

City of Lancaster, Pennsylvania

Financial Statements and Required Supplementary Information

Year Ended December 31, 2019 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis i

Basic Financial Statements:

Statement of Net Position	1
Statement of Activities	3
Balance Sheet – Governmental Funds	5
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	6
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Balance Sheet – Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Statement of Net Position – Fiduciary Funds	14
Statement of Changes in Net Position – Fiduciary Funds	15
Balance Sheet – Component Units	16
Statement of Activities – Component Units	18
Notes to Financial Statements	20

CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

(Continued)

Required Supplementary Information:

Schedule of Changes in Fire Pension Plan's Net Pension Liability and Related Ratios	131
Schedule of Changes in Police Pension Plan's Net Pension Liability and Related Ratios	132
Schedule of Changes in Cash Balance Pension Plan's Net Pension Liability and Related Ratios	133
Schedule of Changes in Parking Authority Pension Plan's Net Pension Liability (Asset) and Related Ratios	134
Schedule of City Contributions and Investment Returns – Fire Pension Plan	135
Schedule of City Contributions and Investment Returns – Police Pension Plan	136
Schedule of City Contributions and Investment Returns – Cash Balance Pension Plan	137
Schedule of Parking Authority Contributions and Investment Returns	138
Note to Required Supplementary Information – Pension Plans	139
Schedule of Changes in the City's Net OPEB Liability and Related Ratios – OPEB Plan	142
Schedule of Changes in the City's Net OPEB Liability and Related Ratios – Water OPEB Plan	143
Schedule of Changes in the City's Net OPEB Liability and Related Ratios – Sewer OPEB Plan	144
Schedule of City Contributions and Investment Returns – OPEB Plans	145
Note to Required Supplementary Information – OPEB Plans	146

CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

(Continued)

Budgetary Comparison Schedule – General Fund – Schedule of Revenues and Other Financing Sources	148
Budgetary Comparison Schedule – General Fund – Schedule of Expenditures and Other Financing Uses	149
Notes to Required Supplementary Information – Budgetary Comparison Schedule	150

Supplementary Information:

Schedule of Net Cost of Operations of the City Sewer System	151
Schedule of Direct Expenses and Costs	152
Schedule of Cost of Treating Each 1,000 Gallons of Sewage	153

Independent Auditor's Report

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

We have audited the accompanying financial statements of the 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, 2019, 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 51 percent, -7 percent, and 63 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, 2019, 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 Principles

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *"Fiduciary Activities,"* which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported.

As described in Note 1 to the financial statements, the City adopted GASB Statement No. 89, *"Accounting for Interest Costs Incurred Before the end of a Construction Period,"* which provides more relevant information about capital assets and the cost of borrowing for a reporting period.

Our opinion is not modified with respect to these matters.

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

Other 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 August 27, 2020, 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 27, 2020



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, 2019 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 2019, the liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources by \$69.542 million. The City's net position increased by \$.007 million (.011 percent) during the fiscal year. The governmental activities net position increased by \$1.778 million (1.280 percent) and the business-type activities net position decreased by \$1.771 million (2.552 percent).
- At the close of 2019, the City's governmental funds reported a combined ending fund balance of \$31.682 million, a decrease of \$5.728 million (15.311 percent). Of this amount, approximately \$17.344 million is legally restricted and/or unavailable to spend, and \$13.255 million is committed and/or assigned for designated projects, leaving \$1.083 million available for spending at the government's discretion (unassigned fund balance).
- The City's total outstanding bonded debt decreased by \$8.604 million (2.380 percent) during the current fiscal year to \$352.936 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, community planning and economic development, 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 custodial 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, 2019 by approximately \$69.542 million.

Statement of Net Position

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$50,783	\$53,210	\$79,208	\$117,827	\$129,991	\$171,037
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	81,723	76,389	314,988	282,604	396,711	358,993
Deferred Charge on Refunding, Pensions, and OPEB	21,864	16,108	10,339	7,309	32,203	23,417
Total Assets & Deferred Outflows of Resources	154,370	145,707	404,535	407,740	558,905	553,447
Current and Other Liabilities	5,820	5,225	9,172	8,406	14,992	13,631
Long-Term Liabilities	250,852	242,423	319,923	321,011	570,775	563,434
Deferred Inflows for Pensions and OPEB	34,867	37,006	7,813	8,926	42,680	45,932
Total Liabilities & Deferred Inflows of Resources	291,539	284,654	336,908	338,343	628,447	622,997
Net Position						
Invested in Capital Assets, Net of Related Debt	39,009	39,615	91,662	95,887	130,671	135,502
Restricted	4,612	3,989	3,302	3,961	7,914	7,950
Unrestricted	(180,790)	(182,551)	(27,337)	(30,451)	(208,127)	(213,002)
Total Net Position	(\$137,169)	(\$138,947)	\$67,627	\$69,397	(\$69,542)	(\$69,550)

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

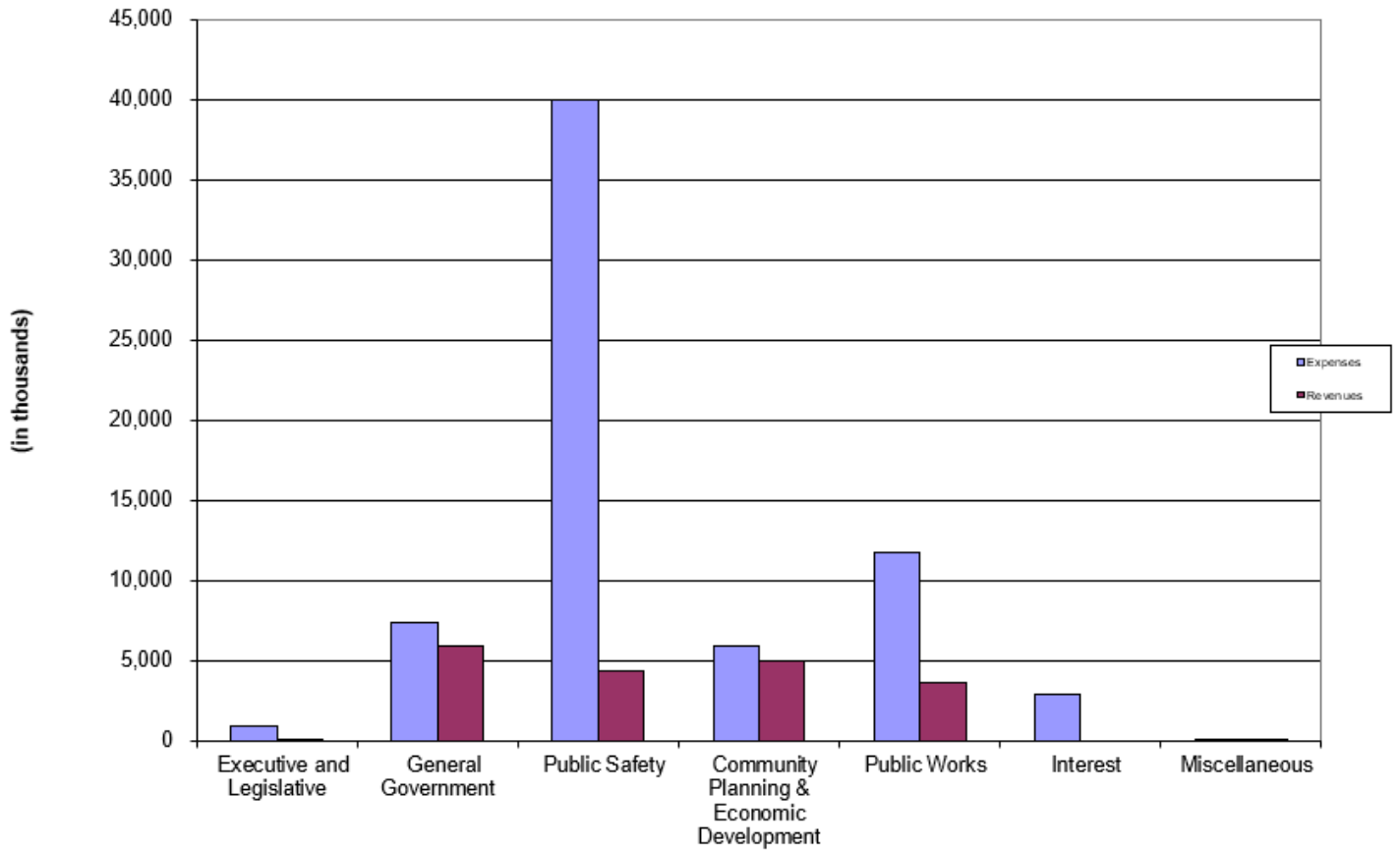
Table A-2 Changes in Net Position Resulting from Changes in Revenues and Expenses (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Charges for Services	\$9,149	\$9,264	\$51,252	\$54,192	\$60,401	\$63,456
Operating & Capital Grants and Contributions	9,857	10,780	2,618	3,715	12,475	14,495
General Revenues:						
Property Taxes	30,607	28,008	-	-	30,607	28,008
Earned Income Tax	6,645	6,355	-	-	6,645	6,355
LST	1,648	1,689	-	-	1,648	1,689
Other Taxes	1,377	1,989	-	-	1,377	1,989
Miscellaneous	4,577	3,454	1,482	439	6,059	3,893
Intra-entity transfer	3,000	-	-	-	3,000	-
Total Revenues	66,860	61,539	55,352	58,346	122,212	119,885
Expenses						
Governmental Activities:						
Executive and Legislative	921	851	-	-	921	851
General Government	7,427	6,342	-	-	7,427	6,342
Public Safety	39,945	40,018	-	-	39,945	40,018
Community Planning & Economic Development	5,889	7,359	-	-	5,889	7,359
Public Works	11,770	10,346	-	-	11,770	10,346
Interest	2,873	2,603	-	-	2,873	2,603
Miscellaneous	113	73	-	-	113	73
Business-Type Activities						
Sewer	-	-	19,339	20,793	19,339	20,793
Water	-	-	25,037	23,400	25,037	23,400
Solid Waste & Recycling, LOOP, & Stormwater Mgmt	-	-	8,890	7,598	8,890	7,598
Total Expenses	68,938	67,592	53,266	51,791	122,204	119,383
Excess (Deficiency) Before Transfers	(2,078)	(6,053)	2,086	6,555	8	502
Transfers	3,856	3,827	(3,856)	(3,827)	-	-
Increase (Decrease) in Net Position	1,778	(2,226)	(1,770)	2,728	8	502
Net Position - Beginning of Year	(138,947)	(136,721)	69,397	66,669	(69,550)	(70,052)
Net Position - End of Year	<u>(\$137,169)</u>	<u>(\$138,947)</u>	<u>\$67,627</u>	<u>\$69,397</u>	<u>(\$69,542)</u>	<u>(\$69,550)</u>

