

City of Lancaster, Pennsylvania

Year Ended December 31, 2018

MaherDuessel
Certified Public Accountants

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City of Lancaster, Pennsylvania

Financial Statements and Required
Supplementary Information

Year Ended December 31, 2018 with
Independent Auditor's Report

CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2018

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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, 2018, 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 74 percent, 50 percent, and 61 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, 2018, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*," which requires the City to record its net other post-employment benefit (OPEB) liability and related items on the government-wide and proprietary fund financial statements. Our opinion is not modified with respect to that matter.

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 OPEB information, and budgetary comparison information on pages i through xii and 131 through 149 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedules of Net Cost of Operations of the City Sewer System, Direct Expenses and Costs, and Cost of Treating Each 1,000 Gallons of Sewage are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Net Cost of Operations of the City Sewer System and Schedule of Direct Expenses and Costs are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Net Cost of Operations of the City Sewer System and Schedule of Direct Expenses and Costs are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Cost of Treating Each 1,000 Gallons of Sewage has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated Date, August 9, 2019 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
August 9, 2019



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, 2018 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, the 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, the 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 2018, the liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources by \$69.550 million. The City's net position increased \$.502 million (.717 percent) during the fiscal year. The governmental activities net position decreased by \$2.226 million (1.628 percent) and the business-type activities net position increased by \$2.728 million (4.092 percent).
- The City restated its 2017 net position downward due to mandated accounting procedures now in effect. The 2018 City financial statements incorporated for the first time the requirements of Statement No. 75 from the Governmental Accounting Standards Board (GASB) that requires the long-term costs of other post-employment benefits (OPEB) for employees to be included in determining the net position of the City. The new GASB standard requires a current estimate of outstanding OPEB liability and related items. The restated net position clearly reveals the long-term cost of providing OPEB benefits to City employees.
- At the close of 2018, the City's governmental funds reported a combined ending fund balance of \$37.410 million, an increase of \$12.117 million (47.907 percent). Of this amount, approximately \$24.913 million is legally restricted and/or unavailable to spend, and \$12.863 million is committed and/or assigned for designated projects, leaving (\$.366) million available for spending at the government's discretion (unassigned fund balance).
- The City's total outstanding bonded debt increased by \$107.074 million (42.078 percent) during the current fiscal year to \$361.540 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, liabilities and deferred inflows of resources exceeded assets and deferred outflows resources at the close of December 31, 2018 by approximately \$69.550 million.

Statement of Net Position

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$53,210	\$41,824	\$117,827	\$30,895	\$171,037	\$72,719
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	76,389	72,767	282,604	271,077	358,993	343,844
Deferred Charge on Refunding, Pensions, and OPEB	16,108	5,141	7,309	7,128	23,417	12,269
Total Assets & Deferred Outflows of Resources	145,707	119,732	407,740	309,100	553,447	428,832
Current and Other Liabilities	5,225	4,741	8,406	7,391	13,631	12,132
Long-Term Liabilities	242,423	248,740	321,011	234,841	563,434	483,581
Deferred Inflows for Pensions and OPEB	37,006	2,972	8,926	199	45,932	3,171
Total Liabilities & Deferred Inflows of Resources	284,654	256,453	338,343	242,431	622,997	498,884
Net Position						
Invested in Capital Assets, Net of Related Debt	39,615	37,537	95,887	94,551	135,502	132,088
Restricted	3,989	3,639	3,961	6,529	7,950	10,168
Unrestricted	(182,551)	(177,897)	(30,451)	(34,411)	(213,002)	(212,308)
Total Net Position	(\$138,947)	(\$136,721)	\$69,397	\$66,669	(\$69,550)	(\$70,052)

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

*As restated due to implementation of GASB Statement No. 75. See Note 1 to the financial statements.

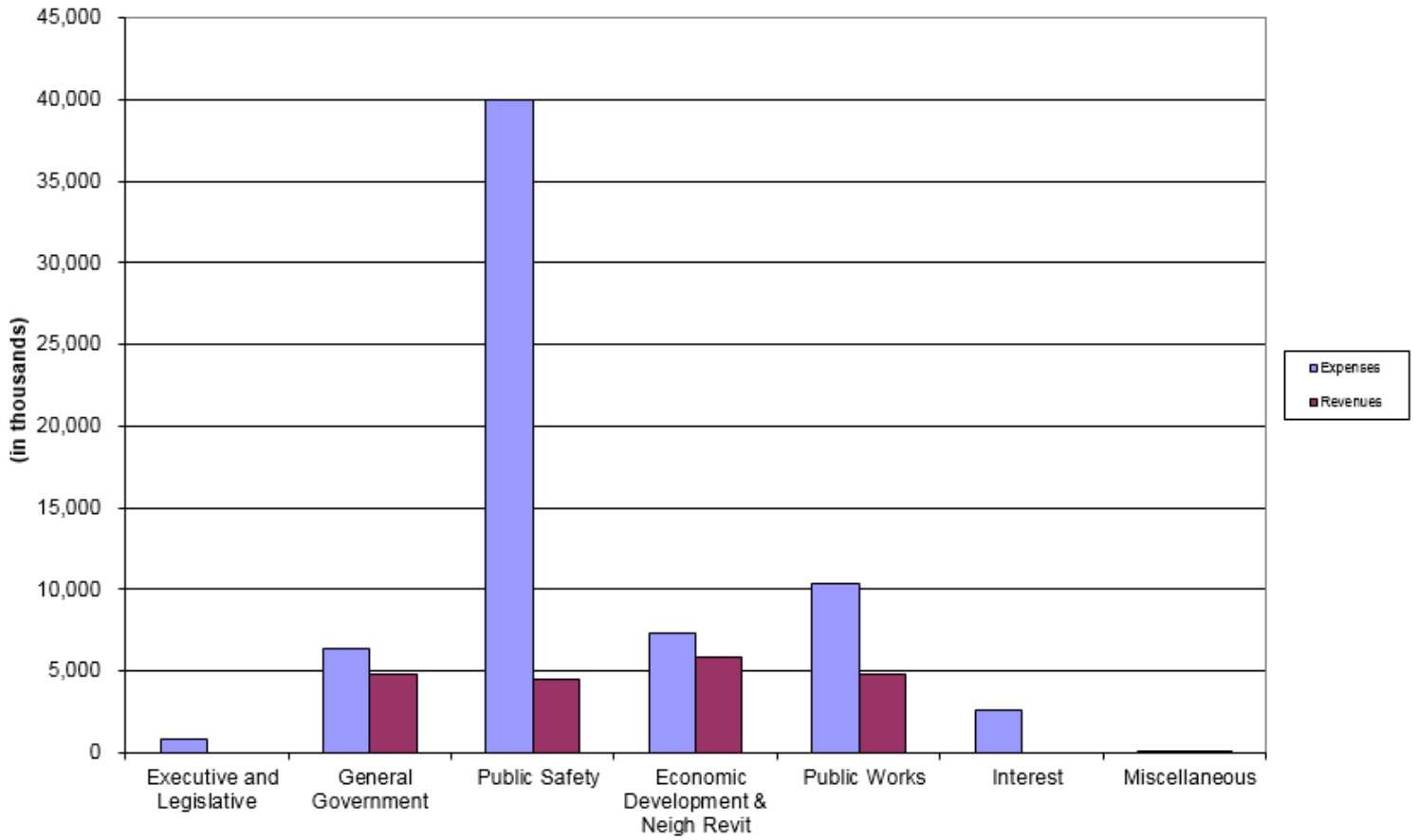
Table A-2 Changes in Net Position Resulting from Changes in Revenues and Expenses (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for Services	\$9,264	\$8,722	\$54,192	\$47,722	\$63,456	\$56,444
Operating & Capital Grants and Contributions	10,780	9,391	3,715	3,996	\$14,495	\$13,387
General Revenues:						
Property Taxes	28,008	27,667	-	-	\$28,008	\$27,667
Earned Income Tax	6,355	6,081	-	-	\$6,355	\$6,081
LST	1,689	1,664	-	-	\$1,689	\$1,664
Other Taxes	1,989	1,197	-	-	\$1,989	\$1,197
Miscellaneous	3,454	3,229	439	61	3,893	3,290
Total Revenues	<u>61,539</u>	<u>57,951</u>	<u>58,346</u>	<u>51,779</u>	<u>119,885</u>	<u>109,730</u>
Expenses						
Governmental Activities:						
Executive and Legislative	851	845	-	-	851	845
General Government	6,342	7,230	-	-	6,342	7,230
Public Safety	40,018	38,359	-	-	40,018	38,359
Economic Development & Neigh Revit	7,359	7,006	-	-	7,359	7,006
Public Works	10,346	10,409	-	-	10,346	10,409
Interest	2,603	2,302	-	-	2,603	2,302
Miscellaneous	73	85	-	-	73	85
Business-Type Activities						
Sewer	-	-	20,793	17,818	20,793	17,818
Water	-	-	23,400	22,502	23,400	22,502
Solid Waste & Recycling, LOOP, & Stormwater Mgmt	-	-	7,598	6,708	7,598	6,708
Total Expenses	<u>67,592</u>	<u>66,236</u>	<u>51,791</u>	<u>47,028</u>	<u>119,383</u>	<u>113,264</u>
Excess (Deficiency) Before Transfers	(6,053)	(8,285)	6,555	4,751	502	(3,534)
Transfers	<u>3,827</u>	<u>3,306</u>	<u>(3,827)</u>	<u>(3,306)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(2,226)	(4,979)	2,728	1,445	502	(3,534)
Net Position - Beginning of Year	(136,721)	(50,297)	66,669	81,693	(70,052)	31,396
Adjustment due to implementation of GASB Statement No. 75	-	(81,445)	-	(16,469)	-	(97,914)
Net Position - End of Year	<u>(\$138,947)</u>	<u>(\$136,721)</u>	<u>\$69,397</u>	<u>\$66,669</u>	<u>(\$69,550)</u>	<u>(\$70,052)</u>

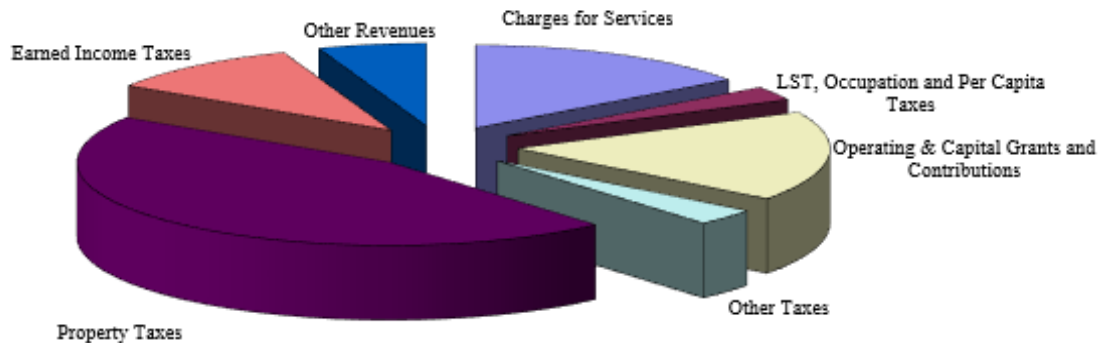
The City's total net position increased by \$.502 million in 2018.

Governmental Activities

Expenses and Program Revenues - Governmental Activities - 2018



Revenues by Source - Governmental Activities - 2018

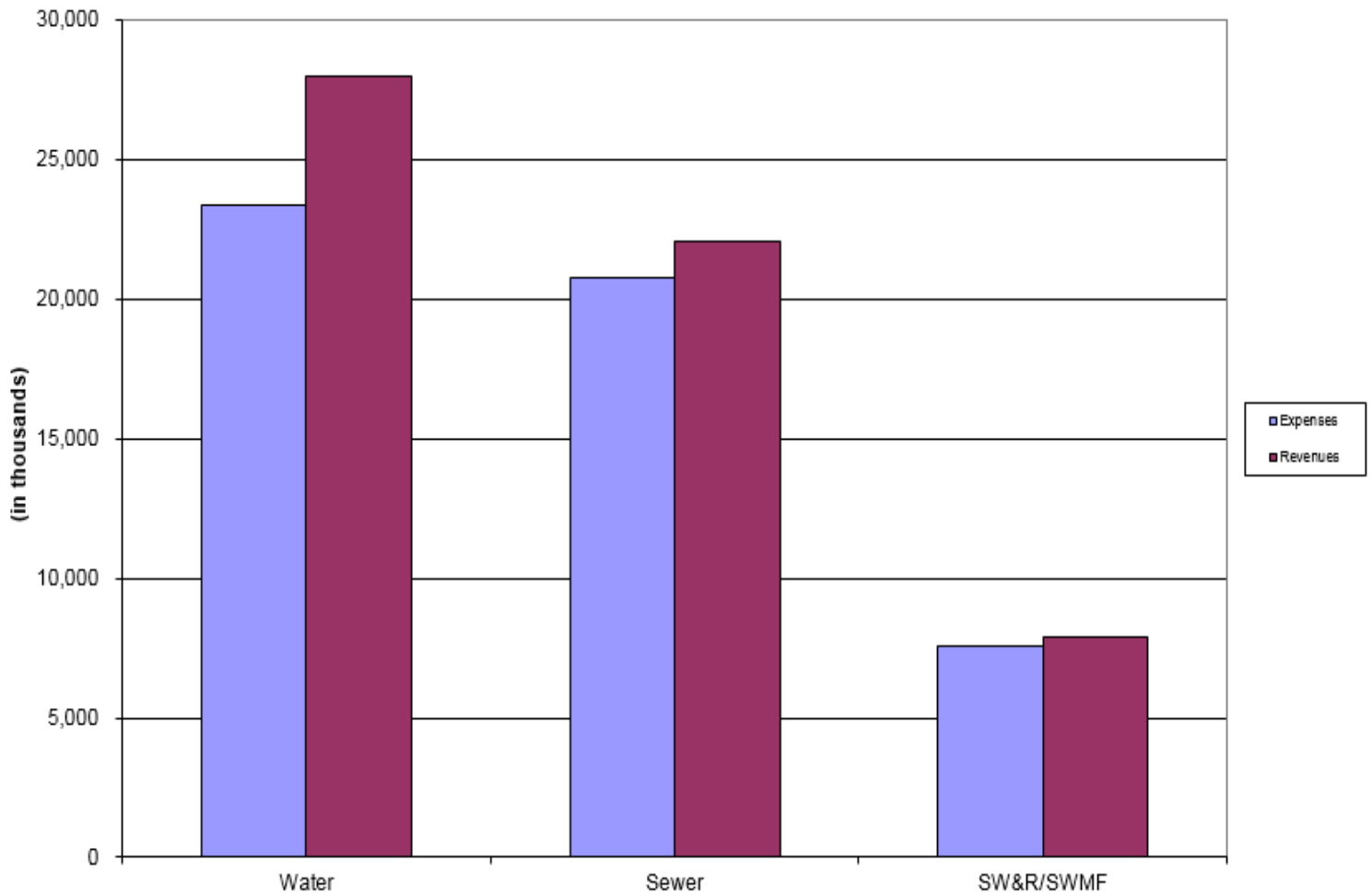


Governmental activities. Governmental activities decreased the City's net position by \$2.226 million. In 2018, total revenues for governmental activities were \$61.539 million, \$3.588 million or 6.191 percent higher than 2017. Total expenses for governmental activities, which were \$67.592 million, were \$1.356 million or 2.047 percent higher than 2017. The decrease in net position is mainly due to the net changes in the pension and OPEB liabilities and related deferred outflows and inflows of resources, as discussed in Notes 11 and 12 to the financial statements.

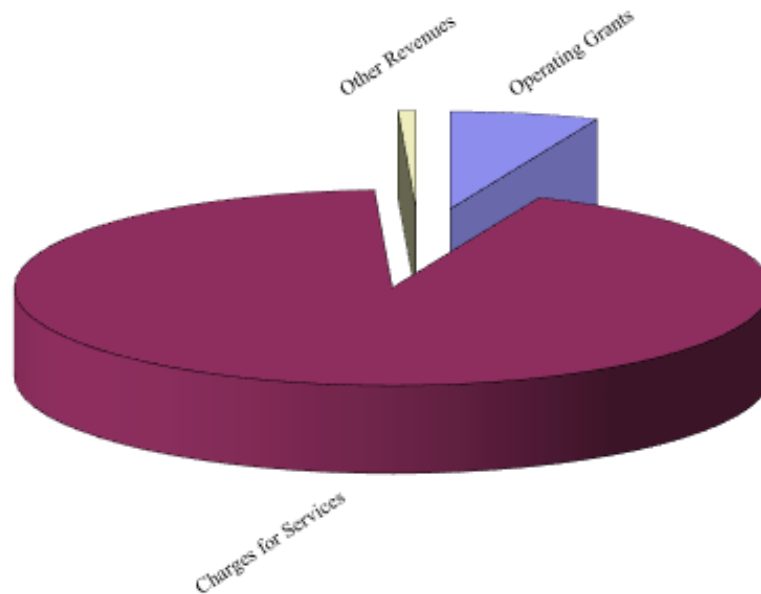
The charts on the previous page present the City's governmental expenses by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by public works, economic development and neighborhood revitalization, and general government. General revenues such 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

Expenses and Program Revenues - Business-Type Activities - 2018



Revenues by Source - Business-Type Activities - 2018



Business-Type activities. Business-type activities increased the City's net position by \$2.728 million to \$69.397 million, an increase of 4.092 percent. Charges for services in the business-type activities increased \$6.470 million from the prior year due in part to a sewer rate increase that went into effect on January 1, 2018, and delinquent municipality payments received for prior bulk treatment billings. Operating and Capital Grants and Contribution revenue decreased by \$.281 million, a decrease of 7.032 percent, primarily due to decreased capital grants and construction project activity from 2017. Expenses for water, sewer, LOOP, solid waste and recycling, and stormwater management operations increased \$4.763 million from 2017 due primarily to adjustments given to two municipalities for prior bulk treatment billings and increases in bad debt expense, depreciation expense, and biosolids disposal expenses.

