

## **City of Lancaster Water Fund**

Financial Statements and Required  
Supplementary Information

Years Ended December 31, 2017 and 2016  
with Independent Auditor's Report

**MaherDuessel**

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# CITY OF LANCASTER WATER FUND

YEARS ENDED DECEMBER 31, 2017 AND 2016

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Water Fund of the City of Lancaster as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund of the City of Lancaster as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the historical pension and other post-employment benefit (OPEB) information on pages 36 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the City of Lancaster, as of December 31, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Maher Duessel*

Harrisburg, Pennsylvania  
September 25, 2018

# CITY OF LANCASTER WATER FUND

## BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Assets and Deferred Outflows of Resources</b>		
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 550	\$ 550
Cash and cash equivalents - restricted	9,068,659	20,809,521
Receivables:		
Water rents	2,416,200	1,838,677
Unbilled water rents	2,255,583	2,661,489
Other	36,005	29,086
Prepaid expenses	917,065	775,256
Total current assets	14,694,062	26,114,579
Long-term assets:		
Due from City of Lancaster Other Governmental Fund	1,500,000	-
Prepaid debt insurance	877,512	952,473
Capital assets, not being depreciated	14,410,334	7,913,737
Capital assets, being depreciated, net	143,902,672	138,959,448
Total long-term assets	160,690,518	147,825,658
Total Assets	175,384,580	173,940,237
<b>Deferred Outflows of Resources:</b>		
Deferred outflows of resources for pension	83,773	117,081
Deferred charge on refunding	6,293,510	6,749,507
Total Deferred Outflows of Resources	6,377,283	6,866,588
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$181,761,863</b>	<b>\$180,806,825</b>

(Continued)

<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>	<u>2017</u>	<u>2016</u>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 2,677,179	\$ 1,305,403
Accrued expenses	1,013,183	991,286
Due to City of Lancaster General Fund	6,746,458	6,872,319
Compensated absences, current portion	26,607	23,129
Capital lease, current portion	121,960	113,133
Notes payable, current portion	519,600	498,400
Bonds payable, current portion	1,180,000	1,140,000
<b>Total current liabilities</b>	<b>12,284,987</b>	<b>10,943,670</b>
<b>Long-term liabilities:</b>		
Compensated absences, net of current portion	89,023	77,388
Net other post-employment liability	3,297,390	3,317,180
Net pension liability	1,043,734	1,138,951
Workers' compensation payable	29,883	3,861
Capital lease, net of current portion	199,575	178,996
Notes payable, net of current portion	9,210,800	9,730,400
Bonds payable, net of current portion	136,429,142	137,841,071
<b>Total long-term liabilities</b>	<b>150,299,547</b>	<b>152,287,847</b>
<b>Total Liabilities</b>	<b>162,584,534</b>	<b>163,231,517</b>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows of resources for pension	101,734	37,875
<b>Total Deferred Inflows of Resources</b>	<b>101,734</b>	<b>37,875</b>
<b>Net Position:</b>		
Net investment in capital assets	25,482,654	25,162,222
Unrestricted	(6,407,059)	(7,624,789)
<b>Total Net Position</b>	<b>19,075,595</b>	<b>17,537,433</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$181,761,863</b>	<b>\$180,806,825</b>
		(Concluded)

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

# CITY OF LANCASTER WATER FUND

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

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Operating Revenues:</b>		
Water rents	26,302,964	26,247,323
Meter labor reimbursement	227,980	220,850
Miscellaneous revenue	472,461	439,479
Total operating revenues	27,003,405	26,907,652
<b>Operating Expenses:</b>		
Susquehanna treatment plant	2,739,219	2,582,866
Conestoga treatment plant	2,300,648	2,333,551
Transmission and distribution	1,348,785	1,337,681
Meters and meter labor	651,371	630,999
Laboratory	280,780	280,314
Depreciation	3,116,947	3,014,670
Administration	6,293,117	5,659,710
Grounds maintenance	432,154	414,050
Total operating expenses	17,163,021	16,253,841
<b>Operating Income</b>	9,840,384	10,653,811
<b>Non-Operating Revenues (Expenses):</b>		
State pension contribution	264,296	229,619
Investment income	45,046	58,961
Economic development contribution	(198,128)	(539,381)
Amortization expense	(74,961)	(63,576)
Interest expense	(5,389,403)	(5,404,058)
Total non-operating revenues (expenses)	(5,353,150)	(5,718,435)
Income before transfers and capital contributions	4,487,234	4,935,376
Transfers out	(3,500,000)	(4,994,000)
Capital contributions	550,928	138,606
<b>Change in Net Position</b>	1,538,162	79,982
<b>Net Position:</b>		
Beginning of year	17,537,433	17,457,451
End of year	\$ 19,075,595	\$ 17,537,433