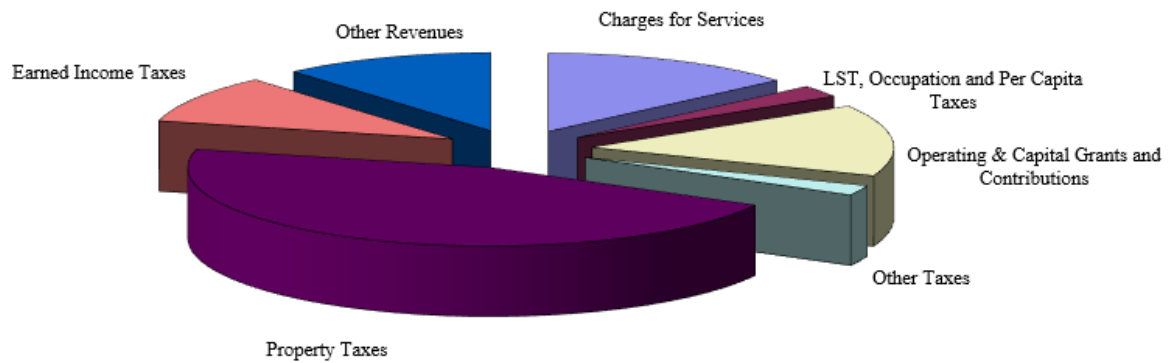
The City's total net position increased by \$.008 million in 2019.

Governmental Activities

Expenses and Program Revenues - Governmental Activities - 2019



Revenues by Source - Governmental Activities - 2019

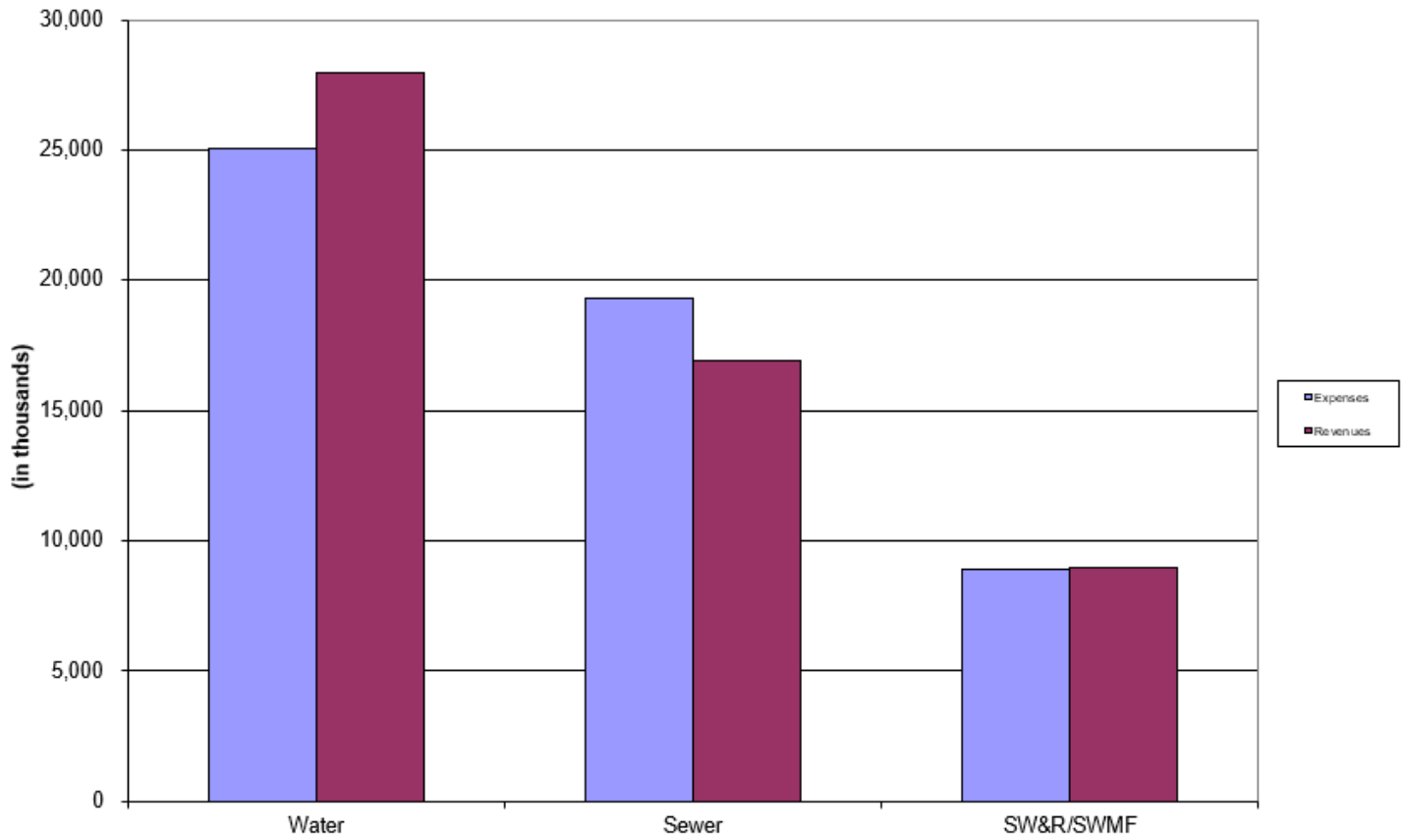


Governmental activities. Governmental activities increased the City's net position by \$1.778 million. In 2019, total revenues for governmental activities were \$66.860 million, \$5.321 million or 8.647 percent higher than 2018. Total expenses for governmental activities, which were \$68.938 million, were \$1.346 million or 1.991 percent higher than 2018. The increase in net position is mainly due to the \$3 million note receivable due from the Lancaster Parking Authority, as discussed in Note 8 to the financial statements.

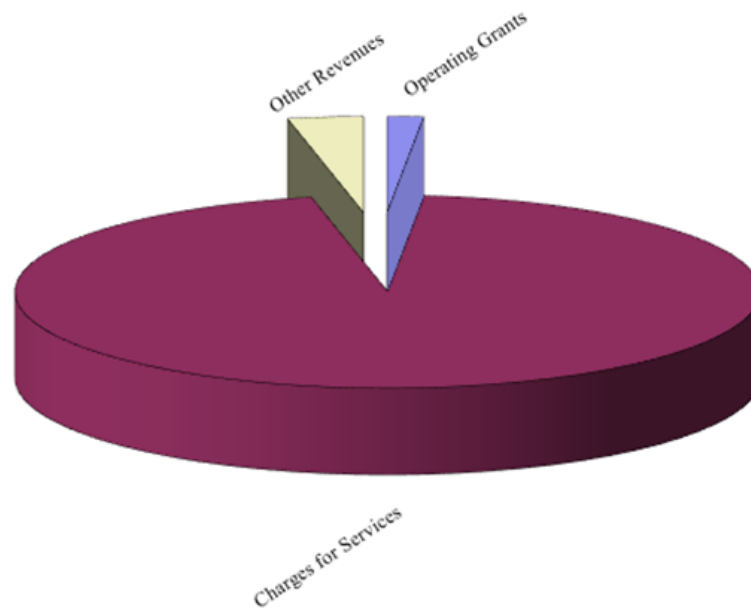
The charts on the previous page present the City's governmental expenses by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by public works, general government, and community planning and economic development. General revenues such as property, 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 - 2019



Revenues by Source - Business-Type Activities - 2019



Business-Type activities. Business-type activities decreased the City's net position by \$1.771 million to \$67.627 million, a decrease of 2.552 percent. Charges for services in the business-type activities decreased \$2.667 million from the prior year due in part to delinquent municipality payments received for prior bulk treatment billings during the prior year. Operating and Capital Grants and Contribution revenue decreased by \$1.097 million, a decrease of 29.529 percent, primarily due to decreased capital grants and construction project activity from 2018. Expenses for water, sewer, LOOP, solid waste and recycling, and stormwater management operations increased \$1.475 million, or 2.848 percent from 2018 due primarily to an increase in expenses in the Water Fund.