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 \$37.410 million. Approximately (\$.366) 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 (\$.227 million), 2) restricted for particular purposes (\$24.686 million), 3) committed for particular purposes (\$.663 million), or 4) assigned for particular purposes (\$12.200 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 \$69.796 million. Net position of the LOOP, Stormwater, and Solid Waste and Recycling Funds increased \$.561 million. Net position of the Water and Sewer Funds increased by \$.344 million and \$1.537 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 trust, and various agency and private-purpose trust funds. The total net position of the combined fiduciary funds is \$133.517 million. The City's employee pension plans and OPEB trusts represent 99.8 percent of that amount. During 2018, the net position of the Pension Trust Funds decreased by \$10.299 million to \$126.777 million. The change is related to the depreciation of the retirement plans' investments compared to 2017. Additionally, the OPEB Trust Funds increased by \$1.068 million to \$6.486 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget contained \$57.561 million in appropriations, and \$54.506 million in estimated revenues, with \$3.055 million of required resources coming from the unassigned fund balance. Overall, revenues were higher than anticipated by \$1.935 million. Key factors for the increase are as follows:

- Real estate transfer taxes were \$0.989 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 Park City.
- Licenses and permits collected were in excess of budget by \$0.336 million as a result of an improving economy and better administration efforts by the City.
- Fines and forfeitures were \$0.414 million over budget due in part to the Lancaster Parking Authority (LPA) 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, 2018 amounts to \$358.993 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 2018, the City had \$2.947 million of ADA ramps and street improvements and \$.921 of parks improvements and equipment. The City also purchased a fire truck for \$.682 million.

During 2018, the business-type activities had the following additions:

- \$ 8.616 million sewer system additions
- \$ 8.381 million water system additions
- \$ 1.967 stormwater system additions

Debt administration. At the end of 2018, the City had \$361.540 million outstanding bonded debt, compared to \$254.466 million in 2017. More detailed information about the City's long-term debt is presented in Note 10 to the financial statements.

In 2018, the City issued general obligation bonds, Series of 2018, in the aggregate amount of \$113,325,000. The proceeds of the bond issuance will be used for general municipal projects including upgrades and improvements to the City's sewer, water and stormwater systems. The debt service on these bonds is paid by the General, Sewer, Water, and Stormwater Funds.

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 have continued to grow, with the 2018 revenues from each of those two sources hitting their highest totals for the third 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.

The City's current economic development plan, titled Building on Strength, released by the Lancaster City Alliance in June 2015 (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. Since June 2015, there has been another \$392 million in privately led investment with over 150,000 square feet of new retail and restaurant space developed, 200 new hotel rooms built, and 175 new residential units developed. The City continued to experience high levels of construction and renovation activity in 2018 with 2,643 building permits (a 10+ year high) issued for projects worth a total of \$230,000,000. 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, 2018

	Primary Government				
	Governmental	Business-type		Component	
	Activities	Activities	Total	Units	Total
Assets and Deferred Outflows of Resources					
Assets:					
Cash and cash equivalents	\$ 5,624,452	\$ 850	\$ 5,625,302	\$ 11,261,072	\$ 16,886,374
Cash and cash equivalents - restricted	20,889,346	113,307,187	134,196,533	3,573,171	137,769,704
Investments	386,932	-	386,932	3,798,640	4,185,572
Investments - restricted	2,457	-	2,457	-	2,457
Receivables (net of allowance for uncollectibles):					
Taxes	2,952,274	-	2,952,274	-	2,952,274
Accounts	559,175	11,696,036	12,255,211	1,186,962	13,442,173
Notes	7,665,125	-	7,665,125	1,912,038	9,577,163
Investment income	60,750	-	60,750	-	60,750
Other	-	149,564	149,564	100,301	249,865
Internal balances	9,750,169	(9,750,169)	-	-	-
Accrued interest	-	-	-	514,330	514,330
Prepaid expenses	226,940	899,146	1,126,086	166,938	1,293,024
Lease rental receivable	-	-	-	46,475,276	46,475,276
Due from other governments	3,497,917	42,337	3,540,254	6,099,875	9,640,129
Due from component unit	1,410,620	-	1,410,620	-	1,410,620
Due from developer	-	-	-	250,000	250,000
Prepaid debt insurance	183,109	1,483,017	1,666,126	-	1,666,126
Properties held for resale	-	-	-	823,627	823,627
Capital assets, not being depreciated	12,976,708	12,509,391	25,486,099	5,182,012	30,668,111
Capital assets, being depreciated, net	63,412,426	270,094,392	333,506,818	22,683,437	356,190,255
Net pension asset	-	-	-	151,446	151,446
Total Assets	129,598,400	400,431,751	530,030,151	104,179,125	634,209,276
Deferred Outflows of Resources:					
Deferred outflows of resources for pensions	14,689,778	686,888	15,376,666	74,239	15,450,905
Deferred outflows of resources for other post-employment benefits	-	259,315	259,315	-	259,315
Deferred charge on refunding	1,418,484	6,362,380	7,780,864	1,109,109	8,889,973
Total Deferred Outflows of Resources	16,108,262	7,308,583	23,416,845	1,183,348	24,600,193
Total Assets and Deferred Outflows of Resources	\$ 145,706,662	\$ 407,740,334	\$ 553,446,996	\$ 105,362,473	\$ 658,809,469

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Liabilities:					
Accounts payable	\$ 3,125,036	\$ 6,060,585	\$ 9,185,621	\$ 471,574	\$ 9,657,195
Accrued salaries and benefits	1,109,589	305,427	1,415,016	54,950	1,469,966
Accrued expenses	418,614	1,762,361	2,180,975	4,045,704	6,226,679
Line of credit	-	-	-	587,379	587,379
Due to primary government	-	-	-	1,643,786	1,643,786
Unearned revenue	564,551	277,207	841,758	12,142,569	12,984,327
Contingent liability from property resettlements	-	-	-	71,230	71,230
Other liabilities	7,808	-	7,808	-	7,808
Long-term liabilities:					
Portion due or payable within one year:					
Long-term obligation	4,159,271	5,241,257	9,400,528	-	9,400,528
Due to other governments	586	4,981,659	4,982,245	-	4,982,245
Due to lessee	-	-	-	3,510,729	3,510,729
Convention Center Authority obligation	-	-	-	1,000,000	1,000,000
Notes payable	-	-	-	211,000	211,000
Bonds payable	-	-	-	4,584,095	4,584,095
Portion due or payable after one year:					
Long-term obligation	74,612,809	292,545,621	367,158,430	-	367,158,430
Net pension liability	49,454,671	2,597,818	52,052,489	-	52,052,489
Net other post-employment benefits liability	114,195,498	15,644,723	129,840,221	-	129,840,221
Due to lessee	-	-	-	1,007,343	1,007,343
Convention Center Authority obligation	-	-	-	1,050,000	1,050,000
Notes payable	-	-	-	3,306,333	3,306,333
Bonds payable	-	-	-	61,560,285	61,560,285
Total Liabilities	247,648,433	329,416,658	577,065,091	95,246,977	672,312,068
Deferred Inflows of Resources:					
Deferred inflows of resources for pensions	1,884,911	147,472	2,032,383	131,681	2,164,064
Deferred inflows of resources for other post-employment benefits	35,121,003	8,778,646	43,899,649	-	43,899,649
Total Deferred Inflows of Resources	37,005,914	8,926,118	45,932,032	131,681	46,063,713
Net Position:					
Net investment in capital assets	39,614,463	95,887,466	135,501,929	4,764,347	140,266,276
Restricted for:					
Capital acquisition	-	3,960,844	3,960,844	-	3,960,844
Housing and neighborhood development	294,376	-	294,376	-	294,376
Economic and community development	2,522,027	-	2,522,027	-	2,522,027
Public works	1,078,999	-	1,078,999	-	1,078,999
Parks and recreation	93,978	-	93,978	-	93,978
Debt service	-	-	-	1,168,145	1,168,145
Unrestricted	(182,551,528)	(30,450,752)	(213,002,280)	4,051,323	(208,950,957)
Total Net Position	(138,947,685)	69,397,558	(69,550,127)	9,983,815	(59,566,312)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 145,706,662	\$ 407,740,334	\$ 553,446,996	\$ 105,362,473	\$ 658,809,469

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

Functions/Programs:	Expenses	Program Revenues		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Executive department	\$ 696,241	\$ -	\$ -	\$ -
Legislative department	137,337	-	-	-
Office of the City Treasurer/Controller	17,000	-	-	-
General government	6,342,146	2,903,383	1,910,617	-
Public safety	40,018,460	3,666,535	843,798	-
Economic development and neighborhood revitalization	7,359,398	2,562,652	3,322,602	-
Public works	10,346,147	74,521	2,197,491	2,482,154
Miscellaneous	72,602	57,074	23,592	-
Interest	2,603,114	-	-	-
Total governmental activities	67,592,445	9,264,165	8,298,100	2,482,154
Business-type activities:				
Sewer	20,792,582	19,057,208	178,411	2,813,098
Water	23,400,370	27,609,168	278,876	102,654
Other enterprise funds	7,597,875	7,525,623	341,982	-
Total business-type activities	51,790,827	54,191,999	799,269	2,915,752
Total Primary Government	\$ 119,383,272	\$ 63,456,164	\$ 9,097,369	\$ 5,397,906
Component Units:				
Lancaster Industrial Development Authority	\$ 23,157	\$ 24,296	\$ -	\$ -
Lancaster Recreation Commission	4,048,819	3,597,701	475,356	-
The Parking Authority of the City of Lancaster	7,291,276	9,586,235	-	-
Redevelopment Authority of the City of Lancaster	7,177,682	1,546,021	986,743	-
Lancaster Downtown Investment District Authority	465,291	387,975	70,412	-
City of Lancaster Land Bank Authority	14,120	-	-	-
City of Lancaster City Revitalization and Improvement Zone Authority	2,837,130	15,956	6,395,610	-
Total Component Units	\$ 21,857,475	\$ 15,158,184	\$ 7,928,121	\$ -

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 - restated

End of year

Net (Expenses) Revenue and
Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
\$ (696,241)	\$ -	\$ (696,241)	\$ -	\$ (696,241)
(137,337)	-	(137,337)	-	(137,337)
(17,000)	-	(17,000)	-	(17,000)
(1,528,146)	-	(1,528,146)	-	(1,528,146)
(35,508,127)	-	(35,508,127)	-	(35,508,127)
(1,474,144)	-	(1,474,144)	-	(1,474,144)
(5,591,981)	-	(5,591,981)	-	(5,591,981)
8,064	-	8,064	-	8,064
(2,603,114)	-	(2,603,114)	-	(2,603,114)
(47,548,026)	-	(47,548,026)	-	(47,548,026)
-	1,256,135	1,256,135	-	1,256,135
-	4,590,328	4,590,328	-	4,590,328
-	269,730	269,730	-	269,730
-	6,116,193	6,116,193	-	6,116,193
(47,548,026)	6,116,193	(41,431,833)	-	(41,431,833)
-	-	-	1,139	1,139
-	-	-	24,238	24,238
-	-	-	2,294,959	2,294,959
-	-	-	(4,644,918)	(4,644,918)
-	-	-	(6,904)	(6,904)
-	-	-	(14,120)	(14,120)
-	-	-	3,574,436	3,574,436
-	-	-	1,228,830	1,228,830
28,008,161	-	28,008,161	-	28,008,161
1,988,642	-	1,988,642	-	1,988,642
6,354,555	-	6,354,555	-	6,354,555
1,688,981	-	1,688,981	-	1,688,981
2,918,254	-	2,918,254	-	2,918,254
54,378	439,395	493,773	1,783,497	2,277,270
481,852	-	481,852	-	481,852
3,826,693	(3,826,693)	-	-	-
45,321,516	(3,387,298)	41,934,218	1,783,497	43,717,715
(2,226,510)	2,728,895	502,385	3,012,327	3,514,712
(136,721,175)	66,668,663	(70,052,512)	6,971,488	(63,081,024)
<u>\$ (138,947,685)</u>	<u>\$ 69,397,558</u>	<u>\$ (69,550,127)</u>	<u>\$ 9,983,815</u>	<u>\$ (59,566,312)</u>

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 12,645	\$ 5,003,767	\$ 5,016,412
Cash and cash equivalents - restricted	100,000	20,789,346	20,889,346
Investments	-	386,932	386,932
Investments - restricted	2,457	-	2,457
Receivables (net of allowance for uncollectibles):			
Taxes	2,952,274	-	2,952,274
Accounts	273,759	6,637	280,396
Investment income	-	60,750	60,750
Due from other funds	12,351,680	-	12,351,680
Due from other governments	431,143	3,066,774	3,497,917
Due from component unit	1,410,620	-	1,410,620
Prepaid expenditures	226,940	-	226,940
Total Assets	\$ 17,761,518	\$ 29,314,206	\$ 47,075,724
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities:			
Accounts payable	\$ 542,745	\$ 2,185,987	\$ 2,728,732
Due to other funds	-	3,000,000	3,000,000
Due to other governments	-	586	586
Accrued salaries and benefits	1,104,241	5,348	1,109,589
Unearned revenue	2,739	561,812	564,551
Other liabilities	7,808	-	7,808
Workers' compensation liability	278,821	-	278,821
Total Liabilities	1,936,354	5,753,733	7,690,087
Deferred Inflows of Resources:			
Unavailable revenue - taxes	1,095,166	-	1,095,166
Unavailable revenue - fines, forfeitures, and other	880,850	-	880,850
Total Deferred Inflows of Resources	1,976,016	-	1,976,016
Fund Balance:			
Nonspendable:			
Prepaid expenditures	226,940	-	226,940
Restricted for:			
Capital acquisition	-	20,696,204	20,696,204
Housing and neighborhood development	-	294,376	294,376
Economic and community development	-	2,522,027	2,522,027
Public works	-	1,078,999	1,078,999
Parks and recreation	-	93,978	93,978
Committed for:			
Economic and community development	-	663,311	663,311
Assigned for:			
2019 budget	2,449,616	-	2,449,616
Fire station construction project	3,000,000	-	3,000,000
Debt service	6,000,516	-	6,000,516
Excess workers' compensation expenditures	750,000	-	750,000
Unassigned	1,422,076	(1,788,422)	(366,346)
Total Fund Balance	13,849,148	23,560,473	37,409,621
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 17,761,518	\$ 29,314,206	\$ 47,075,724

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, 2018

Total Fund Balance - Governmental Funds \$ 37,409,621

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. 76,389,134

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. 1,976,016

Notes receivable are long-term in nature and are not available to pay current period expenditures and, therefore, are not reported in the funds. 7,665,125

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. 183,109

Deferred charges on refunding resulting from the issuance of debt are not financial resources and, therefore, are not reported in the funds. 1,418,484

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	\$	(61,783,383)	
General obligation notes		(13,199,200)	
Accrued interest on general obligation bonds and notes		(418,614)	
Capital leases		(1,781,700)	
Compensated absences payable		(1,198,918)	
Workers' compensation liability		(530,058)	
Net pension liability, net of related deferred outflows and inflows of resources		(36,649,804)	
Net other post-employment benefits liability, net of related deferred outflows and inflows of resources		<u>(149,316,501)</u>	(264,878,178)

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		490,515	
Adjustment related to proprietary funds		<u>398,489</u>	889,004
Total Net Position - Governmental Activities			<u><u>\$ (138,947,685)</u></u>

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, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 38,001,580	\$ -	\$ 38,001,580
Intergovernmental revenues	3,006,177	8,476,651	11,482,828
Licenses and permits	2,465,904	-	2,465,904
Fines and forfeitures	2,264,096	-	2,264,096
Rents and charges for services	1,408,503	48,400	1,456,903
Program income	-	632,527	632,527
Investment income	3,567	16,027	19,594
Miscellaneous	2,343,108	25,122	2,368,230
Total revenues	<u>49,492,935</u>	<u>9,198,727</u>	<u>58,691,662</u>
Expenditures:			
Executive department	693,897	2,344	696,241
Legislative department	137,337	-	137,337
Office of the City Treasurer/Controller	17,000	-	17,000
General government	5,346,082	-	5,346,082
Public safety	34,824,407	565,702	35,390,109
Economic development and neighborhood revitalization	3,389,870	3,348,793	6,738,663
Public works	6,405,608	4,829,545	11,235,153
Miscellaneous	-	84,475	84,475
Capital outlay	-	3,425,601	3,425,601
Debt service:			
Principal	335,431	3,174,878	3,510,309
Interest	33,455	2,603,379	2,636,834
Total expenditures	<u>51,183,087</u>	<u>18,034,717</u>	<u>69,217,804</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,690,152)</u>	<u>(8,835,990)</u>	<u>(10,526,142)</u>
Other Financing Sources (Uses):			
Proceeds from issuance of debt	-	14,440,000	14,440,000
Interfund reimbursements	2,892,625	-	2,892,625
Capital leases	805,940	98,430	904,370
Sale of general capital assets	43,349	-	43,349
Transfers in	4,011,846	5,466,075	9,477,921
Transfers out	(5,455,148)	(196,080)	(5,651,228)
Original issue premium	-	536,086	536,086
Total other financing sources (uses)	<u>2,298,612</u>	<u>20,344,511</u>	<u>22,643,123</u>
Net Change in Fund Balance	608,460	11,508,521	12,116,981
Fund Balance:			
Beginning of year	<u>13,240,688</u>	<u>12,051,952</u>	<u>25,292,640</u>
End of year	<u>\$ 13,849,148</u>	<u>\$ 23,560,473</u>	<u>\$ 37,409,621</u>

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, 2018

Net Change in Fund Balance - Governmental Funds		\$ 12,116,981
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	\$ (3,606,496)	
Capital outlay	<u>8,422,146</u>	4,815,650
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.		
		(1,193,962)
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	3,510,309	
Issuance of bonds	(14,440,000)	
Premium on bonds	(536,086)	
Issuance of capital leases	<u>(904,370)</u>	(12,370,147)
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	1,396	
Change in workers' compensation liability	22,874	
Change in net pension liability, net of related deferred outflows and inflows of resources	(2,700,923)	
Change in net OPEB liability, net of related deferred outflows and inflows of resources	(1,890,271)	
Change in accrued interest on debt	(82,658)	
Amortization of prepaid debt insurance	(25,334)	
Amortization of debt premium	349,610	
Amortization of deferred charge on refunding	<u>(207,898)</u>	(4,533,204)
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	427,965	
Principal payments received	(546,155)	
Change in allowance	<u>(314,957)</u>	(433,147)
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	38,759	
Change in unavailable fines, forfeitures, and other revenue	<u>419,002</u>	457,761
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	(799,339)	
Adjustment related to proprietary funds	<u>(287,103)</u>	(1,086,442)
Change in Net Position - Governmental Activities		<u><u>\$ (2,226,510)</u></u>