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

# CITY OF LANCASTER WATER FUND

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Cash received from users	\$ 26,824,869	\$ 26,633,470
Cash paid to suppliers	(7,990,192)	(8,833,509)
Cash paid to employees	(5,458,174)	(5,219,314)
	13,376,503	12,580,647
<b>Cash Flows From Investing Activities:</b>		
Investment income received	45,046	58,961
	45,046	58,961
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Proceeds from bonds payable	-	102,607,409
Cash paid for debt issuance costs	-	(2,103,084)
Payments to bond escrow agent	-	(100,504,325)
Principal payments on capital lease	(151,457)	(141,808)
Principal payments on notes payable	(498,400)	(467,200)
Principal payments on bonds payable	(1,140,000)	(1,095,000)
Interest paid	(5,611,159)	(4,100,518)
Acquisition of capital assets	(12,701,702)	(6,726,185)
	(20,102,718)	(12,530,711)
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Transfers out	(3,500,000)	(3,500,000)
Economic development contribution	(198,128)	(539,381)
Due to City of Lancaster General Fund	(125,861)	(3,580,920)
Due from City of Lancaster Other Governmental Fund	(1,500,000)	-
State pension contribution	264,296	229,619
	(5,059,693)	(7,390,682)
<b>Net Decrease in Cash and Cash Equivalents</b>	(11,740,862)	(7,281,785)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	20,810,071	28,091,856
End of year	\$ 9,069,209	\$ 20,810,071

(Continued)



# CITY OF LANCASTER WATER FUND

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Continued)

	2017	2016
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 9,840,384	\$ 10,653,811
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	3,116,947	3,014,670
Amortization	33,886	29,005
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables	(178,536)	(274,182)
Prepaid expenses	(141,809)	(520,939)
Deferred outflows of resources for pension	(4,021)	(19,669)
Accounts payable	683,284	(301,186)
Accrued expenses	32,938	28,851
Compensated absences	15,113	6,583
Workers' compensation payable	26,022	(536)
Net pension liability	(95,217)	29,007
Net other post-employment liability	(19,790)	(64,518)
Deferred inflows of resources for pension	67,302	(250)
Total adjustments	3,536,119	1,926,836
Net cash provided by operating activities	\$ 13,376,503	\$ 12,580,647
<b>Noncash Capital Financing Activities:</b>		
Issuance of capital lease	\$ 180,863	\$ 58,072
Developer contributions	\$ 550,928	\$ 138,606

(Concluded)

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

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 1. Significant Accounting Policies

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

#### *Basis of Presentation and Accounting*

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

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

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

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

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

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

### ***Capital Assets***

The water system's capital assets are recorded at their estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Water Fund would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

Depreciation is computed using the composite remaining life method using the average life term of group assets. The following are the estimated useful lives used for capitalization of water system capital assets:

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

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

### ***Capitalization of Interest***

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest capitalized for the years ended December 31, 2017 and 2016 totaled \$434,783 and \$149,543, respectively.

### ***Restricted Assets***

The unexpended 2011 and 2014 bond proceeds as of December 31, 2017 and 2016 are included in the restricted assets.

### ***Prepaid Debt Insurance/Deferred Charge on Refunding***

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

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### ***Net Position***

Net position is classified in the following categories:

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

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

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

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

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain amounts and disclosures. Accordingly, actual results may differ from estimated amounts.