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, the 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 \$31.682 million. Approximately \$1.083 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 (\$.051 million), 2) restricted for particular purposes (\$17.292 million), 3) committed for particular purposes (\$.664 million), or 4) assigned for particular purposes (\$12.592 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 \$67.919 million. Net position of the LOOP, Stormwater, and Solid Waste and Recycling Funds increased by \$.387 million. Net position of the Water and Sewer Funds decreased by \$.490 million and \$1.774 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 custodial and private-purpose trust funds. The total net position of the combined fiduciary funds is \$157.443 million. The City's employee pension plans and OPEB trusts represent 99.8 percent of that amount. During 2019, the net position of the Pension and OPEB Trust Funds increased by \$23.883 million to \$157.146 million. The change is related to the appreciation of investments compared to 2018.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget contained \$60.946 million in appropriations, and \$58.496 million in estimated revenues, with \$2.450 million of required resources coming from the unassigned fund balance. Overall, revenues were higher than anticipated by \$2.110 million. Key factors for the increase are as follows:

- Real estate transfer taxes were \$0.327 million over budget due to the improving economic health of the City.
- Fines and forfeitures were \$0.329 million over budget due in part to the Lancaster Parking Authority enforcement of all parking regulations of the City.
- Sale of general capital assets were \$0.448 million over budget due in part to the receipt of \$1 million for the sale of the public works operations center.

Expenditures in comparison to budget were reduced in virtually all operating departments by administrative actions, including 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, 2019 amounts to \$396.760 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 2019, the City expended \$3.313 million on ADA ramps and street improvements, \$2.293 million on the new public works operation center, \$1.696 on pedestrian scale streetlights, and \$1.598 million on streetlights.

During 2019, the business-type activities had the following additions:

- \$ 6.342 million sewer system additions
- \$ 31.535 million water system additions
- \$ 2.419 stormwater system additions

Debt administration. At the end of 2019, the City had \$352.936 million outstanding bonded debt, compared to \$361.540 million in 2018. More detailed information about the City's long-term debt is presented in Note 10 to the financial statements.

In 2019, the City issued general obligation bonds, Series of 2019, in the aggregate amount of \$22,140,000. The proceeds of the bond issuance were used to currently refund the general obligation notes, Series of 2009. The debt service on these bonds is paid by the General, Sewer, and Water Funds.

ECONOMIC CONDITION AND OUTLOOK

Through 2019, the City of Lancaster continued to thrive as the economic, cultural, and social hub of Lancaster County and has been 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 2019 revenues from each of those two sources continuing to experience strong growth for the fourth 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 the plan was adopted. The community has made remarkable progress toward the 2030 Building on Strength goals since the

plan's launch in 2015. Over half a billion dollars of privately led investment is completed or in the construction phase, with an additional \$287 million anticipated. Nearly two-thirds of the desired 300 new hotel rooms have been built. This includes the summer 2019 opening of the new East Tower at the Lancaster Marriott at Penn Square and the Holiday Inn Lancaster. In 2019, the City continued to experience high levels of construction and renovation activity with more than 2,700 building permits (another new 10+ year high) issued for projects worth a total of more than \$270,000,000. 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.

The COVID-19 pandemic has presented new and unique fiscal challenges to all levels of government. While the City has not been an exception, several years of General Fund surpluses have allowed it to grow its fund balance to over \$15 million by the end of 2019 or nearly 25% of the 2020 General Fund budget. This reserve will help the City weather the fiscal impacts of the COVID-19 pandemic. Additionally, even during the pandemic, the City has continued to see new commercial and residential development proposals that would add hundreds of new residential units in the City and help to grow the City's tax base. 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, 2019

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Assets and Deferred Outflows of Resources					
Assets:					
Cash and cash equivalents	\$ 9,644,859	\$ 285,038	\$ 9,929,897	\$ 7,959,164	\$ 17,889,061
Cash and cash equivalents - restricted	12,698,332	74,214,916	86,913,248	3,173,085	90,086,333
Investments	462,447	-	462,447	1,255,264	1,717,711
Investments - restricted	5,103	-	5,103	32,254,229	32,259,332
Receivables (net of allowance for uncollectibles):					
Taxes	3,569,558	-	3,569,558	449,713	4,019,271
Accounts	472,475	10,540,609	11,013,084	1,026,182	12,039,266
Notes	7,888,153	-	7,888,153	3,341,832	11,229,985
Investment income	65,451	-	65,451	-	65,451
Other	-	238,460	238,460	2,055,970	2,294,430
Internal balances	8,074,343	(8,074,343)	-	-	-
Accrued interest	-	-	-	437,546	437,546
Prepaid expenses	50,538	829,485	880,023	214,206	1,094,229
Lease rental receivable	-	-	-	48,849,632	48,849,632
Due from other governments	3,660,167	53,441	3,713,608	5,502,784	9,216,392
Due from component unit	1,141,105	-	1,141,105	-	1,141,105
Note receivable due from component unit	3,000,000	-	3,000,000	-	3,000,000
Deposits on property	-	-	-	3,355	3,355
Prepaid debt insurance	-	1,120,224	1,120,224	201,880	1,322,104
Properties held for resale	-	-	-	676,959	676,959
Capital assets, not being depreciated	9,277,310	25,031,224	34,308,534	9,788,963	44,097,497
Capital assets, being depreciated, net	72,495,531	289,956,303	362,451,834	22,523,507	384,975,341
Total Assets	132,505,372	394,195,357	526,700,729	139,714,271	666,415,000
Deferred Outflows of Resources:					
Deferred outflows of resources for pensions	4,665,910	499,688	5,165,598	196,458	5,362,056
Deferred outflows of resources for other post-employment benefits	15,860,458	3,892,468	19,752,926	-	19,752,926
Deferred charge on refunding	1,337,863	5,947,103	7,284,966	977,269	8,262,235
Total Deferred Outflows of Resources	21,864,231	10,339,259	32,203,490	1,173,727	33,377,217
Total Assets and Deferred Outflows of Resources	\$ 154,369,603	\$ 404,534,616	\$ 558,904,219	\$ 140,887,998	\$ 699,792,217

(Continued)

Liabilities, Deferred Inflows of Resources, and Net Position	Primary Government			Component	
	Governmental Activities	Business-type Activities	Total	Units	Total
Liabilities:					
Accounts payable	\$ 3,406,883	\$ 6,697,113	\$ 10,103,996	\$ 1,219,854	\$ 11,323,850
Accrued salaries and benefits	1,218,310	341,418	1,559,728	59,972	1,619,700
Accrued expenses	441,395	1,697,423	2,138,818	3,349,167	5,487,985
Line of credit	-	-	-	543,918	543,918
Due to primary government	-	-	-	1,247,094	1,247,094
Unearned revenue	444,500	277,207	721,707	14,142,728	14,864,435
Contingent liability from property resettlements	-	-	-	93,000	93,000
Other liabilities	308,754	159,146	467,900	-	467,900
Long-term liabilities:					
Portion due or payable within one year:					
Long-term obligations	1,141,592	515,485	1,657,077	-	1,657,077
Due to other governments	47,743	4,024,861	4,072,604	-	4,072,604
Due to lessee	-	-	-	412,725	412,725
Convention Center Authority obligation	-	-	-	100,000	100,000
Note payable due to primary government	-	-	-	150,000	150,000
Notes payable	473,800	654,128	1,127,928	218,000	1,345,928
Bonds payable	2,695,000	5,800,000	8,495,000	4,559,017	13,054,017
Portion due or payable after one year:					
Long-term obligations	3,375,214	994,576	4,369,790	-	4,369,790
Net pension liability	36,528,198	2,094,907	38,623,105	94,828	38,717,933
Net other post-employment benefits liability	137,756,085	19,530,857	157,286,942	-	157,286,942
Due to lessee	-	-	-	1,013,537	1,013,537
Convention Center Authority obligation	-	-	-	50,000	50,000
Note payable due to primary government	-	-	-	2,850,000	2,850,000
Notes payable	4,296,622	7,841,204	12,137,826	3,088,333	15,226,159
Bonds payable	64,537,992	278,466,389	343,004,381	95,619,008	438,623,389
Total Liabilities	256,672,088	329,094,714	585,766,802	128,811,181	714,577,983
Deferred Inflows of Resources:					
Deferred inflows of resources for pensions	5,599,232	497,634	6,096,866	52,491	6,149,357
Deferred inflows of resources for other post-employment benefits	29,267,504	7,315,537	36,583,041	-	36,583,041
Refundable advances	-	-	-	10,015	10,015
Total Deferred Inflows of Resources	34,866,736	7,813,171	42,679,907	62,506	42,742,413
Net Position:					
Net investment in capital assets	39,008,917	91,662,307	130,671,224	10,570,374	141,241,598
Restricted for:					
Capital acquisition	-	3,302,353	3,302,353	-	3,302,353
Community planning and economic development	3,339,310	-	3,339,310	-	3,339,310
Public works	1,113,888	-	1,113,888	-	1,113,888
Parks and recreation	158,651	-	158,651	-	158,651
Human relations commission	250	-	250	-	250
Debt service	-	-	-	1,613,478	1,613,478
Unrestricted	(180,790,237)	(27,337,929)	(208,128,166)	(169,541)	(208,297,707)
Total Net Position	(137,169,221)	67,626,731	(69,542,490)	12,014,311	(57,528,179)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 154,369,603	\$ 404,534,616	\$ 558,904,219	\$ 140,887,998	\$ 699,792,217