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET PROPRIETARY FUNDS

DECEMBER 31, 2018

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Assets and Deferred Outflows of Resources					
Assets:					
Current assets:					
Cash and cash equivalents	\$ 300	\$ 550	\$ -	\$ 850	\$ 608,040
Cash and cash equivalents - restricted	32,658,208	69,453,693	11,195,286	113,307,187	-
Receivables (net of allowance for uncollectibles):					
Accounts	4,689,064	4,815,765	2,191,207	11,696,036	278,779
Other	96,706	6,400	46,458	149,564	-
Prepaid expenses	12,768	878,649	7,729	899,146	-
Total current assets	37,457,046	75,155,057	13,440,680	126,052,783	886,819
Long-term assets:					
Due from other funds	-	1,500,000	-	1,500,000	-
Due from other governments	42,337	-	-	42,337	-
Prepaid debt insurance	424,749	1,058,268	-	1,483,017	-
Capital assets, not being depreciated	2,416,675	9,891,467	201,249	12,509,391	-
Capital assets, being depreciated, net	110,543,777	153,390,681	6,159,934	270,094,392	-
Total long-term assets	113,427,538	165,840,416	6,361,183	285,629,137	-
Total Assets	150,884,584	240,995,473	19,801,863	411,681,920	886,819
Deferred Outflows of Resources:					
Deferred outflows of resources for pension	235,690	355,571	95,627	686,888	-
Deferred outflows of resources for other post-employment benefits	23,850	235,465	-	259,315	-
Deferred charge on refunding	515,392	5,846,988	-	6,362,380	-
Total Deferred Outflows of Resources	774,932	6,438,024	95,627	7,308,583	-
Total Assets and Deferred Outflows of Resources	\$ 151,659,516	\$ 247,433,497	\$ 19,897,490	\$ 418,990,503	\$ 886,819

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Liabilities:					
Current liabilities:					
Accounts payable	\$ 3,055,618	\$ 2,214,362	\$ 790,605	\$ 6,060,585	\$ -
Claims payable	-	-	-	-	396,304
Accrued salaries and benefits	93,517	156,053	55,857	305,427	-
Accrued expenses	411,824	1,270,582	79,955	1,762,361	-
Due to other funds	4,019,725	5,512,022	1,319,933	10,851,680	-
Due to other governments	4,981,659	-	-	4,981,659	-
Unearned revenue	178,060	-	99,147	277,207	-
Compensated absences, current portion	25,280	24,142	6,758	56,180	-
Capital lease, current portion	85,092	129,930	103,819	318,841	-
Notes payable, current portion	723,646	540,400	352,190	1,616,236	-
Bonds payable, current portion	1,835,000	1,370,000	45,000	3,250,000	-
Total current liabilities	15,409,421	11,217,491	2,853,264	29,480,176	396,304
Long-term liabilities:					
Compensated absences	84,584	80,778	34,954	200,316	-
Workers' compensation liability	-	12,789	9,724	22,513	-
Net pension liability	871,588	1,408,987	317,243	2,597,818	-
Net other post-employment benefits liability	6,192,492	7,980,591	1,471,640	15,644,723	-
Capital lease	113,156	133,211	190,983	437,350	-
Notes payable	11,498,162	8,670,400	3,350,966	23,519,528	-
Bonds payable	52,328,444	203,786,321	12,251,149	268,365,914	-
Total long-term liabilities	71,088,426	222,073,077	17,626,659	310,788,162	-
Total Liabilities	86,497,847	233,290,568	20,479,923	340,268,338	396,304
Deferred Inflows of Resources:					
Deferred inflows of resources for pension	50,675	75,222	21,575	147,472	-
Deferred inflows of resources for other post-employment benefits	3,010,815	5,224,579	543,252	8,778,646	-
Total Deferred Inflows of Resources	3,061,490	5,299,801	564,827	8,926,118	-
Net Position:					
Net investment in capital assets	71,113,824	23,809,985	963,657	95,887,466	-
Restricted	3,960,844	-	-	3,960,844	-
Unrestricted	(12,974,489)	(14,966,857)	(2,110,917)	(30,052,263)	490,515
Total Net Position	62,100,179	8,843,128	(1,147,260)	69,796,047	490,515
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 151,659,516	\$ 247,433,497	\$ 19,897,490	\$ 418,990,503	\$ 886,819
Total net position of enterprise funds				\$ 69,796,047	
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.				(398,489)	
Net position of business-type activities				\$ 69,397,558	

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

CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2018

	Enterprise Funds				Internal
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Service Fund
Operating Revenues:					
Charges for services	\$ 18,782,774	\$ 27,214,477	\$ 7,496,200	\$ 53,493,451	\$ 12,080,955
Miscellaneous	273,458	394,691	29,423	697,572	-
Total operating revenues	19,056,232	27,609,168	7,525,623	54,191,023	12,080,955
Operating Expenses:					
Sewage pumping stations	1,327,344	-	-	1,327,344	-
Susquehanna treatment plant	-	2,726,480	-	2,726,480	-
Conestoga treatment plant	-	2,420,705	-	2,420,705	-
Collection system	2,064,640	-	725,459	2,790,099	-
Hauling and tipping	-	-	3,123,492	3,123,492	-
Transmission and distribution	-	1,406,300	-	1,406,300	-
Meters and meter labor	-	838,736	-	838,736	-
Laboratory	-	287,445	-	287,445	-
Sewage treatment plant	4,982,264	-	-	4,982,264	-
Administration	4,131,066	5,592,364	1,734,352	11,457,782	-
Grounds maintenance	21,226	358,898	453,881	834,005	-
Street cleaning	-	-	638,436	638,436	-
Wastewater and green initiatives	-	-	83,156	83,156	-
Health insurance claims	-	-	-	-	12,196,122
Insurance premiums	-	-	-	-	684,299
Special events	-	-	257,825	257,825	-
Depreciation expense	3,831,995	3,412,025	189,033	7,433,053	-
Total operating expenses	16,358,535	17,042,953	7,205,634	40,607,122	12,880,421
Operating Income (Loss)	2,697,697	10,566,215	319,989	13,583,901	(799,466)
Nonoperating Revenues (Expenses):					
State pension contribution	178,411	278,876	78,328	535,615	-
Investment income	93,487	295,687	50,221	439,395	127
Intergovernmental revenue	-	-	263,654	263,654	-
Insurance proceeds	976	-	-	976	-
Amortization expense	(44,644)	(74,708)	-	(119,352)	-
Bad debt expense	(2,014,835)	-	-	(2,014,835)	-
Interest expense	(2,187,140)	(6,824,614)	(324,867)	(9,336,621)	-
Total nonoperating revenues (expenses)	(3,973,745)	(6,324,759)	67,336	(10,231,168)	127
Income (loss) before transfers and capital contributions	(1,276,048)	4,241,456	387,325	3,352,733	(799,339)
Transfers in (out)	-	(4,000,000)	173,307	(3,826,693)	-
Capital contributions	2,813,098	102,654	-	2,915,752	-
Change in Net Position	1,537,050	344,110	560,632	2,441,792	(799,339)
Net Position:					
Beginning of year - restated	60,563,129	8,499,018	(1,707,892)		1,289,854
End of year	\$ 62,100,179	\$ 8,843,128	\$ (1,147,260)		\$ 490,515
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds				287,103	
Changes in net position of business-type activities				\$ 2,728,895	

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, 2018

	Enterprise Funds				Internal
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Service Fund
Cash Flows From Operating Activities:					
Cash received from users	\$ 19,874,722	\$ 27,494,791	\$ 7,398,447	\$ 54,767,960	\$ 12,080,955
Cash paid to suppliers	(9,149,520)	(10,076,181)	(5,030,049)	(24,255,750)	(13,587,850)
Cash paid to employees	(2,914,526)	(4,643,442)	(1,703,266)	(9,261,234)	-
Net cash provided by (used in) operating activities	7,810,676	12,775,168	665,132	21,250,976	(1,506,895)
Cash Flows From Investing Activities:					
Investment income received	93,487	295,687	50,221	439,395	127
Net cash provided by investing activities	93,487	295,687	50,221	439,395	127
Cash Flows From Capital and Related Financing Activities:					
Principal payments on capital leases	(141,824)	(143,184)	(129,945)	(414,953)	-
Principal payments on notes payable	(706,487)	(519,600)	(356,394)	(1,582,481)	-
Principal payments on bonds payable	(1,750,000)	(1,180,000)	(45,000)	(2,975,000)	-
Proceeds from note payable	105,958	-	1,311,359	1,417,317	-
Proceeds from bond payable	20,795,195	68,972,184	11,979,420	101,746,799	-
Cash paid for debt issuance costs	(188,534)	(614,829)	(99,931)	(903,294)	-
Interest paid	(2,072,830)	(6,094,648)	(238,419)	(8,405,897)	-
Acquisition of capital assets	(8,192,127)	(8,150,184)	(1,833,549)	(18,175,860)	-
Insurance proceeds	976	-	-	976	-
Net change in escrow deposits	(336,497)	-	-	(336,497)	-
Net cash provided by capital and related financing activities	7,513,830	52,269,739	10,587,541	70,371,110	-
Cash Flows From Noncapital Financing Activities:					
Transfer in (out)	-	(4,000,000)	173,307	(3,826,693)	-
Due to (from) other funds	(3,592,272)	(1,234,436)	(826,491)	(5,653,199)	2,114,808
State pension contribution	178,411	278,876	78,328	535,615	-
Intergovernmental revenue	-	-	263,654	263,654	-
Net cash provided by (used in) noncapital financing activities	(3,413,861)	(4,955,560)	(311,202)	(8,680,623)	2,114,808
Net Increase in Cash and Cash Equivalents	12,004,132	60,385,034	10,991,692	83,380,858	608,040
Cash and Cash Equivalents:					
Beginning of year	20,654,376	9,069,209	203,594	29,927,179	-
End of year	\$ 32,658,508	\$ 69,454,243	\$ 11,195,286	\$113,308,037	\$ 608,040

(Continued)

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2018
(Continued)

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 2,697,697	\$ 10,566,215	\$ 319,989	\$ 13,583,901	\$ (799,466)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	3,831,995	3,412,025	189,033	7,433,053	-
Amortization	(76,611)	(77,815)	(10,008)	(164,434)	-
(Increase) decrease in assets and deferred outflows of resources:					
Receivables	713,491	(114,377)	(143,349)	455,765	(213,752)
Due from other governments	104,999	-	-	104,999	-
Deferred outflows of resources for pension	(185,913)	(278,779)	(77,828)	(542,520)	-
Deferred outflows of resources for other post-employment benefits	(30,707)	(303,165)	-	(333,872)	-
Prepaid expenses	(6,205)	38,416	(3,994)	28,217	-
Increase (decrease) in liabilities and deferred inflows of resources:					
Accounts payable	474,188	(254,711)	54,731	274,208	-
Claims payable	-	-	-	-	(493,677)
Accrued expenses	16,761	(7,277)	87,702	97,186	-
Unearned revenue	-	-	16,173	16,173	-
Compensated absences	485	(10,710)	2,030	(8,195)	-
Workers' compensation liability	-	(17,094)	9,724	(7,370)	-
Net pension liability	243,754	365,253	102,283	711,290	-
Net other post-employment benefits liability	(3,054,373)	(5,893,376)	(428,905)	(9,376,654)	-
Deferred inflows of resources for pension	(31,046)	(48,143)	(13,807)	(92,996)	-
Deferred inflows of resources for other post-employment benefits	3,112,161	5,398,706	561,358	9,072,225	-
Total adjustments	5,112,979	2,208,953	345,143	7,667,075	(707,429)
Net cash provided by (used in) operating activities	\$ 7,810,676	\$ 12,775,168	\$ 665,132	\$ 21,250,976	\$ (1,506,895)
Noncash Capital Financing Activities:					
Issuance of capital lease	\$ 94,306	\$ 84,790	\$ 126,705	\$ 305,801	\$ -
Developers' contribution	\$ -	\$ 102,654	\$ -	\$ 102,654	\$ -

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2018

	Pension and OPEB Trust Funds	Private- Purpose Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ 216,429
Investments	133,014,372	254,136	-
Receivables:			
Accounts	-	-	24,218
Investment income	430,291	-	-
Other	-	-	1,490
Total Assets	133,444,663	254,136	242,137
Liabilities			
Benefits payable	182,036	-	13,332
Other liabilities	-	-	228,805
Total Liabilities	182,036	-	\$ 242,137
Net Position			
Restricted for pension and OPEB benefits and other purposes	<u>\$ 133,262,627</u>	<u>\$ 254,136</u>	

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, 2018

	Pension and OPEB Trust Funds	Private- Purpose Trust Funds
Additions:		
Contributions:		
Employees	\$ 1,453,675	\$ -
Employer	8,336,581	-
Total contributions	9,790,256	-
Investment income (loss):		
Net depreciation in fair value of investments	(10,186,574)	(23,164)
Interest and dividends	3,661,632	-
Total investment loss	(6,524,942)	(23,164)
Less: investment expenses	(519,375)	-
Net investment loss	(7,044,317)	(23,164)
Total additions	2,745,939	(23,164)
Deductions:		
Benefits	11,799,532	5,284
Administrative expenses	177,203	-
Total deductions	11,976,735	5,284
Change in Net Position	(9,230,796)	(28,448)
Net Position:		
Beginning of year	142,493,423	282,584
End of year	<u>\$ 133,262,627</u>	<u>\$ 254,136</u>

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET COMPONENT UNITS

DECEMBER 31, 2018

	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	\$ 95,550	\$ 1,000,750	\$ 2,457,236	\$ 891,519	\$ 223,550	\$ 734,556	\$ 5,857,911	\$ 11,261,072
Cash and cash equivalents - restricted	249,882	-	-	2,301,870	-	-	1,021,419	3,573,171
Investments	-	-	3,798,640	-	-	-	-	3,798,640
Receivables (net of allowance for uncollectibles)								
Accounts	-	126,677	503,964	555,870	451	-	-	1,186,962
Other	-	-	-	40,817	59,484	-	-	100,301
Accrued interest	-	-	-	514,330	-	-	-	514,330
Current portion:								
Lease rental receivable	-	-	-	9,380,357	-	-	-	9,380,357
Due from other governments	-	-	-	597,091	-	-	-	597,091
Due from developer	-	-	-	-	-	250,000	-	250,000
Notes receivable	-	-	-	970,206	-	-	-	970,206
Properties held for resale	-	-	-	823,627	-	-	-	823,627
Prepaid expenses	-	-	151,465	-	15,473	-	-	166,938
Total current assets	345,432	1,127,427	6,911,305	16,075,687	298,958	984,556	6,879,330	32,622,695
Long-term assets:								
Lease rental receivable	-	-	-	37,094,919	-	-	-	37,094,919
Due from other governments	-	-	-	5,502,784	-	-	-	5,502,784
Notes receivable	200,000	-	-	741,832	-	-	-	941,832
Capital assets, not being depreciated	-	138,641	3,695,871	1,347,500	-	-	-	5,182,012
Capital assets, being depreciated, net	-	114,774	14,986,157	7,582,506	-	-	-	22,683,437
Net pension asset	-	-	151,446	-	-	-	-	151,446
Total long-term assets	200,000	253,415	18,833,474	52,269,541	-	-	-	71,556,430
Total Assets	545,432	1,380,842	25,744,779	68,345,228	298,958	984,556	6,879,330	104,179,125
Deferred Outflows of Resources:								
Deferred charge on refunding	-	-	1,109,109	-	-	-	-	1,109,109
Deferred outflows of resources for pension	-	-	74,239	-	-	-	-	74,239
Total Deferred Outflows of Resources	-	-	1,183,348	-	-	-	-	1,183,348
Total Assets and Deferred Outflows of Resources	\$ 545,432	\$ 1,380,842	\$ 26,928,127	\$ 68,345,228	\$ 298,958	\$ 984,556	\$ 6,879,330	\$ 105,362,473

(Continued)

* - As of April 30, 2018

	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 Component Units
Liabilities, Deferred Inflows of Resources, and Net Position								
Liabilities:								
Current liabilities:								
Accounts payable	\$ -	\$ 217,407	\$ 125,859	\$ 64,608	\$ 6,540	\$ 1,948	\$ 55,212	\$ 471,574
Accrued salaries and benefits	-	-	54,950	-	-	-	-	54,950
Accrued expenses	-	102,957	52,255	3,883,886	-	-	6,606	4,045,704
Line of credit	-	-	-	587,379	-	-	-	587,379
Due to primary government	-	-	694,423	949,363	-	-	-	1,643,786
Unearned revenue	-	44,218	144,162	1,800,527	8,100	-	-	1,997,007
Contingent liability from property resettlements	-	-	-	71,230	-	-	-	71,230
Due to lessee, current portion	-	-	-	3,510,729	-	-	-	3,510,729
Convention Center Authority obligation, current portion	-	-	-	100,000	-	-	900,000	1,000,000
Notes payable, current portion	-	-	-	211,000	-	-	-	211,000
Bonds payable, current portion	-	-	945,000	3,378,095	-	-	261,000	4,584,095
Total current liabilities	-	364,582	2,016,649	14,556,817	14,640	1,948	1,222,818	18,177,454
Long-term liabilities:								
Unearned revenue	-	-	-	10,145,562	-	-	-	10,145,562
Due to lessee	-	-	-	1,007,343	-	-	-	1,007,343
Convention Center Authority obligation	-	-	-	150,000	-	-	900,000	1,050,000
Notes payable	-	-	-	3,306,333	-	-	-	3,306,333
Bonds payable	-	-	19,747,878	36,723,407	-	-	5,089,000	61,560,285
Total long-term liabilities	-	-	19,747,878	51,332,645	-	-	5,989,000	77,069,523
Total Liabilities	-	364,582	21,764,527	65,889,462	14,640	1,948	7,211,818	95,246,977
Deferred Inflows of Resources:								
Deferred inflows of resources for pension	-	-	131,681	-	-	-	-	131,681
Total Deferred Inflows of Resources	-	-	131,681	-	-	-	-	131,681
Net Position:								
Net investment in capital assets	-	253,415	(901,741)	5,412,673	-	-	-	4,764,347
Restricted	-	-	-	1,168,145	-	-	-	1,168,145
Unrestricted	545,432	762,845	5,933,660	(4,125,052)	284,318	982,608	(332,488)	4,051,323
Total Net Position	545,432	1,016,260	5,031,919	2,455,766	284,318	982,608	(332,488)	9,983,815
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 545,432	\$ 1,380,842	\$ 26,928,127	\$ 68,345,228	\$ 298,958	\$ 984,556	\$ 6,879,330	\$ 105,362,473

(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, 2018

	Expenses	Program Revenues		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Lancaster Industrial Development Authority	\$ 23,157	\$ 24,296	\$ -	\$ -
Lancaster Recreation Commission	4,048,819	3,597,701	475,356	-
The Parking Authority of the City of Lancaster	7,291,276	9,586,235	-	-
Redevelopment Authority of the City of Lancaster	7,177,682	1,546,021	986,743	-
Lancaster Downtown Investment District Authority *	465,291	387,975	70,412	-
City of Lancaster Land Bank Authority	14,120	-	-	-
City of Lancaster City Revitalization and Improvement Zone Authority	2,837,130	15,956	6,395,610	-
Total component units	<u>\$ 21,857,475</u>	<u>\$ 15,158,184</u>	<u>\$ 7,928,121</u>	<u>\$ -</u>
General revenues:				
Investment earnings				
Total general revenues				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

* - Year ended April 30, 2018

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
\$ 1,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,139
-	24,238	-	-	-	-	-	24,238
-	-	2,294,959	-	-	-	-	2,294,959
-	-	-	(4,644,918)	-	-	-	(4,644,918)
-	-	-	-	(6,904)	-	-	(6,904)
-	-	-	-	-	(14,120)	-	(14,120)
-	-	-	-	-	-	3,574,436	3,574,436
1,139	24,238	2,294,959	(4,644,918)	(6,904)	(14,120)	3,574,436	1,228,830
-	4,541	67,197	1,711,759	-	-	-	1,783,497
-	4,541	67,197	1,711,759	-	-	-	1,783,497
1,139	28,779	2,362,156	(2,933,159)	(6,904)	(14,120)	3,574,436	3,012,327
544,293	987,481	2,669,763	5,388,925	291,222	996,728	(3,906,924)	6,971,488
<u>\$ 545,432</u>	<u>\$ 1,016,260</u>	<u>\$ 5,031,919</u>	<u>\$ 2,455,766</u>	<u>\$ 284,318</u>	<u>\$ 982,608</u>	<u>\$ (332,488)</u>	<u>\$ 9,983,815</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

- 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, 2018, 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

parking problems; to establish a permanent coordinated system of parking facilities; and to borrow money and issue bonds as required. The Parking Authority also enforces 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, 2018, the City paid the Parking Authority \$168,502 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 \$1,821,153 for the year ended December 31, 2018. Of this amount, \$694,423 was outstanding and due to the City as of December 31, 2018.