### ***Pension Plans***

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

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

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

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### ***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 Changes in Accounting Principles***

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

In March of 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.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 2. Deposits

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

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

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

The Water Fund pools certain of its deposits with the City. At December 31, 2017 and 2016, the book balance of the pooled deposits was \$26,611,373 and \$44,187,502, respectively, and the bank balance was \$28,243,374 and \$45,255,571, respectively. The Water Fund's position in the pooled deposits was \$9,068,659 and \$20,809,521 at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the entire balance was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

### 3. Due from City of Lancaster Other Governmental Fund

During the year ended December 31, 2017, the Water Fund provided an interfund loan of \$1,500,000 to the LanCity Connect Fund, an Other Governmental Fund. The loan is to be repaid through a 13% surcharge on LanCity Connect customer bills.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 4. Capital Assets

Capital asset activity for the years ended December 31, 2017 and 2016 is as follows:

	December 31, 2016	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2017
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	<u>7,913,737</u>	<u>7,021,220</u>	<u>(524,623)</u>	<u>14,410,334</u>
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	<u>195,693,922</u>	<u>8,060,172</u>	<u>(91,655)</u>	<u>203,662,439</u>
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	<u>(56,734,474)</u>	<u>(3,116,947)</u>	<u>91,654</u>	<u>(59,759,767)</u>
Capital assets being depreciated, net	<u>138,959,448</u>	<u>4,943,225</u>	<u>(1)</u>	<u>143,902,672</u>
Capital assets, net	<u>\$ 146,873,185</u>	<u>\$ 11,964,445</u>	<u>\$ (524,624)</u>	<u>\$ 158,313,006</u>

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 5. Long-term Liabilities

A summary of long-term liabilities for the year ended December 31, 2017 is as follows:

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description and Interest Rates</u>	<u>Balance Outstanding December 31, 2017</u>
2009/2030	\$ 15,875,000	General Obligation Notes, 2.50% - 4.875%	\$ 9,240,000
2011/2041	11,260,000	General Obligation Bonds, 1.75% - 5.00%	8,535,000
2014/2044	27,235,000	General Obligation Bonds, 3.00% - 5.00%	26,140,000
2015/2028	556,000	General Obligation Note, 2.41%	490,400
2016/2046	98,920,000	General Obligation Bonds, 3.00% - 5.00%	98,920,000
			<u>\$ 143,325,400</u>

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

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

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

In 2007, the City issued \$125,315,000 of general obligation bonds. The portion allocable to the Water Fund amounted to \$96,460,000, bearing interest at rates ranging from 4.00% to 5.00%. The proceeds of the bond issuance were used to fund the construction of the membrane filtration plant and refund the City's 2004 note payable. These bonds were advance refunded through the issuance of General Obligation Bonds, Series of 2016. The

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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balance outstanding on the defeased General Obligation Bonds, Series of 2007, was fully redeemed on May 1, 2017.

In 2010, the City issued \$8,635,000 of general obligation bonds. The portion allocable to the Water Fund amounted to \$690,800. The bonds bear interest at rates ranging from 2.00% to 4.00%. The proceeds of the bond issuance were used to currently refund the General Obligation Bonds, Series of 2003. These bonds were currently refunded through the issuance of General Obligation Note, Series of 2015.

In 2011, the City issued \$38,860,000 of general obligation bonds. The portion allocable to the Water Fund amounted to \$11,260,000, bearing interest at rates ranging from 1.75% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the water plant and various miscellaneous capital projects.

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

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

### ***Notes Payable***

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

In 2015, the City issued a general obligation note in the amount of \$6,950,000. The portion allocable to the Water Fund amounted to \$556,000, bearing a fixed interest rate of 2.41%.

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series of 2010.

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

<u>Year Ending December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2018	\$ 1,699,600	\$ 5,521,791	\$ 7,221,391
2019	1,910,400	5,448,652	7,359,052
2020	3,451,200	5,361,144	8,812,344
2021	3,607,400	5,208,987	8,816,387
2022	3,788,600	5,049,751	8,838,351
2023-2027	21,593,200	22,697,686	44,290,886
2028-2032	25,395,000	17,913,941	43,308,941
2033-2037	25,605,000	13,715,775	39,320,775
2038-2042	30,485,000	8,839,150	39,324,150
2043-2046	25,790,000	2,506,000	28,296,000
	<u>\$ 143,325,400</u>	<u>\$ 92,262,877</u>	<u>\$ 235,588,277</u>

### ***Capital Lease***

In 2014 through 2017, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. As of December 31, 2017 and 2016, the Water Fund includes these vehicles and equipment at a cost of \$620,405 and \$574,063, respectively, with accumulated depreciation of \$139,574 and \$125,747, respectively.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