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

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	\$ 771,430	\$ -	\$ 11,000	\$ -
Legislative department	133,147	-	-	-
Office of the City Treasurer/Controller	17,000	-	-	-
General government	7,427,092	3,220,545	2,490,059	174,600
Public safety	39,944,966	3,372,414	838,756	133,980
Community planning and economic development	5,888,813	2,427,857	2,540,058	53,968
Public works	11,769,927	76,616	2,097,507	1,454,640
Miscellaneous	112,770	51,313	62,527	-
Interest	2,872,834	-	-	-
Total governmental activities	68,937,979	9,148,745	8,039,907	1,817,188
Business-type activities:				
Sewer	19,338,835	15,652,574	195,153	1,049,736
Water	25,037,767	26,966,608	287,272	720,002
Other enterprise funds	8,889,631	8,632,793	366,282	-
Total business-type activities	53,266,233	51,251,975	848,707	1,769,738
Total Primary Government	\$ 122,204,212	\$ 60,400,720	\$ 8,888,614	\$ 3,586,926
Component Units:				
Lancaster Industrial Development Authority	\$ 24,357	\$ 55,810	\$ -	\$ -
Lancaster Recreation Commission	4,037,353	3,511,774	475,356	-
The Parking Authority of the City of Lancaster	8,575,932	9,322,721	-	1,489,897
Redevelopment Authority of the City of Lancaster	7,701,206	1,191,248	2,226,117	-
Lancaster Downtown Investment District Authority	463,761	401,008	73,661	-
City of Lancaster Land Bank Authority	20,801	-	-	-
City of Lancaster City Revitalization and Improvement Zone Authority	3,687,122	35,068	7,154,797	-
Total Component Units	\$ 24,510,532	\$ 14,517,629	\$ 9,929,931	\$ 1,489,897
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				
Intra-entity transfers				
Transfers				
Total general revenues and transfers				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

Net (Expenses) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
\$ (760,430)	\$ -	\$ (760,430)	\$ -	\$ (760,430)
(133,147)	-	(133,147)	-	(133,147)
(17,000)	-	(17,000)	-	(17,000)
(1,541,888)	-	(1,541,888)	-	(1,541,888)
(35,599,816)	-	(35,599,816)	-	(35,599,816)
(866,930)	-	(866,930)	-	(866,930)
(8,141,164)	-	(8,141,164)	-	(8,141,164)
1,070	-	1,070	-	1,070
(2,872,834)	-	(2,872,834)	-	(2,872,834)
(49,932,139)	-	(49,932,139)	-	(49,932,139)
-	(2,441,372)	(2,441,372)	-	(2,441,372)
-	2,936,115	2,936,115	-	2,936,115
-	109,444	109,444	-	109,444
-	604,187	604,187	-	604,187
(49,932,139)	604,187	(49,327,952)	-	(49,327,952)
-	-	-	31,453	31,453
-	-	-	(50,223)	(50,223)
-	-	-	2,236,686	2,236,686
-	-	-	(4,283,841)	(4,283,841)
-	-	-	10,908	10,908
-	-	-	(20,801)	(20,801)
-	-	-	3,502,743	3,502,743
-	-	-	1,426,925	1,426,925
30,606,633	-	30,606,633	-	30,606,633
1,376,778	-	1,376,778	-	1,376,778
6,645,381	-	6,645,381	-	6,645,381
1,648,207	-	1,648,207	-	1,648,207
3,190,372	-	3,190,372	-	3,190,372
438,215	1,481,358	1,919,573	3,603,571	5,523,144
948,645	-	948,645	-	948,645
3,000,000	-	3,000,000	(3,000,000)	-
3,856,372	(3,856,372)	-	-	-
51,710,603	(2,375,014)	49,335,589	603,571	49,939,160
1,778,464	(1,770,827)	7,637	2,030,496	2,038,133
(138,947,685)	69,397,558	(69,550,127)	9,983,815	(59,566,312)
\$ (137,169,221)	\$ 67,626,731	\$ (69,542,490)	\$ 12,014,311	\$ (57,528,179)

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2019

	General Fund	Capital Projects	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 4,137,369	\$ 142,889	\$ -	\$ 4,265,318	\$ 8,545,576
Cash and cash equivalents - restricted	100,000	12,598,332	-	-	12,698,332
Investments	-	-	-	462,447	462,447
Investments - restricted	5,103	-	-	-	5,103
Receivables (net of allowance for uncollectibles):					
Taxes	3,569,558	-	-	-	3,569,558
Accounts	358,488	62,982	-	2,729	424,199
Investment income	-	-	-	65,451	65,451
Due from other funds	10,781,780	600,000	-	-	11,381,780
Due from other governments	429,514	983,337	-	2,247,316	3,660,167
Due from component units	1,141,105	-	-	-	1,141,105
Prepaid expenditures	50,538	-	-	-	50,538
Total Assets	\$ 20,573,455	\$ 14,387,540	\$ -	\$ 7,043,261	\$ 42,004,256
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities:					
Accounts payable	\$ 646,152	\$ 1,496,931	\$ -	\$ 202,536	\$ 2,345,619
Due to other funds	600,000	-	-	3,000,000	3,600,000
Due to other governments	47,523	-	-	220	47,743
Accrued salaries and benefits	1,213,224	-	-	5,086	1,218,310
Unearned revenue	126,456	210,000	-	228,044	564,500
Other liabilities	308,754	-	-	-	308,754
Workers' compensation liability	349,145	-	-	-	349,145
Total Liabilities	3,291,254	1,706,931	-	3,435,886	8,434,071
Deferred Inflows of Resources:					
Unavailable revenue - taxes	1,237,078	-	-	-	1,237,078
Unavailable revenue - fines, forfeitures, and other	651,459	-	-	-	651,459
Total Deferred Inflows of Resources	1,888,537	-	-	-	1,888,537
Fund Balance:					
Nonspendable:					
Prepaid expenditures	50,538	-	-	-	50,538
Restricted for:					
Capital acquisition	-	12,680,609	-	-	12,680,609
Community planning and economic development	-	-	-	3,339,310	3,339,310
Public works	-	-	-	1,113,888	1,113,888
Parks and recreation	-	-	-	158,651	158,651
Human relations commission	-	-	-	250	250
Committed for:					
Economic and community development	-	-	-	663,690	663,690
Assigned for:					
2020 budget	2,991,221	-	-	-	2,991,221
Fire station construction project	3,000,000	-	-	-	3,000,000
Debt service	5,850,000	-	-	-	5,850,000
Excess workers' compensation expenditures	750,000	-	-	-	750,000
Unassigned	2,751,905	-	-	(1,668,414)	1,083,491
Total Fund Balance	15,393,664	12,680,609	-	3,607,375	31,681,648
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 20,573,455	\$ 14,387,540	\$ -	\$ 7,043,261	\$ 42,004,256

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, 2019

Total Fund Balance - Governmental Funds	\$	31,681,648
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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.		81,772,841
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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.		2,008,537
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Notes receivable are long-term in nature and are not available to pay current period expenditures and, therefore, are not reported in the funds.		10,888,153
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Deferred charges on refunding resulting from the issuance of debt are not financial resources and, therefore, are not reported in the funds.		1,337,863
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Long-term liabilities applicable to 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	\$ (67,232,992)	
General obligation notes	(4,770,422)	
Accrued interest on general obligation bonds and notes	(441,395)	
Capital leases	(2,165,446)	
Compensated absences payable	(1,380,164)	
Workers' compensation liability	(622,051)	
Net pension liability, net of related deferred outflows and inflows of resources	(37,461,520)	
Net other post-employment benefits liability, net of related deferred outflows and inflows of resources	<u>(151,163,131)</u>	(265,237,121)

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	86,295	
Adjustment related to proprietary funds	<u>292,563</u>	<u>378,858</u>

Total Net Position - Governmental Activities	\$	<u><u>(137,169,221)</u></u>
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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, 2019

	General Fund	Capital Projects	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 40,135,087	\$ -	\$ -	\$ -	\$ 40,135,087
Intergovernmental revenues	3,360,279	-	-	6,911,607	10,271,886
Licenses and permits	2,304,723	-	-	-	2,304,723
Fines and forfeitures	2,128,646	-	-	-	2,128,646
Rents and charges for services	1,391,395	-	-	49,153	1,440,548
Program income	-	-	-	793,280	793,280
Investment income	51,145	224,456	-	94,815	370,416
Miscellaneous	2,654,415	2,023	-	122,527	2,778,965
Total revenues	52,025,690	226,479	-	7,971,382	60,223,551
Expenditures:					
Executive department	747,117	-	-	24,313	771,430
Legislative department	133,147	-	-	-	133,147
Office of the City Treasurer/ Controller	17,000	-	-	-	17,000
General government	6,036,895	-	-	18,566	6,055,461
Public safety	36,349,477	738,077	-	559,675	37,647,229
Community planning and economic development	3,817,921	-	-	3,043,085	6,861,006
Public works	6,226,422	401,485	-	3,263,376	9,891,283
Miscellaneous	-	-	-	112,770	112,770
Capital outlay	-	7,717,922	-	-	7,717,922
Debt service:					
Principal	387,763	-	10,804,600	55,257	11,247,620
Interest	62,820	35,412	3,006,613	4,596	3,109,441
Total expenditures	53,778,562	8,892,896	13,811,213	7,081,638	83,564,309
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,752,872)	(8,666,417)	(13,811,213)	889,744	(23,340,758)
Other Financing Sources (Uses):					
Proceeds from issuance of debt	-	-	7,170,822	-	7,170,822
Interfund reimbursements	3,187,715	-	-	-	3,187,715
Capital leases	826,766	-	-	-	826,766
Sale of general capital assets	1,393,383	-	-	-	1,393,383
Transfers in	4,000,000	650,822	5,513,486	-	10,164,308
Transfers out	(6,110,476)	-	(50,822)	(146,638)	(6,307,936)
Original issue premium	-	-	1,177,727	-	1,177,727
Total other financing sources (uses)	3,297,388	650,822	13,811,213	(146,638)	17,612,785
Net Change in Fund Balance	1,544,516	(8,015,595)	-	743,106	(5,727,973)
Fund Balance:					
Beginning of year	13,849,148	20,696,204	-	2,864,269	37,409,621
End of year	\$ 15,393,664	\$ 12,680,609	\$ -	\$ 3,607,375	\$ 31,681,648

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, 2019

Net Change in Fund Balance - Governmental Funds \$ (5,727,973)

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. Capital contributions are not reported in governmental funds.

