (b)	$ 71,294,600	$ 65,398,639	$ 62,490,749	$ 62,484,419
Net Pension Liability - Ending (a-b)	$ 22,692,272	$ 22,318,129	$ 21,494,118	$ 18,189,599
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.86%	74.56%	74.41%	77.45%
Covered Employee Payroll	$ 11,562,299	$ 10,995,284	$ 10,972,837	$ 10,707,385
Net Pension Liability as a Percentage of Covered Employee Payroll	196.26%	202.98%	195.88%	169.88%

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

See accompanying note to required supplementary information - pension plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2017*	2016*	2015*	2014*
Total Pension Liability:				
Service cost	$ 617,998	$ 569,268	$ 542,160	$ 533,032
Interest	1,270,257	1,168,991	1,096,819	1,048,689
Changes for experience	(208,366)	-	(184,304)	-
Changes of assumptions	372,079	-	-	-
Benefit payments, including refunds	(727,961)	(473,019)	(934,559)	(595,063)
Net Changes in Total Pension Liability	1,324,007	1,265,240	520,116	986,658
Total Pension Liability - Beginning	16,519,032	15,253,792	14,733,676	13,747,018
Total Pension Liability - Ending (a)	$17,843,039	$16,519,032	$15,253,792	$14,733,676
Plan Fiduciary Net Position:				
Contributions - employer	$ 1,050,161	$ 931,774	$ 900,704	$ 697,517
Net investment income	1,419,263	722,581	139,124	854,651
Benefit payments, including refunds	(727,961)	(473,019)	(934,559)	(595,063)
Administrative expenses	(28,655)	(26,770)	(27,730)	(24,140)
Net Change in Plan Fiduciary Net Position	1,712,808	1,154,566	77,539	932,965
Plan Fiduciary Net Position - Beginning	11,972,620	10,818,054	10,740,515	9,807,550
Plan Fiduciary Net Position - Ending (b)	$13,685,428	$11,972,620	$10,818,054	$10,740,515
Net Pension Liability - Ending (a-b)	$ 4,157,611	$ 4,546,412	$ 4,435,738	$ 3,993,161
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.70%	72.48%	70.92%	72.90%
Covered Employee Payroll	$16,203,075	$15,105,036	$14,312,665	$13,618,505
Net Pension Liability as a Percentage of Covered Employee Payroll	25.66%	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 plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2017*	2016*	2015*
Total Pension Liability:			
Service cost	$ 69,238	$ 64,414	$ 34,602
Interest	72,523	71,493	70,961
Benefit payments, including refunds	(123,976)	(119,340)	(137,991)
Changes of assumptions	30,135	3,220	-
Differences between expected and actual experience	38,482	-	3,085
Net Changes in Total Pension Liability	86,402	19,787	(29,343)
Total Pension Liability - Beginning	1,314,115	1,294,328	1,323,671
Total Pension Liability - Ending (a)	$ 1,400,517	$ 1,314,115	$ 1,294,328
Plan Fiduciary Net Position:			
Contributions - employer	$ 20,875	$ 5,112	$ 7,687
Contributions - employees	31,547	24,532	16,561
Net investment income (loss)	143,577	(43,585)	104,945
Benefit payments, including refunds	(123,976)	(119,340)	(137,991)
Administrative expenses	(4,590)	(3,948)	(3,843)
Net Change in Plan Fiduciary Net Position	67,433	(137,229)	(12,641)
Plan Fiduciary Net Position - Beginning	1,347,199	1,484,428	1,497,069
Plan Fiduciary Net Position - Ending (b)	$ 1,414,632	$ 1,347,199	$ 1,484,428
Net Pension Liability (Asset) - Ending (a-b)	$ (14,115)	$ (33,084)	$ (190,100)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.0%	102.5%	114.7%
Covered Employee Payroll	$ 696,471	$ 697,602	$ 396,954
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	-2.03%	-4.74%	-47.89%

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

See accompanying note to required supplementary information - pension plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIRE PENSION PLAN