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

Year Ending December 31,	Total
2018	\$ 131,862
2019	117,133
2020	53,931
2021	38,364
2022	5
Total minimum lease payments	341,295
Less amount representing interest	(19,760)
Present value of future minimum lease payments	\$ 321,535

Changes in long-term liabilities for the years ended December 31, 2017 and 2016 are as follows:

	December 31, 2016	Increase	Decrease	December 31, 2017	Amount Due Within One Year
Bonds payable	\$ 134,735,000	\$ -	\$ (1,140,000)	\$ 133,595,000	\$ 1,180,000
Unamortized premium	4,246,071	-	(231,929)	4,014,142	-
Notes payable	10,228,800	-	(498,400)	9,730,400	519,600
Capital lease	292,129	180,863	(151,457)	321,535	121,960
Compensated absences	100,517	699,523	(684,410)	115,630	26,607
Workers' compensation payable	3,861	30,432	(4,410)	29,883	-
	\$ 149,606,378	\$ 910,818	\$ (2,710,606)	\$ 147,806,590	\$ 1,848,167

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

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

## 6. Derivative Agreements

During the year ended December 31, 1998, the City issued its \$61,915,000, aggregate principal amount, General Obligation Bonds, Series A of 1998 (the "Series A Bonds"). During the year ended December 31, 2004, because of the market conditions, the City entered into a forward interest rate swap agreement (Basis Swap) with PNC Bank, N.A., as the counterparty in connection with the Series A Bonds through the final maturity date of the Series A Bonds (May 1, 2028). Beginning on May 1, 2009 and ending on the final maturity date of May 1, 2028, the City was to pay a variable interest rate equal to the SIFMA index based on the notional amount remaining on the Series A Bonds and receive a variable interest rate equal to 67% of the 1-Month LIBOR rate. The Basis Swap agreement contained an embedded interest rate cap, providing that the floating rate to be paid by the City shall not exceed 25%. PNC Bank, N.A. paid a premium to the City in the amount of \$1,715,700 for the Basis Swap. The Basis Swap became effective on May 1, 2009 and was assigned to a proportionate share of the City's General Obligation Notes, Series of 2009 which refunded the Series A Bonds. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 7. Pension Plans

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

The CBPP does not issue stand-alone financial reports.

#### A. *Summary of Significant Accounting Policies*

##### Basis of Accounting

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

##### Method Used to Value Investments

Investments are reported at fair value.

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

##### Plan Participants

At December 31, 2017 and 2016, employee membership data related to the CBPP was as follows:

	<u>2017</u>	<u>2016</u>
Inactive plan members or beneficiaries currently receiving benefits	55	55
Inactive plan members entitled to but not yet receiving benefits	35	32
Active plan members	<u>318</u>	<u>317</u>
	<u>408</u>	<u>404</u>

##### Plan Description and Administration

The CBPP is a single-employer defined benefit pension plan that covers all full-time, nonuniformed employees of the City. The CBPP provides retirement, disability, and

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

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death benefits to plan members and their beneficiaries. The CBPP provisions are established and may be amended by the Nonuniformed Pension Board (Board). The Nonuniformed Pension Board consists of the Mayor, City Controller, the superintendent of finance, two nonuniformed employees, and a member of City Council.

### Retirement Benefit

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

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

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

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

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

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

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

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

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The death benefit for an active vested participant who has completed five years of service is a 50% survivor pension for his/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 and \$931,774, respectively, to the CBPP for the years ended December 31, 2017 and 2016. Of the amount contributed by the City, the Water Fund contributed \$264,296 and \$229,619 to the CBPP for the years ended December 31, 2017 and 2016, respectively.



# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### Changes in the Net Pension Liability

The changes in the net pension liability of the City for the years ended December 31, 2017 and 2016 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 expense	-	(28,655)	28,655
Net changes	<u>1,324,007</u>	<u>1,712,808</u>	<u>(388,801)</u>
Balances at December 31, 2017	<u>\$ 17,843,039</u>	<u>\$ 13,685,428</u>	<u>\$ 4,157,611</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>76.70%</u>

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

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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The net pension liability was measured as of December 31, 2017 and 2016 and was determined by rolling forward the liabilities from the January 1, 2017 and 2015 actuarial valuations, respectively. No significant events or changes occurred between the valuation date and the fiscal year-ends.