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. The review meeting took place on June 26, 2018. Neither the City nor the Parking Authority have opted to terminate the Agreement as of the report date.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

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 LEMSAs Board consists of thirteen trustees, of which one is appointed by the City. LEMSAs 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, 2018, the City contributed \$150,000 to LEMSAs.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. 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.

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YEAR ENDED DECEMBER 31, 2018

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 and Other Post-Employment Benefits (OPEB)

In conjunction with pension and OPEB accounting requirements, the effect of the differences in the expected and actual experience, the difference between projected and actual earnings on pension plan and OPEB investments, changes of assumptions, and Parking Authority contributions subsequent to the measurement date are recorded as deferred inflows or outflows of resources related to pensions and OPEB 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 and OPEB plans.

CITY OF LANCASTER, PENNSYLVANIA

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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

CITY OF LANCASTER, PENNSYLVANIA

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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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 system	55 - 65 years
Equipment and vehicles	4 - 40 years

Water Fund capital assets:

Water system	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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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
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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, 2018 amounted to \$284,571 for business-type activities, \$32,926 for Sewer Fund, and \$251,645 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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 2018, the City assessed 10.70 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 2018, the City's LERTA property tax abatements totaled \$231,696.

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.

CITY OF LANCASTER, PENNSYLVANIA

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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, 2018, the aggregate cost to the City for the accumulated compensatory time has been estimated at \$913,385 and \$162,101 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, 2018, the aggregate cost to the City for accumulated vested sick days has been estimated at \$97,079 and \$15,513 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, 2018, the aggregate cost to the City for accumulated vacation days has been estimated at \$188,454 and \$78,882 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 and Restatements of Net Position

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," was adopted for the year ended December 31, 2018 by the City.

As a result of this implementation, net position was restated as follows:

	Governmental Activities	Business-Type Activities	Total
Net position at January 1, 2018 - as originally stated	\$ (55,275,523)	\$ 83,137,698	\$ 27,862,175
Remove net OPEB liability at January 1, 2018	65,980,578	8,552,342	74,532,920
Record net OPEB liability at January 1, 2018	(147,426,230)	(25,021,377)	(172,447,607)
Net position at January 1, 2018 - restated	<u>\$ (136,721,175)</u>	<u>\$ 66,668,663</u>	<u>\$ (70,052,512)</u>

	Sewer Fund	Water Fund	Other Enterprise Funds
Net position at January 1, 2018 - as originally stated	\$ 65,311,936	\$ 19,075,595	\$ (564,241)
Remove net OPEB liability at January 1, 2018	4,498,058	3,297,390	756,894
Record net OPEB liability at January 1, 2018	(9,246,865)	(13,873,967)	(1,900,545)
Net position at January 1, 2018 - restated	<u>\$ 60,563,129</u>	<u>\$ 8,499,018</u>	<u>\$ (1,707,892)</u>

Net OPEB liabilities and other related components are described more fully in Note 12.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Pending Pronouncements

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 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.

In June of 2018, the GASB issued Statement No. 89, *"Accounting for Interest Cost Incurred Before the end of a Construction Period."* This Statement improves financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The provisions of GASB Statement No. 89 are effective for the City's December 31, 2020 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,

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018, the book balance of the pooled funds was \$131,497,956 and the bank balance was \$132,331,387.

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, 2018, the City's book balance was \$140,038,264 and the bank balance was \$140,848,577. Of the bank balance, \$584,246 was covered by federal depository insurance and the remaining \$140,264,331 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	\$ 5,624,452
Restricted	20,889,346
Business-type activities:	
Unrestricted	850
Restricted	113,307,187
Fiduciary funds	216,429
Total cash and cash equivalents	<u>\$ 140,038,264</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

B. Investments

Investments consist of the following as of December 31, 2018:

	Level 1	Level 2	Total
Money market funds	\$ 13,673,568	\$ -	\$ 13,673,568
Mutual funds:			
Equity	1,623,460	-	1,623,460
Fixed income	227,989	-	227,989
Balanced	7,294,322	-	7,294,322
Common stock:			
Materials	476,520	-	476,520
Energy	7,084,507	-	7,084,507
Information technology	14,553,316	-	14,553,316
Consumer discretionary	3,443,474	-	3,443,474
Consumer staples	11,289,380	-	11,289,380
Industrials	5,516,590	-	5,516,590
Financials	9,479,970	-	9,479,970
Healthcare	8,230,106	-	8,230,106
Utilities	4,127,545	-	4,127,545
Telecom service	5,594,655	-	5,594,655
Exchange-traded funds:			
Equity	2,719,655	-	2,719,655
Fixed income	101,415	-	101,415
U.S. government obligations	11,968,354	-	11,968,354
U.S. government agency obligations	33,850	-	33,850
Corporate bonds:			
Domestic	-	16,754,597	16,754,597
Foreign	-	9,464,624	9,464,624
Total investments	<u>\$ 107,438,676</u>	<u>\$ 26,219,221</u>	<u>\$ 133,657,897</u>

CITY OF LANCASTER, PENNSYLVANIA

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Investments	
Governmental activities:	
Unrestricted	\$ 386,932
Restricted	2,457
Fiduciary funds	<u>133,268,508</u>
Total investments	<u>\$ 133,657,897</u>

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 \$124,655,650 held in the City's name or in the name of the City's multiple Pension Plans and \$9,002,247 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, 2018, 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, 2018:

	Fair Value	Rating
Money market funds	\$ 13,673,568	Unrated
U.S. government agency obligations	33,850	Unrated
Corporate bonds	3,214,502	AAA
Corporate bonds	2,448,347	AA
Corporate bonds	7,500,736	AA-
Corporate bonds	5,945,486	A+
Corporate bonds	1,502,900	A
Corporate bonds	5,607,250	A-

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

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:

	Fair Value	Investment Maturity		
		2019	2020-2024	2025-2029
Money market funds	\$ 13,673,568	\$ 13,673,568	\$ -	\$ -
U.S. government obligations	11,968,354	7,883,574	4,084,780	-
U.S. government agency obligations	33,850	-	1,423	32,427
Corporate bonds and notes	26,219,221	-	20,894,333	5,324,888
	<u>\$ 51,894,993</u>	<u>\$ 21,557,142</u>	<u>\$ 24,980,536</u>	<u>\$ 5,357,315</u>

C. Restricted Cash, Cash Equivalents, and Investments

Governmental Activities

As of December 31, 2018, the City had restricted cash and cash equivalents of \$20,889,346, which represents \$100,000 restricted for the payment of workers' compensation claims, and \$20,789,346 restricted for various City projects.

Business-Type Activities

As of December 31, 2018, the City had cash and cash equivalents of \$113,307,187 restricted for various sewer, water, solid waste, 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, 2018, LIDA's total bank deposits were \$347,149 (including cash and cash equivalents and certificates of deposit) and the carrying value was \$345,432. 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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Commission

The carrying amount of the Commission's deposits was \$1,000,750 as of December 31, 2018. The bank balance totaled \$1,052,709 as of December 31, 2018.

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, 2018:

Insured	\$ 392,177
Collateralized:	
Collateral held by pledging bank's trust department not in the Commission's name	<u>660,532</u>
Total	<u><u>\$ 1,052,709</u></u>

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, 2018 consist of the following:

Cash Deposits:	
Cash and cash equivalents	\$ 2,421,570
Petty cash	<u>35,666</u>
	<u><u>\$ 2,457,236</u></u>

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

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requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

As of December 31, 2018, the Parking Authority's cash deposits were \$2,457,236. The bank balance as of December 31, 2018 was \$2,428,369. At December 31, 2018, \$250,000 was covered by federal depository insurance and \$2,178,369 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, 2018, the Parking Authority had the following investments:

<u>Investments</u>	<u>Fair Value</u>
Unrestricted:	
Money market funds	<u>\$ 3,798,640</u>

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, 2018, all investments of the Parking Authority are held by the financial institution's department or agency, in the Parking Authority's name.

CITY OF LANCASTER, PENNSYLVANIA

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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, 2018, 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, 2018, 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018, \$1,311,886 of the Redevelopment Authority's bank balance of \$2,305,115 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the Redevelopment Authority's name	<u>\$ 1,311,886</u>
Reconciliation to financial statements:	
Uninsured amount above	\$ 1,311,886
Insured amount	993,229
Outstanding checks	(450)
Deposits in transit	1,094
Money market fund shown as cash and cash equivalents	<u>887,630</u>
	<u>\$ 3,193,389</u>
Cash and cash equivalent - unrestricted per financial statements	\$ 891,519
Cash and cash equivalent - restricted per financial statements	<u>2,301,870</u>
Total cash per financial statements	<u>\$ 3,193,389</u>

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, 2018, the Redevelopment Authority held investments in the GS Financial Square Treasury Obligations money market fund with a fair value of \$887,630, 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.

CITY OF LANCASTER, PENNSYLVANIA

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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, 2018, 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, 2018, 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.

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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, 2018, \$484,556 of LLBA's bank balance of \$734,556 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, 2018, the CRIZ's total bank deposits were \$6,860,005. 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, 2018:

Debt service reserve	\$ 131,686
Bond revenue reserve	242,347
Unused bond proceeds	<u>647,386</u>
	<u><u>\$ 1,021,419</u></u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

3. Receivables

Primary Government

Governmental Activities

Receivables as of December 31, 2018, 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	\$ 2,952,274	\$ -	\$ -	\$ 2,952,274
Allowances for uncollectibles	-	-	-	-
Taxes, net	2,952,274	-	-	2,952,274
Accounts, gross	273,759	6,637	278,779	559,175
Allowances for uncollectibles	-	-	-	-
Accounts, net	273,759	6,637	278,779	559,175
Notes, gross	-	9,817,536	-	9,817,536
Allowances for uncollectibles	-	(9,817,536)	-	(2,152,411)
Notes, net	-	-	-	7,665,125
Investment income	-	60,750	-	60,750
Total receivables	\$ 3,226,033	\$ 67,387	\$ 278,779	\$ 11,237,324

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 the LanCity Connect Special Revenue Fund, which was established during the year ended December 31, 2017 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 \$1,475,149 is included in notes receivable as of December 31, 2018.

As of December 31, 2018, the City has outstanding program loans (notes receivable) aggregating \$9,817,536. These various program loans bear interest at rates ranging from 0% to 7%, maturing over terms of 1 to 30 years, through 2040.

CITY OF LANCASTER, PENNSYLVANIA

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A summary of notes receivable activity for the year ended December 31, 2018 is as follows:

Balance January 1, 2018	New Loans Issued	Forgiveness/ Write-offs/ Principal Receipts	Balance December 31, 2018
<u>\$ 8,098,272</u>	<u>\$ 427,965</u>	<u>\$ (861,112)</u>	<u>\$ 7,665,125</u>

In addition, as of December 31, 2018, there were \$2,152,411 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	\$ 5,542,810	\$ 4,815,765	\$ 2,191,207	\$ 12,549,782
Allowances for uncollectibles	(853,746)	-	-	(853,746)
Accounts, net	<u>4,689,064</u>	<u>4,815,765</u>	<u>2,191,207</u>	<u>11,696,036</u>
Other, gross	96,706	6,400	46,458	149,564
Allowances for uncollectibles	-	-	-	-
Other, net	<u>96,706</u>	<u>6,400</u>	<u>46,458</u>	<u>149,564</u>
Total receivables	<u>\$ 4,785,770</u>	<u>\$ 4,822,165</u>	<u>\$ 2,237,665</u>	<u>\$ 11,845,600</u>

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

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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. At the time of maturity, the loan was extended for an additional five years. Accrued interest and principal will be due October 1, 2023.

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, 2018, the Parking Authority's allowance for uncollectible accrued parking enforcement revenue was \$755,288.

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

Annually, the Redevelopment Authority purchases the delinquent real estate tax claims of the City. During the year ended December 31, 2018, the Redevelopment Authority purchased the full amount of delinquent real estate tax claims from the City for the year 2017 with a total carrying value of \$1,045,613 for total consideration of \$941,852. The City's continuing involvement with the delinquent real estate tax receivables is effectively terminated.

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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 \$233,166 as of December 31, 2018, 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 (PSP) 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 \$9,253,094 as of December 31, 2018 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, 2018:

2019	\$ 9,380,357
2020	4,763,597
2021	4,820,269
2022	4,880,556
2023	4,944,701
2024-2028	16,213,296
2029	1,472,500
Total	<u>\$ 46,475,276</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Due from Other Governments

A summary of grants receivable due from other governmental units at December 31, 2018 follows:

Commonwealth of Pennsylvania:	
Infrastructure and Facilities Improvement Program Grant	\$ 6,099,875
Current portion	<u>597,091</u>
Long-term portion	<u><u>\$ 5,502,784</u></u>

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, 2018 follows:

Commonwealth of Pennsylvania:	
Interest accrued on Infrastructure and Facilities Improvement	
Program Grant, carried at present value	\$ 433,967
Other accrued interest	<u>80,363</u>
Total	<u><u>\$ 514,330</u></u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Notes Receivable

Notes receivable at December 31, 2018 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 PSP. 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%. In November 2017, the loan was extended through June 2029, payable in monthly installments of \$7,150 including interest at 2.00%. This loan is secured by a mortgage on the leasehold interest held by PSP in the site of the Penn Square Hotel.

Current portion

Long-term portion

812,038
<u>1,712,038</u>
<u>970,206</u>
<u>\$ 741,832</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

\$1,000,000 developer contribution during the year ended December 31, 2017. LLBA received \$250,000 and \$500,000 of these funds during the years ended December 31, 2018 and 2017, respectively. The remaining \$250,000 is due to LLBA in 2019.

4. Delinquent Tax Lien Receivables

In January 2018, the City sold the full amount of delinquent real estate tax lien receivables for the 2017 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 \$876,367 and the revenue was recognized in the year of sale.

In January 2019, the City sold the full amount of delinquent real estate tax lien receivables for the 2018 tax year. The full amount received by the City for this sale was \$958,459 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

As of December 31, 2018, the following properties were held for resale:

156 Juniata Avenue	\$ 8,500
316 Beaver Street	4,000
759 Manor Street	17,000
12 Coral Street	9,930
423 East Strawberry Street	13,000
423 North Pine Street	55,000
212 Hazel Street *	66,348
230 Hazel Street *	91,374
100 South Queen Street *	5,900
580 South Queen Street *	465,938
639 Stevens Avenue *	10,754
643 Stevens Avenue *	11,796
617 Stevens Avenue *	41,954
640 South Franklin Street *	22,133
	<u>\$ 823,627</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

6. Capital Assets

Primary Government

Capital asset activity for the year ended December 31, 2018 is as follows:

	December 31, 2017	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2018
Governmental activities				
Capital assets not being depreciated:				
Land, easements, right of ways	\$ 8,936,862	\$ -	\$ (131,467)	\$ 8,805,395
Construction in progress	1,002,177	3,365,517	(196,381)	4,171,313
Total capital assets not being depreciated	9,939,039	3,365,517	(327,848)	12,976,708
Capital assets being depreciated:				
Land improvements	14,162,806	863,022	-	15,025,828
Buildings	42,730,708	180,494	(868,429)	42,042,773
Machinery and equipment	5,505,846	229,640	(27,028)	5,708,458
Vehicles	7,610,902	1,015,161	(1,091,762)	7,534,301
Infrastructure	46,521,250	2,964,693	-	49,485,943
Total capital assets being depreciated	116,531,512	5,253,010	(1,987,219)	119,797,303
Less accumulated depreciation for:				
Land improvements	(5,803,288)	(671,906)	-	(6,475,194)
Buildings	(9,582,345)	(830,251)	254,649	(10,157,947)
Machinery and equipment	(3,373,735)	(448,240)	26,103	(3,795,872)
Vehicles	(4,849,665)	(460,957)	643,972	(4,666,650)
Infrastructure	(30,094,072)	(1,195,142)	-	(31,289,214)
Total accumulated depreciation	(53,703,105)	(3,606,496)	924,724	(56,384,877)
Total capital assets being depreciated, net	62,828,407	1,646,514	(1,062,495)	63,412,426
Governmental activities, capital assets, net	\$ 72,767,446	\$ 5,012,031	\$ (1,390,343)	\$ 76,389,134

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

Governmental Activities:

General government	\$ 247,060
Public safety	749,044
Economic development and neighborhood revitalization	15,004
Public works	<u>2,595,388</u>