Schedule of City Contributions	2017 *	2016 *	2015 *	2014 *	2013	2012	2011	2010	2009	2008
Actuarially determined contribution under Act 205	$ 2,257,853	$ 2,153,346	$ 2,059,043	$ 1,623,658	$ 1,623,453	$ 1,075,765	$ 1,154,230	$ 1,068,751	$ 1,002,631	$ 980,923
Contributions in relation to the actuarially determined contribution	2,257,853	2,153,346	2,059,043	1,623,658	1,623,453	1,075,765	1,154,230	1,183,751 (1)	1,002,631	980,923
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (115,000)	$ -	$ -
Covered employee payroll	$ 4,822,392	$ 4,832,626	$ 4,521,715	$ 4,122,312						
Contributions as a percentage of covered employee payroll	46.82%	44.56%	45.54%	39.39%						

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

Investment Returns	2017 *	2016 *	2015 *	2014 *
Annual money-weighted rate of return, net of investment expense	12.22%	7.03%	1.30%	9.42%

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

See accompany note to required supplementary information - pension plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - POLICE PENSION PLAN

	2017 *	2016 *	2015 *	2014 *	2013	2012	2011	2010		2009	2008
Schedule of City Contributions											
Actuarially determined contribution under Act 205	$ 2,996,610	$ 2,814,350	$ 2,748,596	$ 2,439,350	$ 2,427,282	$ 1,718,841	$ 1,732,970	$ 1,618,199		$ 1,565,272	$ 1,542,197
Contributions in relation to the actuarially determined contribution	2,996,610	2,814,350	2,748,596	2,439,350	2,427,282	1,718,841	1,732,970	2,588,199	(1)	1,565,272	1,542,197
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (970,000)		$ -	$ -
Covered employee payroll	$ 11,562,299	$ 10,995,284	$ 10,972,837	$ 10,707,385							
Contributions as a percentage of covered employee payroll	25.92%	25.60%	25.05%	22.78%							

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

	2017 *	2016 *	2015 *	2014 *
Investment Returns				
Annual money-weighted rate of return, net of investment expense	12.04%	7.10%	1.22%	9.29%

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

See accompanying note to required supplementary information - pension plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

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

	2017 *	2016 *	2015 *	2014 *	2013	2012	2011	2010	2009	2008
Schedule of City Contributions										
Actuarially determined contribution under Act 205	$ 1,050,161	$ 931,774	$ 900,704	$ 697,516	$ 658,895	$ 516,512	$ 504,280	$ 499,125	$ 475,248	$ 459,603
Contributions in relation to the actuarially determined contribution	1,050,161	931,774	900,704	697,517	658,895	516,512	504,280	499,125	475,248	459,603
Contribution deficiency (excess)	$ -	$ -	$ -	$ (1)	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 16,203,075	$ 15,105,036	$ 14,312,665	$ 13,618,505						
Contributions as a percentage of covered employee payroll	6.48%	6.17%	6.29%	5.12%						
Investment Returns										
Annual money-weighted rate of return, net of investment expense	12.15%	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 plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF PARKING AUTHORITY CONTRIBUTIONS AND INVESTMENT RETURNS

	2017 *	2016 *	2015 *	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution under Act 205	$ 20,835	$ 5,032	$ 6,907	$ 2,736	$ 14,139	$ 13,371	$ 10,008	$ 5,479	$ 7,369	$ 1,707
Contribution in relation to the actuarially determined contribution	20,875	5,112	7,687	2,736	14,139	13,371	10,008	5,479	7,369	1,707
Contribution deficiency (excess)	$ (40)	$ (80)	$ (780)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 696,471	$ 697,602	$ 396,954							
Contributions as a percentage of covered employee payroll	3.00%	0.73%	1.94%							

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

See accompanying note to required supplementary information - pension plans.

1. Actuarial Methods and Assumptions

Primary Government

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

	FPP	PPP	CBPP
Actuarial valuation date	1/1/2015	1/1/2015	1/1/2015
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed	Level dollar closed
Remaining amortization period	8 years	12 years	14 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:			
Investment rate of return	8.0%	8.0%	7.5%
Projected salary increases	5.0%	5.0%	5.0%
Underlying inflation rate	3.0%	3.0%	3.0%
Mortality table	RP2000 mortality table	RP2000 mortality table	RP2000 mortality table

Changes in Actuarial Assumptions

In the January 1, 2017 FPP and PPP actuarial valuations, the mortality table was changed to the IRS Static Combined Table for Small Plans from the RP2000 Mortality Table and the remaining amortization period was updated from 8 to 5 years and 12 to 11 years, respectively.