The Water Fund's portion of the net pension liability as of December 31, 2017 and 2016 was \$1,043,734 and \$1,138,951, respectively.

*Actuarial Assumptions* - The actuarial valuations included the following assumptions:

	January 1, 2017	January 1, 2015
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	13 years	14 years
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.50%	5.00%
Underlying inflation rate	3.00%	3.00%
Basis for mortality rates	IRS 2017 Static Combined Table for Small Plans	RP2000 mortality table

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

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

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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 and 2016 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 years ended December 31, 2017 and 2016, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 12.15% and 6.86%, respectively.

*Concentrations* – At December 31, 2017, none of the CBPP’s investments were more than five percent of the CBPP’s total asset value.

*Discount Rate* – The discount rate used to measure the total pension liability as of December 31, 2017 and 2016 was 7.50%. The CBPP’s fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

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

December 31, 2017:

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

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

December 31, 2016:

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

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

For the years ended December 31, 2017 and 2016, the Water Fund recognized pension expense of \$302,390 and \$267,712, respectively. At December 31, 2017, the Water Fund reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>2017</u>	<u>2016</u>
<u>Deferred Outflows of Resources</u>		
Changes of assumptions	\$ 83,773	\$ -
Net difference between projected and actual earnings on pension plan investments	-	117,081
Total Deferred Outflows of Resources	<u>\$ 83,773</u>	<u>\$ 117,081</u>
<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	\$ 81,506	\$ 37,875
Net difference between projected and actual earnings on pension plan investments	20,228	-
Total Deferred Inflows of Resources	<u>\$ 101,734</u>	<u>\$ 37,875</u>

The differences in the Water Fund'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.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2018	\$ 28,612
2019	28,612
2020	(3,623)
2021	(8,717)
2022	(8,717)
Thereafter	<u>(54,128)</u>
	<u>\$ (17,961)</u>

### ***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 and 2016, there were 187 and 181 plan participants, respectively. The SSP participants may elect to contribute up to 10% of their after-tax pay. The City will match 25% of the participant's contribution, on the first 5% contributed by each participant. Participant contributions in excess of 5% of compensation will not be matched. The plan provisions are established and may be amended by the Nonuniformed Pension Board. During the year ended December 31, 2017, plan participants and the City made contributions of \$536,562 and \$110,305, respectively. During the year ended December 31, 2016, plan participants and the City made contributions of \$538,221 and \$89,696, respectively. Of the amount contributed by the City, the Water Fund contributed \$31,231 and \$29,333 for the years ended December 31, 2017 and 2016, respectively.

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

## **8. Other Post-employment Benefits**

The City administers a single-employer defined benefit OPEB Plan for its Water Fund employees. The City has established Water and Sewer OPEB Trust Funds to fund the OPEB Plan. The Water and Sewer OPEB Trust Funds are included in the City's financial statements, and the City does not issue stand-alone financial reports.

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### **A. Summary of Significant Accounting Policies**

#### Basis of Accounting

The OPEB Plan's financial statements are prepared using the accrual basis of accounting. Monthly retiree contributions to the OPEB Plan are recognized when due. Monthly employer contributions to the OPEB Plan 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 Plan.

#### 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 Water Plan were as follows:

Inactive plan members or beneficiaries currently receiving benefits	32
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>82</u>
	<u><u>114</u></u>

#### Plan Description and Administration

In addition to the retirement benefits described in Note 7, 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. The union labor contract establishes the OPEB plan provisions for nonuniformed union employees. The union contract does 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

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.

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

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

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

Nonuniformed 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 years ended December 31, 2017 and 2016, respectively, the City's net cost of providing health benefits and life insurance for retired employees was \$5,122,539 and \$5,034,792. Of the amount contributed by the City, the Water Fund contributed \$1,199,746 and \$1,243,416 for the years ended December 31, 2017 and 2016, respectively. A portion of the contributions made during the years ended December 31, 2017 and 2016, in the amount of \$878,844 and \$876,720, respectively, was made directly to the City's OPEB trust fund by the City's Water Fund. Plan members receiving benefits contributed \$50,036 and \$47,410 through their contributions as required by the cost sharing provisions of the plans for the years ended December 31, 2017 and 2016, respectively.