Total depreciation expense - governmental activities \$ 3,606,496

	December 31, 2017	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2018
Business-type activities:				
Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction in progress	<u>20,290,041</u>	<u>423,215</u>	<u>(19,781,405)</u>	<u>931,851</u>
Total capital assets not being depreciated	<u>21,774,865</u>	<u>423,215</u>	<u>(19,781,405)</u>	<u>2,416,675</u>
Capital assets being depreciated:				
Sewer system	161,092,572	27,851,626	-	188,944,198
Equipment and vehicles	<u>3,348,303</u>	<u>122,802</u>	<u>-</u>	<u>3,471,105</u>
Total capital assets being depreciated	<u>164,440,875</u>	<u>27,974,428</u>	<u>-</u>	<u>192,415,303</u>
Less accumulated depreciation for:				
Sewer system	(76,782,817)	(3,577,968)	-	(80,360,785)
Equipment and vehicles	<u>(1,256,714)</u>	<u>(254,027)</u>	<u>-</u>	<u>(1,510,741)</u>
Total accumulated depreciation	<u>(78,039,531)</u>	<u>(3,831,995)</u>	<u>-</u>	<u>(81,871,526)</u>
Total capital assets being depreciated, net	<u>86,401,344</u>	<u>24,142,433</u>	<u>-</u>	<u>110,543,777</u>
Sewer Fund capital assets, net	<u>108,176,209</u>	<u>24,565,648</u>	<u>(19,781,405)</u>	<u>112,960,452</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	December 31, 2017	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2018
Water Fund:				
Capital assets not being depreciated:				
Land	1,070,600	-	-	1,070,600
Construction in progress	13,339,734	3,078,745	(7,597,612)	8,820,867
Total capital assets not being depreciated	14,410,334	3,078,745	(7,597,612)	9,891,467
Capital assets being depreciated:				
Water system	199,711,525	11,618,098	-	211,329,623
Equipment and vehicles	3,950,914	1,281,936	-	5,232,850
Total capital assets being depreciated	203,662,439	12,900,034	-	216,562,473
Less accumulated depreciation for:				
Water system	(57,479,585)	(3,049,316)	-	(60,528,901)
Equipment and vehicles	(2,280,182)	(362,709)	-	(2,642,891)
Total accumulated depreciation	(59,759,767)	(3,412,025)	-	(63,171,792)
Total capital assets being depreciated, net	143,902,672	9,488,009	-	153,390,681
Water Fund capital assets, net	158,313,006	12,566,754	(7,597,612)	163,282,148

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

	December 31, 2017	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2018
Other enterprise funds:				
Capital assets not being depreciated:				
Land	177,200	-	-	177,200
Construction in progress	-	24,049	-	24,049
Total capital assets not being depreciated	177,200	24,049	-	201,249
Capital assets being depreciated:				
Buildings	300,086	-	-	300,086
Infrastructure	3,356,873	1,845,079	-	5,201,952
Equipment and vehicles	1,276,849	126,705	(62,994)	1,340,560
Total capital assets being depreciated	4,933,808	1,971,784	(62,994)	6,842,598
Less accumulated depreciation for:				
Buildings	(74,164)	(4,995)	-	(79,159)
Infrastructure	(98,967)	(83,922)	-	(182,889)
Equipment and vehicles	(349,897)	(100,116)	29,397	(420,616)
Total accumulated depreciation	(523,028)	(189,033)	29,397	(682,664)
Total other enterprise funds capital assets, net	4,410,780	1,782,751	(33,597)	6,159,934
Other enterprise funds capital assets, net	4,587,980	1,806,800	(33,597)	6,361,183
Business-type activities capital assets, net	\$ 271,077,195	\$ 38,939,202	\$ (27,412,614)	\$ 282,603,783

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Component Units

Commission

Major classifications of capital assets and their respective depreciable lives consist of the following as of December 31, 2018:

	December 31, 2017	Additions	Deletions	December 31, 2018	Depreciable Lives
Capital assets not being depreciated:					
Construction in progress	\$ -	\$ 138,641	\$ -	\$ 138,641	
Total capital assets not being depreciated	-	138,641	-	138,641	
Capital assets being depreciated:					
Equipment	187,752	3,445	(38,109)	153,088	3 - 10 years
Furniture and improvements	235,378	1,146	-	236,524	5 - 15 years
Vehicles	94,407	-	-	94,407	5 - 10 years
Total capital assets being depreciated	517,537	4,591	(38,109)	484,019	
Accumulated depreciation	(353,338)	(54,016)	38,109	(369,245)	
Capital assets being depreciated, net	164,199	(49,425)	-	114,774	
Total capital assets	\$ 164,199	\$ 89,216	\$ -	\$ 253,415	

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Parking Authority

Capital asset activity for the year ended December 31, 2018 is as follows:

	December 31, 2017	Increase	Decrease	December 31, 2018
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, rental complex, and administrative building	36,044,145	616,238	-	36,660,383
Office furnishings and equipment	97,285	43,340	(1,629)	138,996
Equipment	3,644,711	147,756	(8,639)	3,783,828
Vehicles	249,959	21,115	-	271,074
Total capital assets being depreciated	40,036,100	828,449	(10,268)	40,854,281
Less accumulated depreciation for:				
Parking garages, lots, rental complex, and administrative building	(21,786,639)	(892,240)	-	(22,678,879)
Office furnishings and equipment	(64,287)	(9,505)	1,620	(72,172)
Equipment	(2,647,869)	(327,880)	3,626	(2,972,123)
Vehicles	(107,180)	(37,770)	-	(144,950)
Total accumulated depreciation	(24,605,975)	(1,267,395)	5,246	(25,868,124)
Total capital assets being depreciated, net	15,430,125	(438,946)	(5,022)	14,986,157
Total capital assets, net	\$ 19,125,996	\$ (438,946)	\$ (5,022)	\$ 18,682,028

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Redevelopment Authority

Capital asset activity for the year ended December 31, 2018 is as follows:

	December 31, 2017	Increase	Decrease	December 31, 2018
Capital assets not being depreciated:				
Land and improvements	\$ 917,883	\$ -	\$ -	\$ 917,883
Construction in progress	278,884	150,733	-	429,617
Total capital assets not being depreciated	1,196,767	150,733	-	1,347,500
Capital assets being depreciated:				
Buildings	8,624,651	-	-	8,624,651
Less accumulated depreciation for:				
Buildings	(826,529)	(215,616)	-	(1,042,145)
Total capital assets being depreciated, net	7,798,122	(215,616)	-	7,582,506
Total capital assets, net	\$ 8,994,889	\$ (64,883)	\$ -	\$ 8,930,006

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

7. Line of Credit

Component Units

Commission

The Commission has a renewable \$250,000 line of credit agreement with PNC Bank, National Association during the year ended December 31, 2018. The line expires on October 6, 2019 and bears interest at a variable rate, which was 5.5% at December 31, 2018. There were no borrowings on the line of credit as of December 31, 2018.

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, 2018. The interest rate was 5.00% as of December 31, 2018. 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 March 1, 2022. During the year ended December 31, 2018, 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, 2018 was as follows:

	January 1, 2018	Increases	Decreases	December 31, 2018
Line of credit - delinquent real estate taxes	<u>\$ 498,911</u>	<u>\$ 941,853</u>	<u>\$ 853,385</u>	<u>\$ 587,379</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

8. Due to the Primary Government

Component Unit

Redevelopment Authority

As of December 31, 2018, the following amounts were due to the primary government:

Accumulated gain on tax collections (Note 3)	\$ 233,166
Amounts due for conveyed properties	<u>716,197</u>
	<u>\$ 949,363</u>

The City conveyed five properties to the Redevelopment Authority during the year ended December 31, 2018, with the expectation that the Redevelopment Authority will sell these properties and pass the proceeds back to the City. The Redevelopment Authority recorded these properties and the due to the City at the carrying value of \$552,575. The Redevelopment Authority transferred one property back to the City during the year ended December 31, 2018 that had a carrying value of \$114,072.

9. Unearned Revenue

Component Unit

Redevelopment Authority

A summary of unearned revenue at December 31, 2018 follows:

Unearned rent	\$ 30,042
Unearned grant revenue	2,659,978
Unearned revenue - parking garage operations	2,975
Unearned interest income - capital lease (Note 3)	<u>9,253,094</u>
	11,946,089
Current portion	<u>1,800,527</u>
Long-term portion	<u>\$ 10,145,562</u>

Unearned grant revenue consists of grant funds received from a governmental agency. In accordance with the grant agreement, portions of these funds have been loaned to third

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018 is as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2018
2009/2030	\$ 43,990,000	General Obligation Notes, 2.50%-4.875%	\$ 24,390,000
2011/2041	38,860,000	General Obligation Bonds, 1.75%-5.00%	32,830,000
2013/2035	7,000,000	Note Payable to Financing Agency, 1.495%-2.965%	3,703,156
2014/2037	5,500,000	Note Payable to Financing Agency, 1.00%-1.74%	4,606,808
2014/2044	42,490,000	General Obligation Bonds, 3.00%-5.00%	39,300,000
2015/2034	11,840,000	General Obligation Bonds, 0.85%-4.30%	10,685,000
2015/2028	6,950,000	General Obligation Note, 2.41%	5,635,000
2016/2046	118,820,000	General Obligation Bonds, 3.00%-5.00%	115,795,000
2016/2036	11,560,000	General Obligation Bonds, 2.25%-5.00%	11,270,000
2018/2048	113,325,000	General Obligation Bonds, 2.00%-5.00%	113,325,000
			<u>\$ 361,539,964</u>

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

In 2018, the City issued \$113,325,000 of general obligation bonds bearing interest at rates ranging from 2.00% to 5.00%. The proceeds of the bond issuance will be used to 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 debt service on these bonds is paid by the General Fund, Sewer Fund, Water Fund, and Stormwater Fund, an other enterprise 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, 2018, \$4,788,869 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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note bears interest at a rate of 1.00% for the first five years and 1.74% thereafter. As of December 31, 2018, \$5,054,872 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
2019	\$ 3,219,600	\$ 2,835,300	\$ 6,054,900
2020	3,498,800	2,711,229	6,210,029
2021	3,637,600	2,572,844	6,210,444
2022	3,776,400	2,430,727	6,207,127
2023	3,925,600	2,284,117	6,209,717
2024-2028	22,136,200	8,913,240	31,049,440
2029-2033	13,600,000	4,810,875	18,410,875
2034-2038	9,480,000	2,750,871	12,230,871
2039-2043	8,870,000	1,092,400	9,962,400
	<u>\$ 72,144,200</u>	<u>\$ 30,401,603</u>	<u>\$ 102,545,803</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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
2019	\$ 4,866,236	\$ 11,330,014	\$ 16,196,250
2020	6,709,935	11,124,687	17,834,622
2021	7,447,196	10,880,145	18,327,341
2022	7,759,292	10,587,128	18,346,420
2023	8,098,085	10,247,877	18,345,962
2024-2028	39,163,047	46,454,690	85,617,737
2029-2033	42,946,607	38,671,972	81,618,579
2034-2038	48,095,366	30,476,938	78,572,304
2039-2043	58,795,000	20,378,403	79,173,403
2044-2048	65,515,000	8,066,800	73,581,800
	<u>\$ 289,395,764</u>	<u>\$ 198,218,654</u>	<u>\$ 487,614,418</u>

Capital Leases

Governmental Activities

In 2014 through 2018, 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, 2018, the assets are included as governmental activities in the government-wide financial statements at a cost of \$2,492,996 and accumulated depreciation of \$364,524.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2018 are as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2019	\$ 451,589
2020	432,762
2021	260,068
2022	224,779
2023	175,105
2024-2026	<u>507,182</u>
Total minimum lease payments	2,051,485
Less amount representing interest	<u>(269,785)</u>
Present value of future minimum lease payments	<u><u>\$ 1,781,700</u></u>

Business-type Activities

In 2014 through 2018, 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, 2018, the assets are included as business-type activities in the government-wide financial statements at a cost of \$1,538,239 and accumulated depreciation of \$325,235.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2018 are as follows:

Year Ending December 31,	Total
2019	\$ 343,270
2020	245,649
2021	156,181
2022	61,135
Total minimum lease payments	806,235
Less amount representing interest	(50,044)
Present value of future minimum lease payments	<u>\$ 756,191</u>

Changes in long-term obligations for the year ended December 31, 2018 are as follows:

	December 31, 2017	Increase	Decrease	December 31, 2018	Amount Due Within One Year
Governmental activities:					
Bonds payable	\$ 46,745,000	\$ 14,440,000	\$ (2,240,000)	\$ 58,945,000	\$ 2,325,000
Unamortized premium	2,651,907	536,086	(349,610)	2,838,383	-
Notes payable	14,069,600	-	(870,400)	13,199,200	894,600
Compensated absences	1,200,314	3,315,834	(3,317,230)	1,198,918	275,871
Capital leases	1,277,239	904,370	(399,909)	1,781,700	384,979
Workers' compensation payable	879,625	97,108	(167,854)	808,879	278,821
Total governmental activities	<u>\$ 66,823,685</u>	<u>\$ 19,293,398</u>	<u>\$ (7,345,003)</u>	<u>\$ 78,772,080</u>	<u>\$ 4,159,271</u>

	December 31, 2017	Increase	Decrease	December 31, 2018	Amount Due Within One Year
Business-type activities:					
Bonds payable	\$ 168,350,000	\$ 98,885,000	\$ (2,975,000)	\$ 264,260,000	\$ 3,250,000
Unamortized premium	4,990,680	2,861,799	(496,565)	7,355,914	-
Notes payable	25,300,928	1,417,317	(1,582,481)	25,135,764	1,616,236
Compensated absences	264,691	1,408,943	(1,417,138)	256,496	56,180
Capital leases	865,343	305,801	(414,953)	756,191	318,841
Workers' compensation payable	29,883	9,724	(17,094)	22,513	-
Total business-type activities	<u>\$ 199,801,525</u>	<u>\$ 104,888,584</u>	<u>\$ (6,903,231)</u>	<u>\$ 297,786,878</u>	<u>\$ 5,241,257</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

During the year ended December 31, 2018, the City borrowed \$4,000,000 in the form of a Tax and Revenue Anticipation Note, Series of 2018, bearing interest at an annual rate of 2.49% per annum. The full amount was repaid in March 2018. The maximum principal amount of the Tax and Revenue Anticipation Note, Series of 2018 was \$6,000,000.

Tax anticipation note transactions for the year ended December 31, 2018 were as follows:

Outstanding at December 31, 2017	\$ -
New borrowings	4,000,000
Repayments	<u>(4,000,000)</u>
Outstanding at December 31, 2018	<u><u>\$ -</u></u>

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.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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, 2017	Increase	Decrease	December 31, 2018	Amount Due Within One Year
Series of 2016 Parking Revenue Bonds	\$ 13,605,000	\$ -	\$ -	\$ 13,605,000	\$ -
Series of A of 2016 Parking Revenue Bonds	7,695,000	-	(930,000)	6,765,000	945,000
	<u>\$ 21,300,000</u>	<u>\$ -</u>	<u>\$ (930,000)</u>	<u>\$ 20,370,000</u>	<u>\$ 945,000</u>

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
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	1,070,000	516,364	1,586,364
2024-2028	6,100,000	2,141,341	8,241,341
2029-2033	7,240,000	1,280,392	8,520,392
2034-2035	2,015,000	94,404	2,109,404
Total	<u>\$ 20,370,000</u>	<u>\$ 6,400,449</u>	<u>\$ 26,770,449</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 was paid in equal annual installments of \$150,000. During the year ended December 31, 2018, the balance was fully repaid.

	December 31, 2017	Increase	Decrease	December 31, 2018	Amount Due Within One Year
Elevator loan payable	\$ 150,000	\$ -	\$ (150,000)	\$ -	\$ -

Interest Expense

Interest expense on all bonds totaled \$644,122 for the year ended December 31, 2018. Interest expense on the elevator loan totaled \$881 for the year ended December 31, 2018.

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, 2018, the amount due is \$1,007,343.

For the second tower, there was an additional advance from the lessee of Penn Square Hotel for \$3,495,130 at December 31, 2018 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, 2018, the lessee is also due a reimbursement of \$15,599 related to a construction project at the Penn Square Hotel. These funds are expected to be paid during 2019.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Convention Center Authority Obligation

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, 2018, the remaining payments, which will be funded from a portion of the minimum participation rent payments to the Convention Center Authority, are as follows:

2019	\$	100,000
2020		100,000
2021		50,000
		<hr/>
	\$	250,000
		<hr/>

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, 2018 was \$3,517,333, of which \$211,000 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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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, 2018 is \$3,511,636, of which \$404,351 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, 2018 is \$1,991,149, of which \$233,815 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, 2018. 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, 2018 was \$10,913,935, of which \$1,516,941 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, 2018 was \$5,239,666, of which \$295,079 is due within one year.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018. 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, 2018 was \$18,445,116, of which \$927,909 is due within one year.

Aggregate maturities required on bonds and notes payable at December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 3,589,095	\$ 2,114,210	\$ 5,703,305
2020	4,449,673	1,919,387	6,369,060
2021	4,822,064	1,694,803	6,516,867
2022	5,115,172	1,453,339	6,568,511
2023	5,351,091	1,205,279	6,556,370
2024 - 2028	19,112,328	2,526,541	21,638,869
2029	1,179,412	14,276	1,193,688
Total	<u>\$ 43,618,835</u>	<u>\$ 10,927,835</u>	<u>\$ 54,546,670</u>

Long-term obligation activity for the year ended December 31, 2018 can be summarized as follows:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018
Due to lessee	\$ 1,002,414	\$ 4,929	\$ -	\$ 1,007,343
LCCCA Obligation	350,000	-	(100,000)	250,000
Notes payable	3,721,333	-	(204,000)	3,517,333
Bonds payable	22,297,012	20,411,037	(2,606,547)	40,101,502
	<u>\$ 27,370,759</u>	<u>\$ 20,415,966</u>	<u>\$ (2,910,547)</u>	<u>\$ 44,876,178</u>

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 \$5,502,785 as of December 31, 2018, all interest payments, as well as any fees and expenses resulting from events of default of the Redevelopment Authority. Future

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

scheduled interest payments on these bonds amount to \$1,497,413 as of December 31, 2018. 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, 2018 is \$10,913,935 and future interest payments, based on current interest rates, are \$1,798,490. The current tax-exempt assessment for the property is \$52,320,200 and the applicable combined millage rate is 34.9384. 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, 2018 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

CITY OF LANCASTER, PENNSYLVANIA

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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, 2018 is 2.79%.