In the January 1, 2017 CBPP actuarial valuation, the mortality table was changed to the IRS 2017 Static Combined Table for Small Plans from the RP2000 Mortality Table, the projected salary increases were updated from 5.00% to 4.50%, and the remaining amortization period was updated from 14 to 13 years.

In the January 1, 2015 FPP and PPP actuarial valuation, the remaining amortization method was updated from 9 years to 8 years and from 13 years to 12 years respectively.

In the January 1, 2015 CBPP actuarial valuation, the remaining amortization method was updated from 15 years to 14 years and the investment rate of return was updated from 6.5-7.5% to 7.5%.

In the January 1, 2013 FPP and PPP 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 10 years to 9 years for FPP and 15 years to 13 years for PPP.

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%.

<u>Component Units</u>

<u>Lancaster Parking Authority</u>

The information presented in the required supplementary information was determined as part of the actuarial valuation at the date indicated. Methods and assumptions used to determine the contribution rate required under Act 205 for the year ended December 31, 2016 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.0%
Cost-of-living adjustment increase	3% subject to plan limitations

Pre-retirement mortality:
- Males: RP 2000 with 1 year set back
- Females: RP 2000 with 5 year set back

Post-retirement mortality:
- Males and females: Sex distinct RP 2000 Combined Healthy Mortality

Change in actuarial assumptions - The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.

CITY OF LANCASTER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN

SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS

	2017*
Total OPEB Liability:	
Service cost	$ 6,592,755
Interest	4,638,834
Benefit payments	(3,594,807)
Net Changes in Total OPEB Liability	7,636,782
Total OPEB Liability - Beginning	141,689,993
Total OPEB Liability - Ending (a)	$ 149,326,775
Plan Fiduciary Net Position:	
Contributions - employer	$ 3,594,807
Net investment income	-
Benefit payments	(3,594,807)
Administrative expense	-
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending (b)	$ -
Net OPEB Liability - Ending (a-b)	$ 149,326,775
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%
Covered Employee Payroll	$ 23,477,237
Net OPEB Liability as a Percentage of Covered Employee Payroll	636.05%

* 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 - OPEB plan.

CITY OF LANCASTER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - WATER OPEB PLAN

SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS

	2017*
Total OPEB Liability:	
Service cost	$ 931,990
Interest	583,655
Benefit payments	(440,716)
Net Changes in Total OPEB Liability	1,074,929
Total OPEB Liability - Beginning	17,718,560
Total OPEB Liability - Ending (a)	$ 18,793,489
Plan Fiduciary Net Position:	
Contributions - employer	$ 1,354,601
Net investment income	23,346
Benefit payments	(440,716)
Administrative expense	(19,549)
Net Change in Plan Fiduciary Net Position	917,682
Plan Fiduciary Net Position - Beginning	4,001,840
Plan Fiduciary Net Position - Ending (b)	$ 4,919,522
Net OPEB Liability - Ending (a-b)	$ 13,873,967
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	26.18%
Covered Employee Payroll	$ 3,890,332
Net OPEB Liability as a Percentage of Covered Employee Payroll	356.63%

* 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 - OPEB plan.

CITY OF LANCASTER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
SEWER OPEB PLAN

SCHEDULE OF CHANGES IN THE CITY'S
NET OPEB LIABILITY AND RELATED RATIOS

	2017*
Total OPEB Liability:	
Service cost	$ 484,935
Interest	302,702
Benefit payments	(231,564)
Net Changes in Total OPEB Liability	556,073
Total OPEB Liability - Beginning	9,189,451
Total OPEB Liability - Ending (a)	$ 9,745,524
Plan Fiduciary Net Position:	
Contributions - employer	$ 335,755
Net investment income	2,340
Benefit payments	(231,564)
Administrative expense	(1,948)
Net Change in Plan Fiduciary Net Position	104,583
Plan Fiduciary Net Position - Beginning	394,076
Plan Fiduciary Net Position - Ending (b)	$ 498,659
Net OPEB Liability - Ending (a-b)	$ 9,246,865
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	5.12%
Covered Employee Payroll	$ 1,988,388
Net OPEB Liability as a Percentage of Covered Employee Payroll	465.04%

* 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 - OPEB plan.