Depreciation expense	\$ (3,661,856)	
Capital contributions	174,600	
Capital outlay	<u>11,832,113</u>	8,344,857

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. (2,961,150)

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	11,247,620	
Issuance of bonds	(7,170,822)	
Premium on bonds	(1,177,727)	
Issuance of capital leases	<u>(826,766)</u>	2,072,305

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	(181,246)	
Change in workers' compensation liability	(91,993)	
Change in net pension liability, net of related deferred outflows and inflows of resources	(811,716)	
Change in net OPEB liability, net of related deferred outflows and inflows of resources	(1,846,630)	
Change in accrued interest on debt	(22,781)	
Amortization of debt premium	446,337	
Amortization of deferred charge on refunding	<u>(186,949)</u>	(2,694,978)

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	640,857	
Intra-entity notes receivable issued	3,000,000	
Principal payments received	(651,699)	
Change in allowance	(266,130)	
Sale proceeds	<u>500,000</u>	3,223,028

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	141,912	
Change in unavailable fines, forfeitures, and other revenue	<u>(109,391)</u>	32,521

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	(404,220)	
Adjustment related to proprietary funds	<u>(105,926)</u>	(510,146)

Change in Net Position - Governmental Activities \$ 1,778,464

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET PROPRIETARY FUNDS

DECEMBER 31, 2019

	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	\$ 284,738	\$ -	\$ 285,038	\$ 1,099,283
Cash and cash equivalents - restricted	25,632,217	39,445,114	9,137,585	74,214,916	-
Receivables (net of allowance for uncollectibles):					
Accounts	3,379,483	4,422,806	2,738,320	10,540,609	48,276
Other	180,642	8,467	49,351	238,460	-
Prepaid expenses	6,969	818,255	4,261	829,485	-
Total current assets	29,199,611	44,979,380	11,929,517	86,108,508	1,147,559
Long-term assets:					
Due from other funds	-	1,500,000	-	1,500,000	-
Due from other governments	53,441	-	-	53,441	-
Prepaid debt insurance	287,942	832,282	-	1,120,224	-
Capital assets, not being depreciated	2,038,192	22,612,025	381,007	25,031,224	-
Capital assets, being depreciated, net	113,245,638	168,511,759	8,198,906	289,956,303	-
Total long-term assets	115,625,213	193,456,066	8,579,913	317,661,192	-
Total Assets	144,824,824	238,435,446	20,509,430	403,769,700	1,147,559
Deferred Outflows of Resources:					
Deferred outflows of resources for pension	174,942	263,852	60,894	499,688	-
Deferred outflows of resources for other post-employment benefits	1,091,639	2,555,278	245,551	3,892,468	-
Deferred charge on refunding	426,256	5,520,847	-	5,947,103	-
Total Deferred Outflows of Resources	1,692,837	8,339,977	306,445	10,339,259	-
Total Assets and Deferred Outflows of Resources	\$ 146,517,661	\$ 246,775,423	\$ 20,815,875	\$ 414,108,959	\$ 1,147,559

(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	\$ 1,757,380	\$ 3,240,075	\$ 1,699,658	\$ 6,697,113	\$ -
Claims payable	-	-	-	-	1,061,264
Accrued salaries and benefits	102,761	176,247	62,410	341,418	-
Accrued expenses	380,336	1,237,359	79,728	1,697,423	-
Other liabilities	-	-	159,146	159,146	-
Due to other funds	4,053,477	4,800,000	428,303	9,281,780	-
Due to other governments	4,024,861	-	-	4,024,861	-
Unearned revenue	178,060	-	99,147	277,207	-
Compensated absences, current portion	28,288	23,772	5,510	57,570	-
Capital lease, current portion	193,890	93,460	170,565	457,915	-
Notes payable, current portion	261,244	41,200	351,684	654,128	-
Bonds payable, current portion	2,365,000	3,210,000	225,000	5,800,000	-
Total current liabilities	13,345,297	12,822,113	3,281,151	29,448,561	1,061,264
Long-term liabilities:					
Compensated absences	94,649	79,540	31,717	205,906	-
Workers' compensation liability	-	16,004	-	16,004	-
Net pension liability	708,390	1,162,586	223,931	2,094,907	-
Net other post-employment benefits liability	7,600,231	10,037,949	1,892,677	19,530,857	-
Capital lease	338,653	201,308	232,705	772,666	-
Notes payable	4,086,919	369,200	3,385,085	7,841,204	-
Bonds payable	57,343,946	209,132,585	11,989,858	278,466,389	-
Total long-term liabilities	70,172,788	220,999,172	17,755,973	308,927,933	-
Total Liabilities	83,518,085	233,821,285	21,037,124	338,376,494	1,061,264
Deferred Inflows of Resources:					
Deferred inflows of resources for pension	164,305	246,784	86,545	497,634	-
Deferred inflows of resources for other post-employment benefits	2,509,013	4,353,815	452,709	7,315,537	-
Total Deferred Inflows of Resources	2,673,318	4,600,599	539,254	7,813,171	-
Net Position:					
Net investment in capital assets	70,031,051	21,210,464	420,792	91,662,307	-
Restricted	3,302,353	-	-	3,302,353	-
Unrestricted	(13,007,146)	(12,856,925)	(1,181,295)	(27,045,366)	86,295
Total Net Position	60,326,258	8,353,539	(760,503)	67,919,294	86,295
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 146,517,661	\$ 246,775,423	\$ 20,815,875	\$ 414,108,959	\$ 1,147,559
Total net position of enterprise funds				\$ 67,919,294	
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.				(292,563)	
Net position of business-type activities				<u>\$ 67,626,731</u>	

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2019

	Enterprise Funds				Internal
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Service Fund
Operating Revenues:					
Charges for services	\$ 15,224,795	\$ 26,432,300	\$ 8,573,121	\$ 50,230,216	\$ 12,841,930
Miscellaneous	427,779	534,308	59,672	1,021,759	-
Total operating revenues	15,652,574	26,966,608	8,632,793	51,251,975	12,841,930
Operating Expenses:					
Sewage pumping stations	1,288,633	-	-	1,288,633	-
Susquehanna treatment plant	-	2,615,352	-	2,615,352	-
Conestoga treatment plant	-	2,234,511	-	2,234,511	-
Collection system	1,816,130	-	713,887	2,530,017	-
Hauling and tipping	-	-	3,192,117	3,192,117	-
Transmission and distribution	-	1,605,898	-	1,605,898	-
Meters and meter labor	-	619,426	-	619,426	-
Laboratory	-	295,467	-	295,467	-
Sewage treatment plant	5,019,297	-	-	5,019,297	-
Administration	4,235,546	5,550,138	2,250,463	12,036,147	-
Grounds maintenance	27,197	412,294	1,014,799	1,454,290	-
Street cleaning	-	-	635,458	635,458	-
Wastewater and green initiatives	-	-	102,395	102,395	-
Health insurance claims	-	-	-	-	12,574,378
Insurance premiums	-	-	-	-	672,473
Special events	-	-	258,404	258,404	-
Depreciation expense	4,018,508	3,692,914	249,318	7,960,740	-
Total operating expenses	16,405,311	17,026,000	8,416,841	41,848,152	13,246,851
Operating Income (Loss)	(752,737)	9,940,608	215,952	9,403,823	(404,921)
Nonoperating Revenues (Expenses):					
State pension contribution	195,153	287,272	92,904	575,329	-
Investment income	344,740	957,161	179,457	1,481,358	701
Intergovernmental revenue	-	-	273,378	273,378	-
Amortization expense	(18,662)	(52,709)	-	(71,371)	-
Interest expense	(2,592,151)	(8,341,923)	(518,562)	(11,452,636)	-
Total nonoperating revenues (expenses)	(2,070,920)	(7,150,199)	27,177	(9,193,942)	701
Income (loss) before transfers and capital contributions	(2,823,657)	2,790,409	243,129	209,881	(404,220)
Transfers in (out)	-	(4,000,000)	143,628	(3,856,372)	-
Capital contributions	1,049,736	720,002	-	1,769,738	-
Change in Net Position	(1,773,921)	(489,589)	386,757	(1,876,753)	(404,220)
Net Position:					
Beginning of year	62,100,179	8,843,128	(1,147,260)		490,515
End of year	\$ 60,326,258	\$ 8,353,539	\$ (760,503)		\$ 86,295
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds				105,926	
Changes in net position of business-type activities				\$ (1,770,827)	