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

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

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

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### Net OPEB Liability

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

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

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	5.00%
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.

*Change in actuarial assumptions:* The interest rate was decreased from 4.50% to 3.17% in the January 1, 2016 actuarial 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 Water OPEB Trust Fund. Policies regarding the allocation of invested assets in the Water OPEB



# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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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 Water OPEB Trust, 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 Water OPEB Trust in a Fidelity Money Market Fund managed by the Water OPEB 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 Water Fund retirees, the Water OPEB Trust would remain invested in the Money Market Fund. As of June 30, 2018, the Water OPEB Trust reached a balance where, with a modest 4% annual return, the Water OPEB Trust 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 Water OPEB Trust to establish guidelines for a moderate-risk portfolio of investments in 2019 and begin paying a portion of the Water Fund retiree medical insurance expenses from the Water OPEB Trust.

*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 Plan as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 OPEB Plan investments, net of investment expense, was .52%.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

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*Concentrations* – At December 31, 2017, none of the OPEB Plan’s investments were more than five percent of the OPEB Plan’s 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 Plan’s 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 Plan 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 Water Plan calculated using the discount rate described above, as well as what the OPEB Water Plan’s 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%)
<u>\$ 16,969,143</u>	<u>\$ 13,873,967</u>	<u>\$ 11,363,242</u>

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

*Sensitivity of the Net OPEB Liability Changes in the Healthcare Cost Trend Rates* – The following presents the net OPEB liability of the OPEB Water Plan calculated using the healthcare cost trend rates described above, as well as what the OPEB Water Plan’s 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
\$ 10,521,418	\$ 13,873,967	\$ 18,202,711

### 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 Water Fund portion of the City’s annual OPEB costs and net OPEB obligations to the plan for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Annual required contribution	\$ 1,234,330	\$ 1,234,330
Interest on net OPEB obligation	149,273	152,176
Adjustment to annual required contribution	(203,647)	(207,608)
Annual OPEB cost	1,179,956	1,178,898
Contribution made	(1,199,746)	(1,243,416)
Change in Net OPEB obligation	(19,790)	(64,518)
Net OPEB obligation, beginning	3,317,180	3,381,698
Net OPEB obligation, ending	\$ 3,297,390	\$ 3,317,180

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

*Three-Year Trend Information -*

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2015	\$ 1,177,226	93.2%	\$ 3,381,698
2016	1,178,898	105.5%	3,317,180
2017	1,179,956	101.7%	3,297,390

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ 3,107,378	\$ 12,855,084	\$ 9,747,706	24.17%	\$ 3,890,332	250.56%

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.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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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

### 9. 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 each accident and \$750,000 per each employee for disease. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

Unpaid claims as of January 1, 2016	\$ 4,397
Incurred claims during 2016	236
Payments during 2016	<u>(772)</u>
Unpaid claims as of January 1, 2017	3,861
Incurred claims during 2017	30,432
Payments during 2017	<u>(4,410)</u>
Unpaid claims as of December 31, 2017	<u>\$ 29,883</u>

### 10. Contingencies

#### *Litigation*

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

### 11. Contract Commitments

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.

### 12. Negative Unrestricted Net Position

In the Water Fund, a series of inside City rate increases and a nearly 75% increase in rates for outside City customers approved by the Pennsylvania Public Utility Commission (PUC) in July 2011 had begun to gradually improve operating results and cash flow. Following the

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# CITY OF LANCASTER WATER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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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 \$5,000,000 since December 31, 2015.

### **13. Subsequent Event**

In August 2018, the City issued General Obligation Bonds, Series of 2018, in the aggregate amount of \$113,325,000. The portion allocable to the Water Fund amounted to \$67,135,000. 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.