Long-term debt obligations consist of the following at December 31, 2018:

Convention Center Authority (LCCCA) Obligation	\$ 1,800,000
Tax Revenue Bonds, Series 2015	<u>5,350,000</u>
	<u>\$ 7,150,000</u>

The following is a summary of debt transactions for the year ended December 31, 2018:

Long-term debt at January 1, 2018	\$ 7,880,000
Payments	<u>(730,000)</u>
Long-term debt at December 31, 2018	7,150,000
Current portion	<u>(1,161,000)</u>
Long-term debt, net	<u>\$ 5,989,000</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

Year Ending December 31,	LCCCA Obligation	Tax Revenue	
		Bonds 2015	Total
2019	\$ 900,000	\$ 261,000	\$ 1,161,000
2020	900,000	268,000	1,168,000
2021	-	121,000	121,000
2022	-	128,000	128,000
2023	-	135,000	135,000
2024-2028	-	809,000	809,000
2029-2033	-	1,084,000	1,084,000
2034-2038	-	1,448,000	1,448,000
2039-2041	-	1,096,000	1,096,000
	<u>\$ 1,800,000</u>	<u>\$ 5,350,000</u>	<u>\$ 7,150,000</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018, none of the FPP's and PPP's investments were more than five percent of the total asset value for each plan.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Plan Participants

At December 31, 2018, employee membership data related to the FPP and PPP was as follows:

	FPP	PPP
Inactive plan members or beneficiaries currently receiving benefits	126	188
Inactive plan members entitled to but not yet receiving benefits	2	1
Active plan members	60	138
Total	188	327

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.

CITY OF LANCASTER, PENNSYLVANIA

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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.

FPP and PPP also provide disability and survivor benefits.

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, 2018, there were eight participants in the DROP. As of December 31, 2018, the balance held by the FPP pursuant to the DROP totaled \$612,425.

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 \$2,315,107 and \$3,104,156 for the year ended December 31, 2018 to the FPP and PPP, respectively.

Administrative Expenses

FPP and PPP administration costs are financed through investment income.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Changes in Net Pension Liability

The changes in the net pension liability for the FPP and PPP at December 31, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
FPP:			
Balances at December 31, 2017	\$ 52,076,472	\$ 42,548,834	\$ 9,527,638
Changes for the year:			
Service cost	703,268	-	703,268
Interest	4,374,735	-	4,374,735
Contributions - employer	-	2,315,107	(2,315,107)
Contributions - employees	-	284,272	(284,272)
Net investment loss	-	(2,327,495)	2,327,495
Benefit payments, including refunds	(3,591,266)	(3,591,266)	-
Administrative expenses	-	(26,631)	26,631
Net changes	1,486,737	(3,346,013)	4,832,750
Balances at December 31, 2018	<u>\$ 53,563,209</u>	<u>\$ 39,202,821</u>	<u>\$ 14,360,388</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>73.19%</u>

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2018

PPP:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 93,986,872	\$ 71,294,600	\$ 22,692,272
Changes for the year:			
Service cost	1,782,287	-	1,782,287
Interest	7,437,735	-	7,437,735
Contributions - employer	-	3,104,156	(3,104,156)
Contributions - employees	-	617,420	(617,420)
Net investment loss	-	(3,800,159)	3,800,159
Benefit payments, including refunds	(5,594,950)	(5,594,950)	-
Administrative expenses	-	(30,552)	30,552
Net changes	3,625,072	(5,704,085)	9,329,157
Balances at December 31, 2018	<u>\$ 97,611,944</u>	<u>\$ 65,590,515</u>	<u>\$ 32,021,429</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>67.20%</u>

The net pension liability was measured as of December 31, 2018 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.

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

CITY OF LANCASTER, PENNSYLVANIA

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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, 2018 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%
	<u>100.0%</u>	

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, 2018, the annual money-weighted rate of return on Plan investments, net of investment expense, was -5.60% and -5.47% for the FPP and PPP, respectively.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2018 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	<u>\$ 19,688,821</u>	<u>\$ 14,360,388</u>	<u>\$ 9,853,810</u>
PPP	<u>\$ 43,815,482</u>	<u>\$ 32,021,429</u>	<u>\$ 22,143,389</u>

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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, 2018, employee membership data related to the CBPP was as follows:

Inactive plan members or beneficiaries currently receiving benefits	60
Inactive plan members entitled to but not yet receiving benefits	32
Active members	<u>330</u>
Total	<u><u>422</u></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 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.

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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.

CBPP also provides early retirement, disability, and survivor benefits.

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 \$1,097,191 to the CBPP for the year ended December 31, 2018.

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Changes in the Net Pension Liability

The changes in the net pension liability for the CBPP at December 31, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 17,843,039	\$ 13,685,428	4,157,611
Service cost	645,808	-	645,808
Interest	1,342,427	-	1,342,427
Contributions - employer	-	1,097,191	(1,097,191)
Net investment loss	-	(585,458)	585,458
Benefit payments, including refunds	(1,179,643)	(1,179,643)	-
Administrative expenses	-	(36,559)	36,559
Net changes	808,592	(704,469)	1,513,061
Balances at December 31, 2018	<u>\$ 18,651,631</u>	<u>\$ 12,980,959</u>	<u>\$ 5,670,672</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>69.60%</u>

The net pension liability of the pension plan is allocated between governmental activities and business-type activities in the amounts of \$3,072,854 and \$2,597,818, respectively, at December 31, 2018.

The net pension liability was measured as of December 31, 2018 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.

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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

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.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2018 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, 2018, the annual money-weighted rate of return on CBPP investments, net of investment expense, was -4.41%.

Concentrations – At December 31, 2018, 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, 2018 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%)
\$ 8,379,753	\$ 5,670,672	\$ 3,411,351

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

For the year ended December 31, 2018, the governmental activities and business-type activities recognized pension expense of \$8,762,101 and \$699,837, respectively.

At December 31, 2018, the governmental activities and business-type activities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities	Business-type Activities
<u>Deferred Outflows of Resources</u>		
Differences between expected and actual experience	\$ 749,738	\$ -
Changes of assumptions	1,710,498	144,136
Net difference between projected and actual earnings on pension plan investments	<u>12,229,542</u>	<u>542,752</u>
Total Deferred Outflows of Resources	<u>\$ 14,689,778</u>	<u>\$ 686,888</u>
<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	<u>\$ 1,884,911</u>	<u>\$ 147,472</u>
Total Deferred Inflows of Resources	<u>\$ 1,884,911</u>	<u>\$ 147,472</u>

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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:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2019	\$ 3,871,938	\$ 174,712
2020	2,459,632	112,273
2021	2,815,746	102,404
2022	3,639,926	150,383
2023	(839)	(745)
Thereafter	18,464	389
	<u>\$ 12,804,867</u>	<u>\$ 539,416</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, 2018, there were 195 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, 2018, SSP participants and the City made contributions of \$551,983 and \$114,202, respectively.

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

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YEAR ENDED DECEMBER 31, 2018

Pension Financial Statements

Financial statements for the individual pension plans are presented below:

Statement of Net Position December 31, 2018

	FPP	PPP	CBPP	SPP
Assets:				
Investments	\$ 39,243,777	\$ 65,348,737	\$ 12,933,526	\$ 9,002,247
Receivables:				
Investment income	141,080	241,778	47,433	-
Total Assets	39,384,857	65,590,515	12,980,959	9,002,247
Liabilities:				
Benefits payable	182,036	-	-	-
Net position restricted for pension benefits	\$ 39,202,821	\$ 65,590,515	\$ 12,980,959	\$ 9,002,247

Statement of Changes in Net Position Year Ended December 31, 2018

	FPP	PPP	CBPP	SPP
Additions:				
Contributions:				
Employees	\$ 284,272	\$ 617,420	\$ -	\$ 551,983
Employer	2,315,107	3,104,156	1,097,191	114,202
Total contributions	2,599,379	3,721,576	1,097,191	666,185
Investment income (loss):				
Net depreciation in fair value of investments	(3,241,699)	(5,331,414)	(869,238)	(744,223)
Interest and dividends	1,084,973	1,824,955	338,686	325,373
Total investment income (loss)	(2,156,726)	(3,506,459)	(530,552)	(418,850)
Less: investment expenses	(170,769)	(293,700)	(54,906)	-
Net investment loss	(2,327,495)	(3,800,159)	(585,458)	(418,850)
Total additions	271,884	(78,583)	511,733	247,335
Deductions:				
Benefits	3,591,266	5,594,950	1,179,643	734,179
Administrative expenses	26,631	30,552	36,559	57,289
Total deductions	3,617,897	5,625,502	1,216,202	791,468
Change in net position	(3,346,013)	(5,704,085)	(704,469)	(544,133)
Net position restricted for pension benefits:				
Beginning of year	42,548,834	71,294,600	13,685,428	9,546,380
End of year	\$ 39,202,821	\$ 65,590,515	\$ 12,980,959	\$ 9,002,247

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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 \$51,206 for the year ended December 31, 2018.

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.

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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 January 1, 2017:

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

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, 2018, the Parking Authority made a contribution of \$31,163. The MMO for the year ended December 31, 2018 was \$31,043. The 2018 contribution is reported as a deferred outflow of resources at December 31, 2018.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Changes in the Net Pension Asset

The changes in the net pension asset of the Parking Authority for the year ended December 31, 2018 were as follows:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	\$ 1,400,517	\$ 1,414,632	\$ (14,115)
Changes for the year:			
Service cost	97,605	-	97,605
Interest	75,453	-	75,453
Contributions - employer	-	19,000	(19,000)
Contributions - employee	-	47,920	(47,920)
Net investment income	-	247,783	(247,783)
Benefit payments, including refunds	(107,021)	(107,021)	-
Administrative expenses	-	(4,314)	4,314
Net changes	66,037	203,368	(137,331)
Balances at December 31, 2018 (based on the measurement date of December 31, 2017)	<u>\$ 1,466,554</u>	<u>\$ 1,618,000</u>	<u>\$ (151,446)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>110.33%</u>

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Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2017, with liabilities rolled forward to December 31, 2017, 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

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.pmr.state.pa.us. Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.3%. The rationale for the difference between the System's long-term expected rate of return and the discount rate can be found at www.pmr.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, 2017 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

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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%)
\$ (12,547)	\$ (151,446)	\$ (270,943)

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

For the year ended December 31, 2018, the Parking Authority recognized pension expense of \$40,000. At December 31, 2018, the Parking Authority reported deferred outflows and inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,707	\$ -
Parking Authority contributions subsequent to the measurement date	31,163	-
Changes of assumptions	19,369	-
Net difference between projected and actual earnings on pension plan investments	-	131,681
Total	\$ 74,239	\$ 131,681

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

CITY OF LANCASTER, PENNSYLVANIA

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year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2019	\$ (12,599)
2020	(8,199)
2021	(33,620)
2022	<u>(34,187)</u>
	<u>\$ (88,605)</u>

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 OPEB Plan, Water OPEB Plan, and Sewer OPEB Plan 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.

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B. Plan Description and Contribution Information

At December 31, 2018, participants in the OPEB Plans were as follows:

	OPEB Plan	Water OPEB Plan	Sewer OPEB Plan
Inactive plan members or beneficiaries currently receiving benefits	289	36	17
Inactive plan members entitled to but not yet receiving benefits	44	-	-
Active plan members	440	65	36
	<u>773</u>	<u>101</u>	<u>53</u>

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

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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.

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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 determined 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. The City contributed \$3,860,539, \$1,340,156, and \$365,769 to the OPEB Plan, Water OPEB Plan, and Sewer OPEB Plan for the year ended December 31, 2018, respectively.

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.

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Changes in Net OPEB Liability

The changes in the net OPEB liability of the OPEB Plans at December 31, 2018 were as follows:

	Increase (Decrease)		
OPEB Plan:	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at December 31, 2017	\$ 149,326,775	\$ -	\$ 149,326,775
Changes for the year:			
Service cost	6,922,393	-	6,922,393
Interest	4,886,806	-	4,886,806
Changes for experience	(36,654,434)	-	(36,654,434)
Changes of assumptions	(4,953,863)	-	(4,953,863)
Contributions - employer	-	3,860,539	(3,860,539)
Benefit payments, including refunds	(3,860,539)	(3,860,539)	-
Net changes	(33,659,637)	-	(33,659,637)
Balances at December 31, 2018	<u>\$ 115,667,138</u>	<u>\$ -</u>	<u>\$ 115,667,138</u>
Plan fiduciary net position as a percentage of the total OPEB liability			<u>0.00%</u>

The net OPEB liability of the OPEB Plan is allocated between governmental and business-type activities in the amounts of \$100,022,415 and \$15,644,723, respectively, at December 31, 2018.

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	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Water OPEB Plan:			
Balances at December 31, 2017	\$ 18,793,489	\$ 4,919,522	\$ 13,873,967
Changes for the year:			
Service cost	978,590	-	978,590
Interest	619,303	-	619,303
Changes for experience	(4,747,005)	-	(4,747,005)
Changes of assumptions	(1,348,338)	-	(1,348,338)
Contributions - employer	-	1,340,156	(1,340,156)
Net investment income	-	79,521	(79,521)
Benefit payments, including refunds	(435,122)	(435,122)	-
Administrative expenses	-	(23,751)	23,751
Net changes	(4,932,572)	960,804	(5,893,376)
Balances at December 31, 2018	<u>\$ 13,860,917</u>	<u>\$ 5,880,326</u>	<u>\$ 7,980,591</u>
Plan fiduciary net position as a percentage of the total OPEB liability			<u>42.42%</u>

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	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Sewer OPEB Plan:			
Balances at December 31, 2017	\$ 9,745,524	\$ 498,659	\$ 9,246,865
Changes for the year:			
Service cost	509,182	-	509,182
Interest	320,534	-	320,534
Changes for experience	(2,974,945)	-	(2,974,945)
Changes of assumptions	(537,672)	-	(537,672)
Contributions - employer	-	365,769	(365,769)
Net investment income	-	8,124	(8,124)
Benefit payments, including refunds	(264,372)	(264,372)	-
Administrative expenses	-	(2,421)	2,421
Net changes	(2,947,273)	107,100	(3,054,373)
Balances at December 31, 2018	<u>\$ 6,798,251</u>	<u>\$ 605,759</u>	<u>\$ 6,192,492</u>
Plan fiduciary net position as a percentage of the total OPEB liability			<u>8.91%</u>

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The net OPEB liability was measured as of December 31, 2018 and was determined by rolling forward the liabilities from the January 1, 2018 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year-end.

The January 1, 2018 valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions:	
Interest rate	3.66%
Salary increases	5% per year for uniformed employees and 4.5% per year for nonuniformed employees
Medical inflation	6.0% in 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 25 years of service with mandatory retirement at age 60.

These assumptions were applied to all periods included in the measurement of total OPEB liability.

Change in actuarial assumptions: The interest rate was increased from 3.17% to 3.66% in the January 1, 2018 actuarial valuation. In addition, salary increases changed from 5% per year for nonuniformed employees to 4.5% per year in the January 1, 2018 actuarial valuation.

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

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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 2018).

With this milestone reached, the City plans to establish an investment policy for the Sewer and Water OPEB Trusts to provide guidelines for a moderate-risk portfolio of investments in 2019 or 2020 so that it can 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, 2018 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, 2018, the annual money-weighted rate of return on the Sewer and Water OPEB Plan investments, net of investment expense, was 1.48% and 1.47%, respectively.

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Concentrations – At December 31, 2018, 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, 2018 was 3.66%. 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 \$999,000 (which represents the average employer contributions to the OPEB trust over the last five years).

The rate of 3.66% as of December 31, 2018 is the single-effective discount rate using 4.50% on projected assets sufficient to cover expected cash flows and 3.64% 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, 2018 discount rate of 4.50% resulted in a projected depletion of OPEB Trust net position, a rate of 3.66% was used beginning in the cross-over depletion year of 2025, which is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

In using the discount rate of 3.66% as of December 31, 2018, 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 2027. Therefore, the long-term expected rate of return on OPEB Plans' investments was applied to periods of projected benefit payments through year 2027 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, 2018:

	1% Decrease (2.66%)	Current Discount Rate (3.66%)	1% Increase (4.66%)
OPEB Plan	\$ 134,109,760	\$ 115,667,138	\$ 100,871,695
Water OPEB Plan	\$ 10,281,305	\$ 7,980,591	\$ 6,147,329
Sewer OPEB Plan	\$ 7,239,886	\$ 6,192,492	\$ 5,345,507

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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, 2018:

	1% Decrease	Current Rates	1% Increase
OPEB Plan	\$ 98,152,016	\$ 115,667,138	\$ 137,967,908
Water OPEB Plan	\$ 5,754,869	\$ 7,980,591	\$ 10,816,783
Sewer OPEB Plan	\$ 5,162,215	\$ 6,192,492	\$ 7,490,778

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

For the year ended December 31, 2018, the governmental activities and business-type activities recognized OPEB expense of \$1,890,271 and \$110,717, respectively.