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, 2019

	Enterprise Funds				Internal
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	Service Fund
Cash Flows From Operating Activities:					
Cash received from users	\$ 16,867,115	\$ 27,357,500	\$ 8,082,787	\$ 52,307,402	\$ 13,072,433
Cash paid to suppliers	(10,253,441)	(10,151,211)	(6,152,502)	(26,557,154)	(12,581,891)
Cash paid to employees	(3,075,561)	(4,648,356)	(1,662,153)	(9,386,070)	-
Net cash provided by operating activities	3,538,113	12,557,933	268,132	16,364,178	490,542
Cash Flows From Investing Activities:					
Investment income received	344,740	957,161	179,457	1,481,358	701
Net cash provided by investing activities	344,740	957,161	179,457	1,481,358	701
Cash Flows From Capital and Related Financing Activities:					
Principal payments on capital leases	(241,206)	(178,736)	(136,967)	(556,909)	-
Principal payments on notes payable	(7,873,645)	(8,800,400)	(348,223)	(17,022,268)	-
Principal payments on bonds payable	(1,935,000)	(1,370,000)	(45,000)	(3,350,000)	-
Proceeds from note payable	-	-	381,836	381,836	-
Proceeds from bond payable	7,869,116	9,062,931	-	16,932,047	-
Cash paid for debt issuance costs	(92,502)	(106,754)	-	(199,256)	-
Interest paid	(2,717,115)	(8,280,551)	(554,853)	(11,552,519)	-
Acquisition of capital assets	(6,240,335)	(29,141,225)	(1,579,509)	(36,961,069)	-
Net change in escrow deposits	92,938	-	159,146	252,084	-
Net cash used in capital and related financing activities	(11,137,749)	(38,814,735)	(2,123,570)	(52,076,054)	-
Cash Flows From Noncapital Financing Activities:					
Transfer in (out)	-	(4,000,000)	143,628	(3,856,372)	-
Due to (from) other funds	33,752	(712,022)	(891,630)	(1,569,900)	-
State pension contribution	195,153	287,272	92,904	575,329	-
Intergovernmental revenue	-	-	273,378	273,378	-
Net cash provided by (used in) noncapital financing activities	228,905	(4,424,750)	(381,720)	(4,577,565)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(7,025,991)	(29,724,391)	(2,057,701)	(38,808,083)	491,243
Cash and Cash Equivalents:					
Beginning of year	32,658,508	69,454,243	11,195,286	113,308,037	608,040
End of year	\$ 25,632,517	\$ 39,729,852	\$ 9,137,585	\$ 74,499,954	\$ 1,099,283

(Continued)

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2019
(Continued)

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ (752,737)	\$ 9,940,608	\$ 215,952	\$ 9,403,823	\$ (404,921)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	4,018,508	3,692,914	249,318	7,960,740	-
Amortization	(513,710)	(722,841)	(116,528)	(1,353,079)	-
(Increase) decrease in assets and deferred outflows of resources:					
Receivables	1,225,645	390,892	(550,006)	1,066,531	230,503
Due from other governments	(11,104)	-	-	(11,104)	-
Deferred outflows of resources for pension	(5,371)	(6,515)	16,597	4,711	-
Deferred outflows of resources for other post-employment benefits	(1,098,656)	(2,363,503)	(252,708)	(3,714,867)	-
Prepaid expenses	5,799	60,394	3,468	69,661	-
Increase (decrease) in liabilities and deferred inflows of resources:					
Accounts payable	(824,289)	(437,247)	265,949	(995,587)	-
Claims payable	-	-	-	-	664,960
Accrued expenses	13,890	25,104	6,326	45,320	-
Compensated absences	13,073	(1,608)	(4,485)	6,980	-
Workers' compensation liability	-	3,215	(9,724)	(6,509)	-
Net pension liability	(163,198)	(246,401)	(93,312)	(502,911)	-
Net other post-employment benefits liability	1,407,739	2,057,358	421,037	3,886,134	-
Deferred inflows of resources for pension	118,600	178,946	66,333	363,879	-
Deferred inflows of resources for other post-employment benefits	103,924	(13,383)	49,915	140,456	-
Total adjustments	4,290,850	2,617,325	52,180	6,960,355	895,463
Net cash provided by operating activities	<u>\$ 3,538,113</u>	<u>\$ 12,557,933</u>	<u>\$ 268,132</u>	<u>\$ 16,364,178</u>	<u>\$ 490,542</u>
Noncash Capital Financing Activities:					
Issuance of capital lease	<u>\$ 575,501</u>	<u>\$ 210,363</u>	<u>\$ 245,435</u>	<u>\$ 1,031,299</u>	<u>\$ -</u>
Developers' contribution	<u>\$ -</u>	<u>\$ 720,002</u>	<u>\$ -</u>	<u>\$ 720,002</u>	<u>\$ -</u>

(Concluded)

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

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2019

	Pension and OPEB Trust Funds	Private- Purpose Trust Funds	Custodial Fund
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ 1,405
Investments	156,789,784	297,332	-
Receivables:			
Accounts	-	-	55,407
Investment income	414,830	-	-
Total Assets	<u>157,204,614</u>	<u>297,332</u>	<u>56,812</u>
Liabilities			
Benefits payable	58,695	-	1,405
Other liabilities	-	-	55,407
Total Liabilities	<u>58,695</u>	<u>-</u>	<u>\$ 56,812</u>
Net Position			
Restricted for pension and OPEB benefits and other purposes	<u>\$ 157,145,919</u>	<u>\$ 297,332</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, 2019

	Pension and OPEB Trust Funds	Private- Purpose Trust Fund	Custodial Fund
Additions:			
Contributions:			
Employees	\$ 1,624,010	\$ -	\$ -
Employer	8,740,335	-	-
Total contributions	10,364,345	-	-
Taxes collected on behalf of the Lancaster Downtown Investment District	-	-	329,079
Investment income:			
Net appreciation in fair value of investments	21,922,726	48,361	-
Interest and dividends	4,051,317	-	-
Total investment income	25,974,043	48,361	-
Less: investment expenses	(550,824)	-	-
Net investment income	25,423,219	48,361	-
Total additions	35,787,564	48,361	329,079
Deductions:			
Benefits	11,809,107	5,165	-
Administrative expenses	95,165	-	-
Taxes remitted to the Lancaster Downtown Investment District	-	-	329,079
Total deductions	11,904,272	5,165	329,079
Change in Net Position	23,883,292	43,196	-
Net Position:			
Beginning of year	133,262,627	254,136	-
End of year	<u>\$157,145,919</u>	<u>\$ 297,332</u>	<u>\$ -</u>

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

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET COMPONENT UNITS

DECEMBER 31, 2019

	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	\$ 378,536	\$ 738,785	\$ 2,927,803	\$ 1,466,566	\$ 238,619	\$ 159,211	\$ 2,049,644	\$ 7,959,164
Cash and cash equivalents - restricted	-	-	-	3,173,085	-	-	-	3,173,085
Investments	-	-	450,184	-	-	805,080	-	1,255,264
Investments - restricted	-	-	32,254,229	-	-	-	-	32,254,229
Receivables (net of allowance for uncollectibles)								
Taxes	-	-	-	449,713	-	-	-	449,713
Accounts	-	187,156	827,117	-	11,909	-	-	1,026,182
Other	-	-	-	2,000,331	55,639	-	-	2,055,970
Accrued interest	-	-	-	437,546	-	-	-	437,546
Current portion:								
Lease rental receivable	-	-	-	4,721,266	-	-	-	4,721,266
Due from other governments	-	-	-	637,899	-	-	-	637,899
Deposits on property	-	-	-	-	-	3,355	-	3,355
Notes receivable	-	-	-	971,623	-	-	67,439	1,039,062
Properties held for resale	-	-	-	676,959	-	-	-	676,959
Prepaid expenses	-	-	212,727	-	1,479	-	-	214,206
Total current assets	378,536	925,941	36,672,060	14,534,988	307,646	967,646	2,117,083	55,903,900
Long-term assets:								
Lease rental receivable	-	-	-	44,128,366	-	-	-	44,128,366
Due from other governments	-	-	-	4,864,885	-	-	-	4,864,885
Notes receivable	200,000	-	-	670,209	-	-	1,432,561	2,302,770
Capital assets, not being depreciated	-	6,445	9,265,468	517,050	-	-	-	9,788,963
Capital assets, being depreciated, net	-	262,183	22,261,324	-	-	-	-	22,523,507
Prepaid debt insurance	-	-	201,880	-	-	-	-	201,880
Total long-term assets	200,000	268,628	31,728,672	50,180,510	-	-	1,432,561	83,810,371
Total Assets	578,536	1,194,569	68,400,732	64,715,498	307,646	967,646	3,549,644	139,714,271
Deferred Outflows of Resources:								
Deferred charge on refunding	-	-	977,269	-	-	-	-	977,269
Deferred outflows of resources for pension	-	-	196,458	-	-	-	-	196,458
Total Deferred Outflows of Resources	-	-	1,173,727	-	-	-	-	1,173,727
Total Assets and Deferred Outflows of Resources	\$ 578,536	\$ 1,194,569	\$ 69,574,459	\$ 64,715,498	\$ 307,646	\$ 967,646	\$ 3,549,644	\$ 140,887,998

(Continued)