**REQUIRED SUPPLEMENTARY  
INFORMATION**



# CITY OF LANCASTER WATER FUND

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

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

	2017*	2016*	2015*	2014*
<b>Total Pension Liability:</b>				
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)
<b>Net Changes in Total Pension Liability</b>	1,324,007	1,265,240	520,116	986,658
<b>Total Pension Liability - Beginning</b>	16,519,032	15,253,792	14,733,676	13,747,018
<b>Total Pension Liability - Ending (a)</b>	<u>\$17,843,039</u>	<u>\$16,519,032</u>	<u>\$15,253,792</u>	<u>\$14,733,676</u>
<b>Plan Fiduciary Net Position:</b>				
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 expense	(28,655)	(26,770)	(27,730)	(24,140)
<b>Net Change in Plan Fiduciary Net Position</b>	1,712,808	1,154,566	77,539	932,965
<b>Plan Fiduciary Net Position - Beginning</b>	11,972,620	10,818,054	10,740,515	9,807,550
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$13,685,428</u>	<u>\$11,972,620</u>	<u>\$10,818,054</u>	<u>\$10,740,515</u>
<b>Net Pension Liability - Ending (a-b)</b>	<u>\$ 4,157,611</u>	<u>\$ 4,546,412</u>	<u>\$ 4,435,738</u>	<u>\$ 3,993,161</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<u>76.70%</u>	<u>72.48%</u>	<u>70.92%</u>	<u>72.90%</u>
<b>Covered Employee Payroll</b>	<u>\$16,203,075</u>	<u>\$15,105,036</u>	<u>\$14,312,665</u>	<u>\$13,618,505</u>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<u>25.66%</u>	<u>30.10%</u>	<u>30.99%</u>	<u>29.32%</u>

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

See accompanying note to required supplementary information - pension plan.

# CITY OF LANCASTER WATER FUND

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

### SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS

**CASH BALANCE PENSION PLAN:**

<u>Schedule of City Contributions</u>	2017*	2016*	2015*	2014*	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$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	<u>1,050,161</u>	<u>931,774</u>	<u>900,704</u>	<u>697,517</u>	<u>658,895</u>	<u>516,512</u>	<u>504,280</u>	<u>499,125</u>	<u>475,248</u>	<u>459,603</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$16,203,075</u>	<u>\$ 15,105,036</u>	<u>\$ 14,312,665</u>	<u>\$ 13,618,505</u>						
Contributions as a percentage of covered employee payroll	6.48%	6.17%	6.29%	5.12%						
<b>Investment Returns</b>										
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 plan.

# CITY OF LANCASTER WATER FUND

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

### 1. Actuarial Methods and Assumptions

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

Contribution Year	12/31/2017	12/31/2016
Actuarial valuation date	1/1/2015	1/1/2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	14 years	15 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:		
Investment rate of return	7.5%	6.5-7.5%
Projected salary increases	5.0%	5.0%
Underlying inflation rate	3.0%	3.0%
Mortality table	RP2000 mortality table	RP2000 mortality table

#### Changes in Actuarial Assumptions

In the January 1, 2017 actuarial valuation, the mortality table was changed to the IRS 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 years to 13 years.

In the January 1, 2015 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%.

# **CITY OF LANCASTER WATER FUND**

## **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN**

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

# CITY OF LANCASTER WATER FUND

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN

### SCHEDULE OF CHANGES IN THE WATER FUND'S NET OPEB LIABILITY AND RELATED RATIOS

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

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN

### SCHEDULE OF WATER FUND CONTRIBUTIONS AND INVESTMENT RETURNS - OPEB PLAN

<u>Schedule of City Contributions</u>	<u>2017*</u>
Actuarially determined contribution	\$1,354,601
Contributions in relation to the actuarially determined contribution	<u>1,354,601</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 3,890,332</u>
Contributions as a percentage of covered employee payroll	34.82%
<u>Investment Returns</u>	
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.

# CITY OF LANCASTER WATER FUND

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB PLAN

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### 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 through 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
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 actuarial 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 WATER FUND

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS - OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 8,834,931	\$ 8,834,931	0.0%	\$ 2,914,972	303.1%
1/1/2010	-	11,365,848	11,365,848	0.0%	3,814,064	298.0%
1/1/2012	-	10,700,060	10,700,060	0.0%	3,079,389	347.5%
1/1/2014	1,459,923	12,043,238	10,583,315	12.1%	3,312,344	319.5%
1/1/2016	3,107,378	12,855,084	9,747,706	24.2%	3,890,332	250.6%

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

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB

Year	Annual Required Contribution	Percentage Contributed
2012	\$ 1,067,625	98.6%
2013	1,067,625	108.3%
2014	1,231,354	87.2%
2015	1,231,354	89.1%
2016	1,234,330	100.7%
2017	1,234,330	97.2%