CITY OF LANCASTER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - OPEB PLANS

OPEB PLAN:

Schedule of City Contributions	2017*
Actuarially determined contribution	$ 3,594,807
Contributions in relation to the actuarially determined contribution	3,594,807
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 23,477,237
Contributions as a percentage of covered employee payroll	15.31%
Investment Returns	
Annual money-weighted rate of return, net of investment expense	N/A

OPEB WATER PLAN:

Schedule of City Contributions	
Actuarially determined contribution	$1,354,601
Contributions in relation to the actuarially determined contribution	1,354,601
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 3,890,332
Contributions as a percentage of covered employee payroll	34.82%
Investment Returns	
Annual money-weighted rate of return, net of investment expense	0.52%

OPEB SEWER PLAN:

Schedule of City Contributions	
Actuarially determined contribution	$335,755
Contributions in relation to the actuarially determined contribution	335,755
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 1,988,388
Contributions as a percentage of covered employee payroll	16.89%
Investment Returns	
Annual money-weighted rate of return, net of investment expense	0.52%

* 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 - OPEB plan.

1. Actuarial Methods and Assumptions

The information presented in the required supplementary information was determined as part of the actuarial valuations at December 31, 2017. Methods and assumptions used to determine contribution rates are as follows:

Actuarial valuation date	1/1/2016
Actuarial cost method	Entry age normal, level dollar
Amortization period	30 years, open period
Actual value of assets	Market value
Actuarial assumptions:	
Investment rate of return	3.17%
Projected salary increases	5.00%
Medical inflation rate	6.0% in 2017 and 2018 and 5.5% in 2019 thorugh 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later.
Retirement age	Nonuniformed employees are assumed to retire at age 62 and completion of 10 years of service. Uniformed employees are eligible to retire after completion of 20 years of service with mandatory retirement at age 60.
Mortality table	IRS 2017 Static Combined Table for Small Plans

Changes in Actuarial Assumptions

The interest rate was decreased from 4.50% to 3.17% in the January 1, 2016 actual valuation. In addition, mortality rates were updated from the RP2000 Table to the IRS 2017 Static Combined Table for Small Plans and medical inflation periods were also updated.

CITY OF LANCASTER, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	$ -	$ 105,985,918	$ 105,985,918	0.00%	$ 27,660,157	383.17%
1/1/2012	-	113,807,524	113,807,524	0.00%	25,591,950	444.70%
1/1/2014	1,459,923	128,129,913	126,669,990	1.14%	26,808,050	472.51%
1/1/2016	3,386,332	123,377,143	119,990,811	2.74%	28,761,088	417.20%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB

Year	Annual Required Contribution	Percentage Contributed
2012	$ 11,404,542	39.01%
2013	11,404,542	42.30%
2014	13,361,116	37.72%
2015	13,361,116	38.37%
2016	13,006,918	38.71%
2017	13,006,918	39.38%

CITY OF LANCASTER, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES

YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
Real estate taxes, net of discount	$ 27,730,000	$ 27,730,000	$ 27,396,338	$ (333,662)
Real estate transfer tax	750,000	750,000	1,197,274	447,274
Penalties, interest, and costs on delinquent real estate taxes	100,000	100,000	115,057	15,057
Earned income tax	5,840,000	5,840,000	6,080,711	240,711
Local services tax	1,675,000	1,675,000	1,664,127	(10,873)
Total taxes	36,095,000	36,095,000	36,453,507	358,507
Intergovernmental revenues:				
Grants	25,000	25,000	35,616	10,616
PA state reimbursement	50,000	50,000	33,319	(16,681)
Pension state aid	2,625,000	2,625,000	2,810,616	185,616
Public utility reality tax	38,000	38,000	35,533	(2,467)
Alcohol beverage tax	35,000	35,000	32,650	(2,350)
Total intergovernmental revenues	2,773,000	2,773,000	2,947,734	174,734
Licenses and permits	2,068,000	2,068,000	2,168,647	100,647
Fines and forfeitures	1,480,000	1,480,000	2,125,720	645,720
Rents and charges for services	1,348,000	1,348,000	1,305,481	(42,519)
Investment income	325	325	195	(130)
Miscellaneous	2,506,950	2,506,950	2,605,408	98,458
Other financing sources:				
Interfund reimbursements	2,515,000	2,515,000	2,550,768	35,768
Sale of general capital assets	25,000	25,000	41,364	16,364
Transfers in	3,500,000	3,500,000	3,524,854	24,854
Total other financing sources	6,040,000	6,040,000	6,116,986	76,986
Total revenues and other financing sources	$ 52,311,275	$ 52,311,275	$ 53,723,678	$ 1,412,403