* - As of April 30, 2019

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	City of Lancaster Land Bank Authority	City of Lancaster City Revitalization and Improvement Zone Authority	Total Component Units
Liabilities, Deferred Inflows of Resources, and Net Position								
Liabilities:								
Current liabilities:								
Accounts payable	\$ -	\$ 92,668	\$ 779,577	\$ 51,424	\$ 620	\$ 759	\$ 294,806	\$ 1,219,854
Accrued salaries and benefits	-	-	59,972	-	-	-	-	59,972
Accrued expenses	-	118,011	1,031,287	2,199,869	-	-	-	3,349,167
Line of credit	-	-	-	543,918	-	-	-	543,918
Due to primary government, current portion	-	-	467,036	780,058	-	-	-	1,247,094
Note payable due to primary government, current portion	-	-	150,000	-	-	-	-	150,000
Unearned revenue	-	-	140,930	2,248,490	11,800	-	-	2,401,220
Contingent liability from property resettlements	-	-	-	93,000	-	-	-	93,000
Due to lessee, current portion	-	-	-	412,725	-	-	-	412,725
Convention Center Authority obligation, current portion	-	-	-	100,000	-	-	-	100,000
Notes payable, current portion	-	-	-	218,000	-	-	-	218,000
Bonds payable, current portion	-	-	970,000	3,589,017	-	-	-	4,559,017
Total current liabilities	-	210,679	3,598,802	10,236,501	12,420	759	294,806	14,353,967
Long-term liabilities:								
Unearned revenue	-	-	-	11,741,508	-	-	-	11,741,508
Note payable due to primary government	-	-	2,850,000	-	-	-	-	2,850,000
Due to lessee	-	-	-	1,013,537	-	-	-	1,013,537
Convention Center Authority obligation	-	-	-	50,000	-	-	-	50,000
Net pension liability	-	-	94,828	-	-	-	-	94,828
Notes payable	-	-	-	3,088,333	-	-	-	3,088,333
Bonds payable	-	-	50,109,534	45,509,474	-	-	-	95,619,008
Total long-term liabilities	-	-	53,054,362	61,402,852	-	-	-	114,457,214
Total Liabilities	-	210,679	56,653,164	71,639,353	12,420	759	294,806	128,811,181
Deferred Inflows of Resources:								
Deferred inflows of resources for pension	-	-	52,491	-	-	-	-	52,491
Refundable advances	-	10,015	-	-	-	-	-	10,015
Total Deferred Inflows of Resources	-	10,015	52,491	-	-	-	-	62,506
Net Position:								
Net investment in capital assets	-	268,628	9,784,696	517,050	-	-	-	10,570,374
Restricted	-	-	-	1,613,478	-	-	-	1,613,478
Unrestricted	578,536	705,247	3,084,108	(9,054,383)	295,226	966,887	3,254,838	(169,541)
Total Net Position	578,536	973,875	12,868,804	(6,923,855)	295,226	966,887	3,254,838	12,014,311
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 578,536	\$ 1,194,569	\$ 69,574,459	\$ 64,715,498	\$ 307,646	\$ 967,646	\$ 3,549,644	\$ 140,887,998

(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, 2019

		Program Revenues		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Lancaster Industrial Development Authority	\$ 24,357	\$ 55,810	\$ -	\$ -
Lancaster Recreation Commission	4,037,353	3,511,774	475,356	-
The Parking Authority of the City of Lancaster	8,575,932	9,322,721	-	1,489,897
Redevelopment Authority of the City of Lancaster	7,701,206	1,191,248	2,226,117	-
Lancaster Downtown Investment District Authority *	463,761	401,008	73,661	-
City of Lancaster Land Bank Authority	20,801	-	-	-
City of Lancaster City Revitalization and Improvement Zone Authority	3,687,122	35,068	7,154,797	-
Total component units	<u>\$ 24,510,532</u>	<u>\$ 14,517,629</u>	<u>\$ 9,929,931</u>	<u>\$ 1,489,897</u>
General revenues:				
Investment earnings				
Intra-entity transactions				
Total general revenues				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

* - Year ended April 30, 2019

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
\$ 31,453	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,453
-	(50,223)	-	-	-	-	-	(50,223)
-	-	2,236,686	-	-	-	-	2,236,686
-	-	-	(4,283,841)	-	-	-	(4,283,841)
-	-	-	-	10,908	-	-	10,908
-	-	-	-	-	(20,801)	-	(20,801)
-	-	-	-	-	-	3,502,743	3,502,743
31,453	(50,223)	2,236,686	(4,283,841)	10,908	(20,801)	3,502,743	1,426,925
1,651	7,838	223,952	3,280,467	-	5,080	84,583	3,603,571
-	-	5,376,247	(8,376,247)	-	-	-	(3,000,000)
1,651	7,838	5,600,199	(5,095,780)	-	5,080	84,583	603,571
33,104	(42,385)	7,836,885	(9,379,621)	10,908	(15,721)	3,587,326	2,030,496
545,432	1,016,260	5,031,919	2,455,766	284,318	982,608	(332,488)	9,983,815
\$ 578,536	\$ 973,875	\$12,868,804	\$ (6,923,855)	\$ 295,226	\$ 966,887	\$ 3,254,838	\$ 12,014,311

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, community planning and economic development, 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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

- 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, 2019, 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, 2019

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, 2019, the City paid the Parking Authority \$171,688 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 \$1,554,417 for the year ended December 31, 2019. Of this amount, \$467,036 was outstanding and due to the City as of December 31, 2019.

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. On October 22, 2019, the City and the Parking Authority agreed to extend the Agreement for an additional three year period to December 31, 2022.

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, 2019

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, 2019

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Lancaster Higher Education Authority

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

Housing Authority of the City of Lancaster (Housing Authority)

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

Lancaster County Convention Center Authority (Convention Center Authority)

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

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

Lancaster Emergency Municipal Services Association (LEMSA)

The LEMSA Board consists of thirteen trustees, of which one is appointed by the City. LEMSA's mission is to provide comprehensive, skillful, cost-effective emergency and non-emergency health care services to the Lancaster community while continuing to evolve with changing health care needs. During the year ended December 31, 2019, the City contributed \$150,000 to LEMSA.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 funds:

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.

Capital Projects

This fund accounts for the acquisition, construction, and improvement of major general capital assets.

Debt Service Fund

This fund accounts for the accumulation of resources for, and payment of, interest and principal on general long-term debt and other long-term liabilities.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Additionally, the City reports the following fund types:

Internal Service Fund

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

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

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

Private-Purpose Trust Fund

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

Custodial Fund

This fund accounts 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 modified 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

and services. The Water and Sewer Funds also recognize, as operating revenue, the portion of tap fees intended to recover the cost of certain prior capital outlays. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Cash and Cash Equivalents

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

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

Investments

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

Loans Receivable

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

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-

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

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

Capital Assets

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

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

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

Useful lives are as follows:

General Fund and other enterprise funds capital assets:

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

Sewer Fund capital assets:

Sewer 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

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

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

Buildings	40 years
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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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

Property Taxes

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

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

In 2019, the City assessed 11.70 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 2019, the City's LERTA property tax abatements totaled \$270,742.

CRIZ Tax Revenue

The CRIZ receives tax revenue through state and local taxes. Currently, there are seven eligible state taxes and two out of four eligible local taxes used to calculate revenue, which is received from the State.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, the aggregate cost to the City for the accumulated compensatory time has been estimated at \$1,065,714 and \$167,838 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, 2019, the aggregate cost to the City for accumulated vested sick days has been estimated at \$108,950 and \$10,958 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, 2019, the aggregate cost to the City for accumulated vacation days has been estimated at \$205,500 and \$84,680 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, 2019

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) Statements

The requirements of the following GASB Statements were adopted for the financial statements:

GASB Statement No. 84, *"Fiduciary Activities,"* improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. As a result, the City reclassified its escrow accounts and payroll withholdings that had previously been reported as agency funds, to the appropriate governmental or proprietary funds.

GASB Statement No. 89, *"Accounting for Interest Cost Incurred Before the end of a Construction Period,"* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. As a result of adopting GASB Statement No. 89, the City and the Parking Authority no longer capitalize interest costs during period of construction effective January 1, 2019.

Pending Pronouncements

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, 2022 financial statements.

In March of 2020, the GASB issued Statement No. 93, *"Replacement of Interbank Offered Rates (IBORs)."* The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of IBORs, most notably the scheduled elimination of the London Interbank Offered Rate (LIBOR). The Statement provides exceptions to existing hedge and lease accounting when a financial instrument is terminated or amended as a result of replacing the rate. The Statement also provides alternative benchmark interest rates for use in evaluating the effectiveness of interest rate swaps. The provisions of this Statement are effective for the City's December 31, 2022 financial statements.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

In March of 2020, the GASB issued Statement No. 94, *"Public-Private Partnerships and Availability Payment Arrangements."* The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs) in which a government compensates an operator of a nonfinancial asset for services for a period of time in an exchange transaction. The provisions of this Statement are effective for the City's December 31, 2023 financial statements.

In May of 2020, the GASB issued Statement No. 96, *"Subscription-Based Information Technology Arrangements."* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The provisions of this Statement are effective for the City's December 31, 2023 financial statements.

In June of 2020, the GASB issued Statement No. 97, *"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."* The primary objectives of this Statement are to: (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement are effective for the City's December 31, 2022 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Pennsylvania government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

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

The City maintains a cash and investment pool that is available for use by all funds with the exception of the Pension and OPEB Trust Funds. At December 31, 2019, the book balance of the pooled funds was \$89,560,194 and the bank balance was \$89,741,949.