At December 31, 2018, the governmental activities and business-type activities reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities	Business-type Activities
<u>Deferred Outflows of Resources</u>		
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 259,315
Total Deferred Outflows of Resources	\$ -	\$ 259,315
<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	\$ 30,989,461	\$ 7,047,440
Changes of assumptions	4,131,542	1,731,206
Total Deferred Inflows of Resources	\$ 35,121,003	\$ 8,778,646

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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 employees that are currently receiving a benefit or may be eligible to receive a benefit in the future. The difference between projected and actual earnings on the Water OPEB Plan and Sewer OPEB Plan investments is recognized over five years. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2019	\$ (5,853,500)	\$ (1,388,550)
2020	(5,853,500)	(1,388,550)
2021	(5,853,500)	(1,388,551)
2022	(5,853,500)	(1,427,462)
2023	(5,853,500)	(1,463,109)
Thereafter	(5,853,503)	(1,463,109)
	<u>\$ (35,121,003)</u>	<u>\$ (8,519,331)</u>

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Financial statements for the OPEB Trust Funds are presented below:

Statement of Net Position December 31, 2018

	Sewer OPEB Trust	Water OPEB Trust
Assets:		
Investments	\$ 605,759	\$ 5,880,326
Total Assets	605,759	5,880,326
Net position restricted for other post-employment benefits	\$ 605,759	\$ 5,880,326

Statement of Changes in Net Position Year Ended December 31, 2018

	Sewer OPEB Trust	Water OPEB Trust
Additions:		
Contributions:		
Employer	\$ 365,769	\$ 1,340,156
Total contributions	365,769	1,340,156
Investment income:		
Interest and dividends	8,124	79,521
Total investment income	8,124	79,521
Total additions	373,893	1,419,677
Deductions:		
Benefits	264,372	435,122
Administrative expenses	2,421	23,751
Total deductions	266,793	458,873
Change in net position	107,100	960,804
Net position restricted for other post-employment benefits:		
Beginning of year	498,659	4,919,522
End of year	\$ 605,759	\$ 5,880,326

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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 2018, 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, 2018 and 2017 is as follows:

Unpaid claims as of January 1, 2017	\$ 704,924
Incurred claims and change in estimates during 2017	340,090
Payments during 2017	<u>(135,506)</u>
Unpaid claims as of December 31, 2017	909,508
Incurred claims and change in estimates during 2018	106,832
Payments during 2018	<u>(184,948)</u>
Unpaid claims as of December 31, 2018	<u><u>\$ 831,392</u></u>

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

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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, 2018 and 2017 is as follows:

Unpaid claims as of January 1, 2017	\$ 1,106,022
Incurred claims and change in estimates during 2017	11,609,293
Payments during 2017	<u>(11,825,334)</u>
Unpaid claims as of December 31, 2017	889,981
Incurred claims and change in estimates during 2018	12,196,122
Payments during 2018	<u>(12,689,799)</u>
Unpaid claims as of December 31, 2018	<u>\$ 396,304</u>

14. Property Sales

Component Unit

Redevelopment Authority

During the year ended December 31, 2018, twenty-seven 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

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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, 2018:

Property	Net Proceeds from Property Sales	Cost of Property Sold	Gain (Loss)
318 Beaver Street	\$ 10,000	\$ 17,500	\$ (7,500)
434 East Strawberry Street	1,000	12,000	(11,000)
543 South Christian Street	4,000	2,700	1,300
639 Beaver Street	100	1,200	(1,100)
339 Beaver Street	1,500	11,000	(9,500)
563 South Lime Street	20,000	23,000	(3,000)
230 West Strawberry Street	4,680	3,000	1,680
666 Columbia Avenue	54,000	58,000	(4,000)
529 Saint Joseph Street	37,000	30,000	7,000
618 Manor Street	10,000	12,500	(2,500)
545 Saint Christian Street	9,000	8,500	500
903 Manor Street	59,500	55,492	4,008
437 East Strawberry Street	5,891	4,400	1,491
127 East New Street	41,500	14,000	27,500
110 Green Street	5,000	3,500	1,500
140 Old Dorwart Street	17,160	15,000	2,160
120 Filbert Street	41,840	32,000	9,840
321 North Concord Street	42,500	4,600	37,900
607 Saint Joseph Street	38,000	35,000	3,000
547 Woodward Street	8,700	6,200	2,500
622 South Lime Street	22,360	20,000	2,360
423 Lancaster Avenue	105,000	56,924	48,076
237 South West End Avenue	80,600	76,000	4,600
418 Lafayette Street	20,240	17,000	3,240
628 North Christian Street	22,500	5,000	17,500
527 North Plum Street	80,000	42,000	38,000
827 East Walnut Street	82,000	76,000	6,000
Additional Allocations	2,411	79,007	(76,596)
	<u>\$ 826,482</u>	<u>\$ 721,523</u>	<u>\$ 104,959</u>

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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 \$788,586 under this grant agreement during the year ended December 31, 2018.

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, 2018, \$999,999 was received under this grant agreement for reimbursement of debt service requirements.

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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, 2018, a shortfall of \$1 was recognized in change 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

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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. The Redevelopment Authority has entered into a contract with remaining commitments in the amount of approximately \$6,600,000 and has agreed to reimburse PSP for project related costs incurred to date in the amount of \$3,495,130. 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, 2018 was \$206,000 and \$154,500 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, 2018, the Redevelopment Authority recognized interest income from the underlying capital lease in the amount of \$1,248,934 and received base rent cash flow in the amount of \$3,119,728. These funds

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were utilized to make principal payments in the amount of \$2,009,456 and interest payments in the amount of \$1,107,272.

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

Component Unit

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, 2018:

City of Lancaster	\$	164,931
Lancaster County		39,800
School District of Lancaster		<u>318,781</u>
Total	\$	<u><u>523,512</u></u>

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. Construction on the public urban park area began during the year ended December 31, 2018. The total amount paid for construction and design during the year ended December 31, 2018 was \$150,733.

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NOTES TO FINANCIAL STATEMENTS

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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, 2018, the Redevelopment Authority made the required annual payment totaling \$360,500, of which \$260,500 was paid to the City and \$100,000 was paid to the Convention Center Authority.

As of December 31, 2018, the remaining PILOT payments to be received by the City in accordance with the agreement are as follows:

2019	\$ 271,315
2020	282,454
2021	343,928
2022	405,746
2023	417,918
2024-2028	2,285,350
2029	<u>499,016</u>
	<u>\$ 4,505,727</u>

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.

CITY OF LANCASTER, PENNSYLVANIA

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A reconciliation of the interfund receivables and payables at December 31, 2018 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 12,351,680	\$ -
Non-major governmental funds	-	3,000,000
Proprietary funds:		
Sewer Fund	-	4,019,725
Water Fund	1,500,000	5,512,022
Other Enterprise Funds	-	1,319,933
	<u>\$ 13,851,680</u>	<u>\$ 13,851,680</u>

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 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, 2018 are as follows:

	Interfund Transfers In	Interfund Transfers Out
Governmental funds:		
General Fund	\$ 4,011,846	\$ 5,455,148
Non-major governmental funds	5,466,075	196,080
Proprietary funds:		
Water Fund	-	4,000,000
Other Enterprise Funds	173,307	-
	<u>\$ 9,651,228</u>	<u>\$ 9,651,228</u>

CITY OF LANCASTER, PENNSYLVANIA

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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 2018.

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, 2018, the City, through a non-major governmental fund, entered into contracts with construction contractors totaling \$12,585,533. The commitment remaining on the contracts at December 31, 2018 was \$8,935,123.

During the years ended December 31, 2015 through 2018, 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 \$24,424,301. The commitment remaining on the contracts at December 31, 2018 was \$3,953,824.

During the years ended December 31, 2015 through 2018, the Water Fund contracted to make necessary capital improvements to the water system. As a result of this, the City

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entered into contracts with construction contractors totaling \$10,353,726. The commitment remaining on the contracts at December 31, 2018 was \$3,135,031.

During the year ended December 31, 2018, the Stormwater Fund, an other enterprise fund, entered into contracts with construction contractors totaling \$4,879,258. The commitment remaining on the contracts at December 31, 2018 was \$2,108,029.

Guarantee

The City is guarantor of the outstanding revenue bonds of the Parking Authority. As of December 31, 2018, the outstanding bonds amounted to \$20,370,000. 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 PSP. 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018.

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, 2018, there were bonds and notes issued and outstanding of \$130,406,200.

Parking Authority

In 2007, the Parking Authority entered into a lease agreement with PSP. The lease provides PSP 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.

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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, 2018:

Property	Accrued Loss
423 North Pine Street	\$ 55,000
156 Juniata Avenue	8,500
12 Coral Street	7,730
	<u>\$ 71,230</u>

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

As of December 31, 2018, LanCity Connect Fund (other governmental fund) had a deficit in fund balance of \$1,788,422.

As of December 31, 2018, LOOP (other enterprise fund) had a deficit in net position totaling \$70,457. When LOOP was initially established, it was 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). Over a period of years, it proved difficult to fully fund LOOP operations as originally intended through contributions and corporate sponsorships. With the opening of the City Visitor Center in July 2016, the mission of LOOP as an organization had changed significantly since its establishment. Due to these and other factors, the LOOP Board of Directors approved the dissolution of LOOP and this was finalized on February 28, 2018 when the dissolution when LOOP's Articles of Dissolution-Domestic were approved by the Pennsylvania Bureau of Corporations and Charitable Organizations.

As of December 31, 2018, Stormwater Fund (other enterprise fund) had a deficit in net position totaling \$2,287,237.

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In 2014, the City 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. The SWMF rates were increased in both 2018 and 2019, improving the operating budget results and cash flow position of the SWMF.

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 PA Public Utility Commission (PUC) approved a rate increase for outside City sewer customers in April 2013 for an annualized revenue increase of \$399,000. The City is filing for another PUC rate increase in July 2019. Following the conclusion of this rate case, both inside City and outside City sewer rates will be increased accordingly.

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 2019 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 a bulk sewer treatment expense dispute similar to the East Lampeter Township bulk sewer dispute. In early July 2018, City administration and LASA officials began meeting to resolve the ongoing billing dispute and negotiate the terms of a bulk sewer agreement amendment outside of the arbitration process. As of June 30, 2019, negotiations are ongoing with the City's bulk sewer partners on a comprehensive bulk sewer agreement amendment. It is currently anticipated that the amendment will be finalized and adopted by the City and all bulk sewer partners prior to the end of calendar year 2019. To date, LASA has paid the City \$4,800,000 in good-faith payments to move the negotiations to a positive outcome.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 in late 2019 or early 2020 for an outside City customer water rate increase. Following the conclusion of that rate case, inside City rates would be increased accordingly.

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). The refinancing savings have been a significant factor in the reduction of the Water Fund negative unrestricted net position by more than \$6,000,000 since December 31, 2015.

In 2018, the City's financial statements also incorporated, for the first time, the requirements of GASB Statement No. 75 that requires the long-term costs of employee OPEB to be included in determining the net position of the City. GASB Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. The restated net position clearly reveals the long-term cost of providing OPEB to City employees.

The unrestricted net positions of the City's enterprise funds would have improved over the prior year were it not for the incorporation of GASB Statement No. 75. GASB Statement No. 75 requirements resulted in the Sewer, Water, and Other Enterprise Funds' OPEB liabilities increasing compared to 2017 year-end and in the addition of nearly \$8.8 million in deferred inflows of resources for OPEB.

22. Subsequent Events

Primary Government

During 2019, the City borrowed \$2,000,000 in the form of a Tax and Revenue Anticipation Note, Series of 2019, bearing interest at a fixed interest rate of 3.25%. The full amount borrowed was repaid in March of 2019. The maximum principal amount of the Tax and Revenue Anticipation Note, Series of 2019 was \$6,000,000.

In February 2019, the City issued General Obligation Bonds, Series of 2019, in the aggregate amount of \$22,140,000. Bond proceeds are to be used for the current refunding of the

CITY OF LANCASTER, PENNSYLVANIA

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City's outstanding General Obligation Notes, Series of 2009. The bonds bear interest at 5.00% until maturity on May 1, 2029. The principal will be allocated as follows: \$7,120,000 to General Fund, \$7,070,000 to Sewer Fund, and \$7,950,000 to Water Fund.

Component Units

Parking Authority

Subsequent to December 31, 2018, the Parking Authority no longer manages Central Garage. Parking management revenue for managing Central Garage totaled \$368,806 for the year ended December 31, 2018.

During the year ended December 31, 2018, the Parking Authority and the CRIZ entered into a contract whereby the CRIZ agreed to grant \$1,000,000 to the Parking Authority for the purchase of property at 151 North Queen Street. In April 2019, the CRIZ's board approved to increase funding by an additional \$200,000 for the property purchase. The property purchase is for the purpose of constructing a building which will house the Lancaster Public Library, retail space, and an approximately 300-space public parking garage. In addition to funding the property purchase, the contract also provides up to 100% of the annual increment created by the tenants of 101 North Queen Street, the Hotel Lancaster, and tenants of the retail space of the project to the Parking Authority to pay future debt service payments on one or more bonds to be issued by the Parking Authority in order to construct the building. Such CRIZ payments shall continue until the future bonds are retired or the Commonwealth of Pennsylvania City Revitalization and Improvement Zone program ends, whichever is first to occur. The CRIZ reasonably estimates that upon completion of the project, the amount of the annual increment to be received by the Parking Authority shall be \$2,000,000. On or before October 30 of each year, the CRIZ shall certify in writing to the Parking Authority the amount of the annual increment that the Authority shall receive for that year.

In April 2019, the Parking Authority purchased the property at 151 North Queen Street in the amount of \$1,150,000. Upon purchase, the CRIZ transferred \$1,200,000 to the Parking Authority to assist with the property purchase and settlement costs.

Redevelopment Authority

Following the process described in Note 3, subsequent to December 31, 2018, the Redevelopment Authority purchased the City's 2018 delinquent real estate taxes. The Redevelopment Authority drew down approximately \$997,000 on its line of credit (Note 7)

CITY OF LANCASTER, PENNSYLVANIA

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to finance the purchase price of approximately \$958,000 payable to the City and the related transaction costs.

In June 2019, the Redevelopment Authority transferred the North Queen Street Parking Garage (as described in Note 17) to the Parking Authority for \$3,000,000. This transfer is financed through a non-interest-bearing promissory note between the Redevelopment Authority and the Parking Authority, payable in twenty annual installments of \$150,000 commencing one year after the date of the promissory note. Upon the signing of the promissory note, the Redevelopment Authority and City entered into an Agreement whereby the Redevelopment Authority will assign all loan payments received from the Parking Authority to the City for the entirety of the promissory note term. The garage will be transferred at its net book value, which was \$8,480,089 as of December 31, 2018. The Redevelopment Authority is expected to retain the related debt for the garage (as described in Note 10) and would continue to service the debt through TIF revenues (as described in Note 17) based on the projected structure of the transfer agreement.



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

	2018*	2017*	2016*	2015*	2014*
Total Pension Liability:					
Service cost	\$ 703,268	\$ 669,779	\$ 701,974	\$ 668,547	\$ 646,693
Interest	4,374,735	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	(3,591,266)	(3,726,084)	(4,162,059)	(3,517,597)	(3,163,900)
Net Changes in Total Pension Liability	1,486,737	(1,089,532)	633,425	455,391	1,302,851
Total Pension Liability - Beginning	52,076,472	53,166,004	52,532,579	52,077,188	50,774,337
Total Pension Liability - Ending (a)	\$ 53,563,209	\$ 52,076,472	\$ 53,166,004	\$ 52,532,579	\$ 52,077,188
Plan Fiduciary Net Position:					
Contributions - employer	\$ 2,315,107	\$ 2,257,853	\$ 2,153,346	\$ 2,059,043	\$ 1,623,658
Contributions - employees	284,272	274,034	288,150	290,678	293,263
Net investment income (loss)	(2,327,495)	4,556,627	2,547,826	531,376	3,312,384
Benefit payments, including refunds	(3,591,266)	(3,726,084)	(4,162,059)	(3,517,597)	(3,163,900)
Administrative expenses	(26,631)	(8,700)	(6,380)	(32,701)	(5,690)
Net Change in Plan Fiduciary Net Position	(3,346,013)	3,353,730	820,883	(669,201)	2,059,715
Plan Fiduciary Net Position - Beginning	42,548,834	39,195,104	38,374,221	39,043,422	36,983,707
Plan Fiduciary Net Position - Ending (b)	\$ 39,202,821	\$ 42,548,834	\$ 39,195,104	\$ 38,374,221	\$ 39,043,422
Net Pension Liability - Ending (a-b)	\$ 14,360,388	\$ 9,527,638	\$ 13,970,900	\$ 14,158,358	\$ 13,033,766
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.19%	81.70%	73.72%	73.05%	74.97%
Covered Payroll	\$ 4,947,462	\$ 4,822,392	\$ 4,832,626	\$ 4,521,715	\$ 4,122,312
Net Pension Liability as a Percentage of Covered Payroll	290.26%	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

	2018*	2017*	2016*	2015*	2014*
Total Pension Liability:					
Service cost	\$ 1,782,287	\$ 1,697,416	\$ 1,811,305	\$ 1,725,052	\$ 1,755,477
Interest	7,437,735	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	(5,594,950)	(5,264,907)	(4,752,979)	(4,176,983)	(3,828,043)
Net Changes in Total Pension Liability	3,625,072	6,270,104	3,731,901	3,310,849	4,045,067
Total Pension Liability - Beginning	93,986,872	87,716,768	83,984,867	80,674,018	76,628,951
Total Pension Liability - Ending (a)	\$ 97,611,944	\$ 93,986,872	\$ 87,716,768	\$ 83,984,867	\$ 80,674,018
Plan Fiduciary Net Position:					
Contributions - employer	\$ 3,104,156	\$ 2,996,610	\$ 2,814,350	\$ 2,748,596	\$ 2,439,350
Contributions - employees	617,420	621,225	699,760	636,599	723,981
Net investment income (loss)	(3,800,159)	7,547,203	4,172,859	809,462	5,207,899
Benefit payments, including refunds	(5,594,950)	(5,264,907)	(4,752,979)	(4,176,983)	(3,828,043)
Administrative expenses	(30,552)	(4,170)	(26,100)	(11,344)	(4,540)
Net Change in Plan Fiduciary Net Position	(5,704,085)	5,895,961	2,907,890	6,330	4,538,647
Plan Fiduciary Net Position - Beginning	71,294,600	65,398,639	62,490,749	62,484,419	57,945,772
Plan Fiduciary Net Position - Ending (b)	\$ 65,590,515	\$ 71,294,600	\$ 65,398,639	\$ 62,490,749	\$ 62,484,419
Net Pension Liability - Ending (a-b)	\$ 32,021,429	\$ 22,692,272	\$ 22,318,129	\$ 21,494,118	\$ 18,189,599
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.20%	75.86%	74.56%	74.41%	77.45%
Covered Payroll	\$ 11,716,931	\$ 11,562,299	\$ 10,995,284	\$ 10,972,837	\$ 10,707,385
Net Pension Liability as a Percentage of Covered Payroll	273.29%	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

	2018*	2017*	2016*	2015*	2014*
Total Pension Liability:					
Service cost	\$ 645,808	\$ 617,998	\$ 569,268	\$ 542,160	\$ 533,032
Interest	1,342,427	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	(1,179,643)	(727,961)	(473,019)	(934,559)	(595,063)
Net Changes in Total Pension Liability	808,592	1,324,007	1,265,240	520,116	986,658
Total Pension Liability - Beginning	17,843,039	16,519,032	15,253,792	14,733,676	13,747,018
Total Pension Liability - Ending (a)	\$ 18,651,631	\$ 17,843,039	\$ 16,519,032	\$ 15,253,792	\$ 14,733,676
Plan Fiduciary Net Position:					
Contributions - employer	\$ 1,097,191	\$ 1,050,161	\$ 931,774	\$ 900,704	\$ 697,517
Net investment income (loss)	(585,458)	1,419,263	722,581	139,124	854,651
Benefit payments, including refunds	(1,179,643)	(727,961)	(473,019)	(934,559)	(595,063)
Administrative expenses	(36,559)	(28,655)	(26,770)	(27,730)	(24,140)
Net Change in Plan Fiduciary Net Position	(704,469)	1,712,808	1,154,566	77,539	932,965
Plan Fiduciary Net Position - Beginning	13,685,428	11,972,620	10,818,054	10,740,515	9,807,550
Plan Fiduciary Net Position - Ending (b)	\$ 12,980,959	\$ 13,685,428	\$ 11,972,620	\$ 10,818,054	\$ 10,740,515
Net Pension Liability - Ending (a-b)	\$ 5,670,672	\$ 4,157,611	\$ 4,546,412	\$ 4,435,738	\$ 3,993,161
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.60%	76.70%	72.48%	70.92%	72.90%
Covered Payroll	\$ 16,675,240	\$ 16,203,075	\$ 15,105,036	\$ 14,312,665	\$ 13,618,505
Net Pension Liability as a Percentage of Covered Payroll	34.01%	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