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

CITY OF LANCASTER, PENNSYLVANIA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Executive department:				
Office of the Mayor	$ 230,609	$ 231,882	$ 231,974	$ (92)
Office of the City Solicitor	375,000	373,725	303,775	69,950
	605,609	605,607	535,749	69,858
Legislative department:				
Office of the City Council	69,700	69,300	67,647	1,653
Office of the City Clerk	80,797	81,197	73,709	7,488
	150,497	150,497	141,356	9,141
Office of the City Treasurer/Controller	17,000	17,000	17,000	-
Administrative services:				
Bureau of Accounting	839,428	794,394	749,536	44,858
Bureau of Procurement and Collections	87,082	87,366	80,860	6,506
Bureau of Human Resources	322,735	327,435	285,760	41,675
Bureau of Information Services	632,487	777,537	767,817	9,720
Community Involvement	631,656	681,656	653,238	28,418
Insurance	653,500	577,500	576,158	1,342
Fringe benefits	2,985,658	3,066,403	2,991,852	74,551
	6,152,546	6,312,291	6,105,221	207,070
Public safety:				
Bureau of Police	23,297,022	23,222,494	22,738,638	483,856
Bureau of Fire	11,124,442	11,039,226	10,929,681	109,545
	34,421,464	34,261,720	33,668,319	593,401
Economic development and neighborhood revitalization:				
Office of the Director	1,805,183	1,793,323	1,553,246	240,077
Bureau of Housing and Structural Inspection	1,148,140	1,156,450	1,090,826	65,624
Bureau of Planning	275,918	279,468	268,868	10,600
	3,229,241	3,229,241	2,912,940	316,301
Public works:				
Office of the Director	1,076,964	1,043,417	1,031,576	11,841
Bureau of Engineering	480,563	486,781	484,478	2,303
Bureau of Streets:				
Administration	368,607	401,180	353,266	47,914
Maintenance	560,892	493,559	548,039	(54,480)
Traffic	1,033,152	1,067,102	1,063,799	3,303
Motor Vehicles	254,823	254,823	266,884	(12,061)
Bureau of Parks:				
Administration	164,135	160,135	158,731	1,404
Buildings	1,268,146	1,230,496	1,155,787	74,709
Parks	429,421	493,761	496,804	(3,043)
Trees	200,918	202,018	195,597	6,421
Central Market building	78,398	99,748	85,301	14,447
Southern Market building	80,219	63,219	47,996	15,223
	5,996,238	5,996,239	5,888,258	107,981
Other financing uses:				
Transfers out	3,734,823	3,734,823	3,732,823	2,000
Total expenditures and other financing uses	$ 54,307,418	$ 54,307,418	$ 53,001,666	$ 1,305,752

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

1. Budgetary Basis of Accounting

An annual GAAP basis budget is adopted for the General Fund, with the exceptions of the proceeds from the issuance of capital leases and the related debt service payments, which are included in the function for which the lease was issued, and transfers to the City's blended component unit, which are included as Community Involvement expenditures.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

	Appropriation	Expenditures
Executive department:		
Office of the Mayor	$ 231,882	$ 231,974
Public works:		
Bureau of Streets - Maintenance	493,559	548,039
Bureau of Streets - Motor vehicles	254,823	266,884
Bureau of Parks - Parks	493,761	496,804

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