	2018*	2017*	2016*	2015*
Total Pension Liability:				
Service cost	\$ 97,605	\$ 69,238	\$ 64,414	\$ 34,602
Interest	75,453	72,523	71,493	70,961
Benefit payments, including refunds	(107,021)	(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	66,037	86,402	19,787	(29,343)
Total Pension Liability - Beginning	1,400,517	1,314,115	1,294,328	1,323,671
Total Pension Liability - Ending (a)	<u>1,466,554</u>	<u>\$ 1,400,517</u>	<u>\$ 1,314,115</u>	<u>\$ 1,294,328</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 19,000	\$ 20,875	\$ 5,112	\$ 7,687
Contributions - employees	47,920	31,547	24,532	16,561
Net investment income (loss)	247,783	143,577	(43,585)	104,945
Benefit payments, including refunds	(107,021)	(123,976)	(119,340)	(137,991)
Administrative expenses	(4,314)	(4,590)	(3,948)	(3,843)
Net Change in Plan Fiduciary Net Position	203,368	67,433	(137,229)	(12,641)
Plan Fiduciary Net Position - Beginning	1,414,632	1,347,199	1,484,428	1,497,069
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,618,000</u>	<u>\$ 1,414,632</u>	<u>\$ 1,347,199</u>	<u>\$ 1,484,428</u>
Net Pension Liability (Asset) - Ending (a-b)	<u>\$ (151,446)</u>	<u>\$ (14,115)</u>	<u>\$ (33,084)</u>	<u>\$ (190,100)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>110.3%</u>	<u>101.0%</u>	<u>102.5%</u>	<u>114.7%</u>
Covered Payroll	<u>\$ 910,049</u>	<u>\$ 696,471</u>	<u>\$ 697,602</u>	<u>\$ 396,954</u>
Net Pension Liability (Asset) as a Percentage of Covered Payroll	<u>-16.64%</u>	<u>-2.03%</u>	<u>-4.74%</u>	<u>-47.89%</u>

* 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

	2018*	2017 *	2016 *	2015 *	2014 *	2013	2012	2011	2010	2009
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 2,315,107	\$ 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
Contributions in relation to the actuarially determined contribution	<u>2,315,107</u>	<u>2,257,853</u>	<u>2,153,346</u>	<u>2,059,043</u>	<u>1,623,658</u>	<u>1,623,453</u>	<u>1,075,765</u>	<u>1,154,230</u>	<u>1,183,751</u> (1)	<u>1,002,631</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (115,000)</u>	<u>\$ -</u>
Covered payroll	<u>\$ 4,947,462</u>	<u>\$ 4,822,392</u>	<u>\$ 4,832,626</u>	<u>\$ 4,521,715</u>	<u>\$ 4,122,312</u>					
Contributions as a percentage of covered payroll	46.79%	46.82%	44.56%	45.54%	39.39%					

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

Investment Returns	
Annual money-weighted rate of return, net of investment expense	-5.60% 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

	2018*	2017 *	2016 *	2015 *	2014 *	2013	2012	2011	2010	2009
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 3,104,156	\$ 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
Contributions in relation to the actuarially determined contribution	3,104,156	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
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (970,000)	\$ -
Covered payroll	\$ 11,716,931	\$ 11,562,299	\$ 10,995,284	\$ 10,972,837	\$ 10,707,385					
Contributions as a percentage of covered payroll	26.49%	25.92%	25.60%	25.05%	22.78%					

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

Investment Returns	
Annual money-weighted rate of return, net of investment expense	-5.47%

* 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

	2018*	2017 *	2016 *	2015 *	2014 *	2013	2012	2011	2010	2009
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 1,097,191	\$ 1,050,161	\$ 931,774	\$ 900,704	\$ 697,516	\$ 658,895	\$ 516,512	\$ 504,280	\$ 499,125	\$ 475,248
Contributions in relation to the actuarially determined contribution	<u>1,097,191</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 16,675,240</u>	<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 payroll	6.58%	6.48%	6.17%	6.29%	5.12%					
Investment Returns										
Annual money-weighted rate of return, net of investment expense	-4.41%	12.15%	6.86%	1.23%	8.89%					

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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

	2018*	2017 *	2016 *	2015 *	2014	2013	2012	2011	2010	2009
Actuarially determined contribution under Act 205	\$ 18,720	\$ 20,835	\$ 5,032	\$ 6,907	\$ 2,736	\$ 14,139	\$ 13,371	\$ 10,008	\$ 5,479	\$ 7,369
Contribution in relation to the actuarially determined contribution	<u>19,000</u>	<u>20,875</u>	<u>5,112</u>	<u>7,687</u>	<u>2,736</u>	<u>14,139</u>	<u>13,371</u>	<u>10,008</u>	<u>5,479</u>	<u>7,369</u>
Contribution deficiency (excess)	<u>\$ (280)</u>	<u>\$ (40)</u>	<u>\$ (80)</u>	<u>\$ (780)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 910,049</u>	<u>\$ 696,471</u>	<u>\$ 697,602</u>	<u>\$ 396,954</u>						
Contributions as a percentage of covered payroll	2.09%	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.

CITY OF LANCASTER, PENNSYLVANIA

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

CITY OF LANCASTER, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

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 CBPP 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, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

Component Units

Lancaster Parking Authority

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, 2017 (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%
Post-retirement 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 - OPEB PLAN

	2018*	2017*
Total OPEB Liability:		
Service cost	\$ 6,922,393	\$ 6,592,755
Interest	4,886,806	4,638,834
Benefit payments	(3,860,539)	(3,594,807)
Changes for experience	(36,654,434)	-
Changes of assumptions	(4,953,863)	-
Net Changes in Total OPEB Liability	(33,659,637)	7,636,782
Total OPEB Liability - Beginning	149,326,775	141,689,993
Total OPEB Liability - Ending (a)	\$ 115,667,138	\$ 149,326,775
Plan Fiduciary Net Position:		
Contributions - employer	\$ 3,860,539	\$ 3,594,807
Net investment income	-	-
Benefit payments	(3,860,539)	(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)	\$ 115,667,138	\$ 149,326,775
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%

* 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 PLAN

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

	2018*	2017*
Total OPEB Liability:		
Service cost	\$ 978,590	\$ 931,990
Interest	619,303	583,655
Benefit payments	(435,122)	(440,716)
Changes for experience	(4,747,005)	-
Changes of assumptions	(1,348,338)	-
Net Changes in Total OPEB Liability	(4,932,572)	1,074,929
Total OPEB Liability - Beginning	18,793,489	17,718,560
Total OPEB Liability - Ending (a)	\$ 13,860,917	\$ 18,793,489
Plan Fiduciary Net Position:		
Contributions - employer	\$ 1,340,156	\$ 1,354,601
Net investment income	79,521	23,346
Benefit payments	(435,122)	(440,716)
Administrative expense	(23,751)	(19,549)
Net Change in Plan Fiduciary Net Position	960,804	917,682
Plan Fiduciary Net Position - Beginning	4,919,522	4,001,840
Plan Fiduciary Net Position - Ending (b)	\$ 5,880,326	\$ 4,919,522
Net OPEB Liability - Ending (a-b)	\$ 7,980,591	\$ 13,873,967
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	42.42%	26.18%

* 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 - OPEB plan.

CITY OF LANCASTER

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN

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

	2018*	2017*
Total OPEB Liability:		
Service cost	\$ 509,182	\$ 484,935
Interest	320,534	302,702
Benefit payments	(264,372)	(231,564)
Changes for experience	(2,974,945)	-
Changes of assumptions	(537,672)	-
Net Changes in Total OPEB Liability	(2,947,273)	556,073
Total OPEB Liability - Beginning	9,745,524	9,189,451
Total OPEB Liability - Ending (a)	<u>\$ 6,798,251</u>	<u>\$ 9,745,524</u>
Plan Fiduciary Net Position:		
Contributions - employer	\$ 365,769	\$ 335,755
Net investment income	8,124	2,340
Benefit payments	(264,372)	(231,564)
Administrative expense	(2,421)	(1,948)
Net Change in Plan Fiduciary Net Position	107,100	104,583
Plan Fiduciary Net Position - Beginning	498,659	394,076
Plan Fiduciary Net Position - Ending (b)	<u>\$ 605,759</u>	<u>\$ 498,659</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 6,192,492</u>	<u>\$ 9,246,865</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>8.91%</u>	<u>5.12%</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 - 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

	2018*	2017*
Actuarially determined contribution	\$ 3,860,539	\$ 3,594,807
Contributions in relation to the actuarially determined contribution	3,860,539	3,594,807
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>

Investment Returns

Annual money-weighted rate of return, net of investment expense	N/A	N/A
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OPEB WATER PLAN:

Schedule of City Contributions

Actuarially determined contribution	\$ 1,340,156	\$1,354,601
Contributions in relation to the actuarially determined contribution	1,340,156	1,354,601
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>

Investment Returns

Annual money-weighted rate of return, net of investment expense	1.47%	0.52%
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OPEB SEWER PLAN:

Schedule of City Contributions

Actuarially determined contribution	\$ 365,769	\$335,755
Contributions in relation to the actuarially determined contribution	365,769	335,755
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>

Investment Returns

Annual money-weighted rate of return, net of investment expense	1.48%	0.52%
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* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - OPEB plan.

CITY OF LANCASTER

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB PLANS

1. Actuarial Methods and Assumptions

The information presented in the required supplementary information was determined as part of the actuarial valuations at December 31, 2018. Methods and assumptions used to determine contribution rates are as follows:

Actuarial valuation date	1/1/2018
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions:	
Interest rate	3.66%
Salary increases	5% per year for uniformed employees and 4.5% per year for nonuniformed employees
Medical inflation	6.0% in 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 25 years of service with mandatory retirement at age 60.

Changes in Actuarial Assumptions

The interest rate was increased from 3.17% to 3.66% in the January 1, 2018 actuarial valuation. In addition, salary increases changed from 5% per year for nonuniformed employees to 4.5% per year in the January 1, 2018 actuarial valuation.

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, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
Real estate taxes, net of discount	\$ 27,620,000	\$ 27,620,000	\$ 27,856,586	\$ 236,586
Real estate transfer tax	1,000,000	1,000,000	1,988,642	988,642
Penalties, interest, and costs on delinquent real estate taxes	110,000	110,000	112,816	2,816
Earned income tax	6,270,000	6,270,000	6,354,555	84,555
Local services tax	1,700,000	1,700,000	1,688,981	(11,019)
Total taxes	36,700,000	36,700,000	38,001,580	1,301,580
Intergovernmental revenues:				
Grants	17,500	17,500	15,542	(1,958)
PA state reimbursement	35,000	35,000	-	(35,000)
Pension state aid	2,950,001	2,950,001	2,918,254	(31,747)
Public utility reality tax	37,000	37,000	36,331	(669)
Alcohol beverage tax	33,000	33,000	36,050	3,050
Total intergovernmental revenues	3,072,501	3,072,501	3,006,177	(66,324)
Licenses and permits	2,130,000	2,130,000	2,465,904	335,904
Fines and forfeitures	1,850,000	1,850,000	2,264,096	414,096
Rents and charges for services	1,298,000	1,298,000	1,408,503	110,503
Investment income	300	300	3,567	3,267
Miscellaneous	2,635,941	2,635,941	2,343,108	(292,833)
Other financing sources:				
Interfund reimbursements	2,794,269	2,794,269	2,892,625	98,356
Sale of general capital assets	25,000	25,000	43,349	18,349
Transfers in	4,000,000	4,000,000	4,011,846	11,846
Total other financing sources	6,819,269	6,819,269	6,947,820	128,551
Total revenues and other financing sources	\$ 54,506,011	\$ 54,506,011	\$ 56,440,755	\$ 1,934,744

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, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Executive department:				
Office of the Mayor	\$ 242,030	\$ 294,490	\$ 292,320	\$ 2,170
Office of the City Solicitor	375,000	447,540	401,577	45,963
	<u>617,030</u>	<u>742,030</u>	<u>693,897</u>	<u>48,133</u>
Legislative department:				
Office of the City Council	69,700	69,700	63,538	6,162
Office of the City Clerk	81,982	81,980	73,799	8,181
	<u>151,682</u>	<u>151,680</u>	<u>137,337</u>	<u>14,343</u>
Office of the City Treasurer/Controller	<u>17,000</u>	<u>17,000</u>	<u>17,000</u>	<u>-</u>
Administrative services:				
Bureau of Accounting	890,717	859,214	805,848	53,366
Bureau of Procurement and Collections	91,174	98,607	88,370	10,237
Bureau of Human Resources	322,185	320,385	300,947	19,438
Bureau of Information Services	758,547	727,247	605,093	122,154
Community Involvement	685,656	796,156	786,136	10,020
Insurance	648,000	648,000	579,750	68,250
Fringe benefits	2,591,687	2,562,257	2,223,397	338,860
	<u>5,987,966</u>	<u>6,011,866</u>	<u>5,389,541</u>	<u>622,325</u>
Public safety:				
Bureau of Police	23,879,458	23,849,107	22,994,795	854,312
Bureau of Fire	11,459,247	11,415,699	11,323,597	92,102
	<u>35,338,705</u>	<u>35,264,806</u>	<u>34,318,392</u>	<u>946,414</u>
Economic development and neighborhood revitalization:				
Office of the Director	2,044,919	2,027,848	1,868,400	159,448
Bureau of Neighborhood Assistance	780,442	785,804	757,907	27,897
Bureau of Housing and Structural Inspection	474,513	481,772	462,800	18,972
Bureau of Planning	275,129	279,579	266,689	12,890
	<u>3,575,003</u>	<u>3,575,003</u>	<u>3,355,796</u>	<u>219,207</u>
Public works:				
Office of the Director	1,293,771	1,267,345	1,308,843	(41,498)
Bureau of Engineering	578,448	582,106	588,226	(6,120)
Bureau of Streets:				
Administration	405,170	397,074	395,587	1,487
Maintenance	560,266	554,328	612,531	(58,203)
Traffic	978,415	1,006,811	1,054,810	(47,999)
Motor Vehicles	263,187	263,890	261,589	2,301
Bureau of Parks:				
Administration	140,100	162,155	159,759	2,396
Buildings	1,241,731	1,258,913	1,250,676	8,237
Parks	589,469	578,739	586,360	(7,621)
Trees	207,288	206,041	201,121	4,920
Central Market building	95,780	89,174	89,141	33
Southern Market building	31,000	18,050	-	18,050
	<u>6,384,625</u>	<u>6,384,626</u>	<u>6,508,643</u>	<u>(124,017)</u>
Other financing uses:				
Transfers out	5,413,690	5,413,690	5,411,689	2,001
Total expenditures and other financing uses	<u>\$ 57,485,701</u>	<u>\$ 57,560,701</u>	<u>\$ 55,832,295</u>	<u>\$ 1,728,406</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2018

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

	<u>Appropriation</u>	<u>Expenditures</u>
Public works:		
Office of the Director	\$ 1,267,345	\$ 1,308,843
Bureau of Engineering	582,106	588,226
Bureau of Streets - Maintenance	554,328	612,531
Bureau of Streets - Traffic	1,006,811	1,054,810
Bureau of Parks - Parks	578,739	586,360

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



SUPPLEMENTARY
INFORMATION

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULE OF NET COST OF OPERATIONS OF THE CITY SEWER SYSTEM

YEAR ENDED DECEMBER 31, 2018

Direct Expenses and Costs:

City Bureau of Sewers (Administration - 880)	\$ 1,994,370
Collection system (881)	1,423,660
Sewage pumping stations (882)	1,327,345
Sewage treatment plants (883)	4,688,705
Sewage grounds maintenance (884)	21,225
	<hr/>
	9,455,305
Allowance per contracts for indirect expenses and costs (\$9,455,305 x 5.0%)	<hr/>
	472,765
	<hr/>
	9,928,070
	<hr/>
Less reimbursements (as defined in agreements):	
Miscellaneous	303,267
Industrial waste surcharge	578,727
Management and operation service fee	150,605
	<hr/>
	1,032,599
	<hr/>
Net Cost of Operations of the City Sewer System	\$ 8,895,471
	<hr/>

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULE OF DIRECT EXPENSES AND COSTS

YEAR ENDED DECEMBER 31, 2018

City Bureau of Sewers (Administration - 880):

Salaries and wages	\$ 259,212
Consultant and contract services	197,552
Training	18,896
Uniforms	11,154
Telephone	34,465
Insurance package	165,771
Miscellaneous expense	24,349
Fringe benefits	1,282,971
	<hr/>
	1,994,370

Collection System (881):

Salaries and wages	861,326
Vehicle maintenance	106,299
Gasoline and oil	54,200
Miscellaneous expenses	401,835
	<hr/>
	1,423,660

Sewage Pumping Stations (882):

Salaries and wages	801,757
Equipment maintenance	67,587
Building maintenance	1,937
Fuel	17,836
Power	426,296
Miscellaneous expenses	11,932
	<hr/>
	1,327,345

Sewage Treatment Plants (883):

Salaries and wages	848,192
Chemicals and laboratory supplies	548,308
Equipment maintenance	403,004
Vehicle maintenance	11,867
Gasoline, oil, and fuel	70,900
Water utility expense	129,461
Power	1,001,564
Building maintenance	39,941
Sludge disposal	1,507,042
Miscellaneous expenses	128,426
	<hr/>
	4,688,705

Sewer Grounds Maintenance (884):

Salaries and wages	5,990
Operating equipment	12,225
Fringe benefits	3,010
	<hr/>
	21,225

Total Direct Expenses and Costs

\$ 9,455,305

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULE OF COST OF TREATING EACH 1,000 GALLONS OF SEWAGE

YEAR ENDED DECEMBER 31, 2018

Net cost of operation of the City of Lancaster sewer system	\$ 8,895,471
Number of units of 1,000 gallons of sewage treated per records of the City of Lancaster (unaudited)	<u>8,605,240</u>
Net Cost of Treating 1,000 Gallons of Sewage (unaudited)	<u><u>\$ 1.0337</u></u>