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, 2019, the City's book balance was \$96,844,550 and the bank balance was \$97,034,913. Of the bank balance, \$615,777 was covered by federal depository insurance and the remaining \$96,419,136 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	\$ 9,644,859
Restricted	12,698,332
Business-type activities:	
Unrestricted	285,038
Restricted	74,214,916
Fiduciary funds	1,405
Total cash and cash equivalents	<u>\$ 96,844,550</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

B. Investments

Investments consist of the following as of December 31, 2019:

	Level 1	Level 2	Total
Money market funds	\$ 14,668,679	\$ -	\$ 14,668,679
Mutual funds:			
Equity	1,995,401	-	1,995,401
Fixed income	256,818	-	256,818
Balanced	8,495,450	-	8,495,450
Common stock:			
Materials	1,699,768	-	1,699,768
Energy	8,392,824	-	8,392,824
Information technology	17,689,724	-	17,689,724
Consumer discretionary	6,573,360	-	6,573,360
Consumer staples	6,742,818	-	6,742,818
Industrials	6,993,494	-	6,993,494
Financials	10,626,743	-	10,626,743
Healthcare	12,753,428	-	12,753,428
Utilities	5,416,873	-	5,416,873
Telecom service	12,418,673	-	12,418,673
Exchange-traded funds:			
Equity	2,543,209	-	2,543,209
Fixed income	104,038	-	104,038
U.S. government obligations	27,767,558	-	27,767,558
U.S. government agency obligations	30,933	-	30,933
Corporate bonds:			
Domestic	-	10,005,137	10,005,137
Foreign	-	2,379,738	2,379,738
Total investments	\$ 145,169,791	\$ 12,384,875	\$ 157,554,666

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Investments	
Governmental activities:	
Unrestricted	\$ 462,447
Restricted	5,103
Fiduciary funds	<u>157,087,116</u>
Total investments	<u>\$ 157,554,666</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 \$147,057,169 held in the City's name or in the name of the City's multiple Pension Plans and \$10,497,497 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, 2019, 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, 2019:

	Fair Value	Rating
Money market funds	\$ 14,668,679	Unrated
U.S. government agency obligations	30,933	Unrated
Corporate bonds	1,336,459	AAA
Corporate bonds	1,154,839	AA
Corporate bonds	1,107,238	AA-
Corporate bonds	3,748,431	A+
Corporate bonds	1,513,387	A
Corporate bonds	3,524,521	A-

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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		
		2020	2021-2025	2026-2030
Money market funds	\$ 14,668,679	\$ 14,668,679	\$ -	\$ -
U.S. government obligations	27,767,558	-	25,920,163	1,847,395
U.S. government agency obligations	30,933	-	1,180	29,753
Corporate bonds	12,384,875	-	8,199,146	4,185,729
	<u>\$ 54,852,045</u>	<u>\$ 14,668,679</u>	<u>\$ 34,120,489</u>	<u>\$ 6,062,877</u>

C. Restricted Cash, Cash Equivalents, and Investments

Governmental Activities

As of December 31, 2019, the City had restricted cash and cash equivalents of \$12,698,332, which represents \$100,000 restricted for the payment of workers' compensation claims, and \$12,598,332 restricted for various City projects.

Business-Type Activities

As of December 31, 2019, the City had cash and cash equivalents of \$74,214,916 restricted for various sewer, water, 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, 2019, LIDA's total bank deposits were \$380,936 (including cash and cash equivalents and certificates of deposit) and the carrying value was \$378,536. 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

YEAR ENDED DECEMBER 31, 2019

Commission

The carrying amount of the Commission's deposits was \$738,785 as of December 31, 2019. The bank balance totaled \$748,096 as of December 31, 2019.

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, 2019:

Insured	\$ 418,258
Collateralized:	
Collateral held by pledging bank's trust department not in the Commission's name	<u>329,838</u>
Total	<u><u>\$ 748,096</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, 2019 consist of the following:

Cash Deposits:	
Cash and cash equivalents	\$ 2,902,589
Petty cash	<u>25,214</u>
	<u><u>\$ 2,927,803</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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

As of December 31, 2019, the Parking Authority's cash deposits were \$2,927,803. The bank balance as of December 31, 2019 was \$3,023,745. At December 31, 2019, \$250,000 was covered by federal depository insurance and \$2,773,745 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.

As of December 31, 2019, the Parking Authority had the following investments:

Investments	Fair Value	Level
Unrestricted:		
Money market funds	\$ 450,184	1
Restricted:		
Money market funds	\$ 25,785,326	1
Negotiable certificates of deposit	1,470,203	2
Government agency fixed income	4,998,700	2
Total restricted investments	\$ 32,254,229	

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, all investments of the Parking Authority are held by the financial institution's trust department or agency, in the Parking Authority's name.

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

Credit risk. The Parking Authority does not have a formal policy that would limit its investment choices with regard to credit risk. As of December 31, 2019, the Parking Authority's investments in the money market funds were rated AAA, the government agency fixed income fund was rate AA+, and the negotiable certificates of deposit were not rated.

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, 2019, the Parking Authority's investments 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

A. Deposits

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Redevelopment Authority's deposits may not be returned to it. The Redevelopment Authority has a policy for custodial credit risk that permits deposits, which are not insured, to be collateralized by the depository institution. As of December 31, 2019, \$1,609,697 of the Redevelopment Authority's bank balance of \$2,317,028 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>\$ 1,609,697</u>
Reconciliation to financial statements:	
Uninsured amount above	\$ 1,609,697
Insured amount	707,331
Money market fund shown as cash and cash equivalents	<u>2,322,623</u>
	<u>\$ 4,639,651</u>
Cash and cash equivalent - unrestricted per financial statements	\$ 1,466,566
Cash and cash equivalent - restricted per financial statements	<u>3,173,085</u>
Total cash per financial statements	<u>\$ 4,639,651</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, 2019, the Redevelopment Authority held investments in the GS Financial Square Treasury Obligations money market fund with a fair value of \$2,322,623, which is included as cash and cash equivalents - restricted in the financial statements. The

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

money market fund, which is categorized as Level 1, is valued based on prices quoted in active markets for those securities.

Interest Rate Risk and Credit Risk. The Redevelopment Authority invests certain bond and note proceeds required to be kept on deposit as a result of the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and the Tax Increment Notes Trust Indenture (Note 10). The guidelines set forth in these indentures limit the Redevelopment Authority's interest rate and credit risk by limiting investment choices to certain U.S. government and other select high-grade investments and certain maturities. There are no requirements pertaining to investment diversification to limit exposure to custodial credit risk. At December 31, 2019, 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, certain high-quality bank and corporate investments, 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, 2019, none of LDIDA's bank balance was exposed to custodial credit risk.

LLBA

A. Deposits

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

adopted a formal investment policy during 2018. LLBA's cash is deposited in a bank account with a financial institution where balances customarily exceed FDIC limits.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, LLBA's deposits may not be returned to it. LLBA does not have a policy for custodial credit risk. As of December 31, 2019, \$0 of LLBA's bank balance of \$159,211 was exposed to custodial credit risk and the remaining \$159,211 was insured.

B. Investments

The Pennsylvania Local Government Investment Trust (PLGIT) PRIME is a 2a7-like pool. The amortized cost, which approximate fair value of the pool, is determined by the pool's share prices. LLBA has no regulatory oversight for the pool, which is governed by the Board of Trustees and is administered by PFM Asset Management, LLC. The pool is audited annually by Ernst & Young, LLP, an independent auditor.

At December 31, 2019, LLBA held investments valued at amortized cost of \$805,080 in PLGIT PRIME, which has an average maturity of less than 30 days. LLBA's investments in the PLGIT account are subject to a one-day holding period. LLBA is limited to two withdrawals per calendar month from the PLGIT PRIME account.

Interest rate risk. LLBA has adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The policy only places limits on sovereign debt instruments, which can have maturities that are limited to a maximum of fifteen years.

Credit risk. LLBA has adopted a formal investment policy that limits its investment choices to investments of or backed by the U.S Government, or its agents and instrumentalities, shares of registered investment companies that invest in obligations of or backed by the U.S. Government, and sovereign debt instruments that meet certain requirements and are permitted investments of the State Employees' Retirement System. As of December 31, 2019, LLBA has investments of \$805,080, which are subject to credit risk. PLGIT PRIME has a credit rating of AAAm by Standard and Poor's at December 31, 2019.

Concentration of credit risk. LLBA places no limit on the amount they may invest in any one issuer other than for sovereign debt instruments, which cannot exceed more than 2% of the market value of LLBA's assets at the time of investment. At December 31, 2019, there were no concentrations for LLBA's investments.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Custodial credit risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, LLBA will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. LLBA does not have a formal investment policy regarding custodial credit risk but sets broader guidelines regarding diversification. LLBA does not have investments subject to custodial credit risk at December 31, 2019.

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, 2019, the CRIZ's total bank deposits were \$2,052,558. The deposits not covered by depository insurance were collateralized with securities held by the pledging financial institution, but not in the CRIZ's name.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

3. Receivables

Primary Government

Governmental Activities

Receivables as of December 31, 2019, 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 Fund	Capital Projects	Non-major funds	Internal Services Fund	Governmental Activities
Taxes, gross	\$ 3,569,558	\$ -	\$ -	\$ -	\$ 3,569,558
Allowance for uncollectibles	-	-	-	-	-
Taxes, net	3,569,558	-	-	-	3,569,558
Accounts, gross	358,488	62,982	2,729	48,276	472,475
Allowance for uncollectibles	-	-	-	-	-
Accounts, net	358,488	62,982	2,729	48,276	472,475
Notes, gross	500,000	-	9,089,901	-	9,589,901
Allowance for uncollectibles	(500,000)	-	(9,089,901)	-	(1,701,748)
Notes, net	-	-	-	-	7,888,153
Notes due from component unit, gross	3,000,000	-	-	-	3,000,000
Allowance for uncollectibles	(3,000,000)	-	-	-	-
Notes due from component unit, net	-	-	-	-	3,000,000
Investment income	-	-	65,451	-	65,451
Total receivables	\$ 3,928,046	\$ 62,982	\$ 68,180	\$ 48,276	\$ 14,995,637

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

residents. The loan is secured with MAW assets, including the fiber optic network. The outstanding amount of \$1,423,679 is included in notes receivable as of December 31, 2019.

In June 2019, the Redevelopment Authority entered into a purchase and sale agreement with Lancaster Equity, Inc. The Redevelopment Authority sold the property at 100 South Queen Street to Lancaster Equity, Inc. for \$800,000 through a secured mortgage and non-interest bearing note. \$300,000 was paid at closing, and the remaining \$500,000 is due over a two-year period. In October 2019, the Redevelopment Authority assigned the full sale proceeds to the City. As such, \$500,000 is included in notes receivable as of December 31, 2019.

As of December 31, 2019, the City has outstanding program loans (notes receivable) aggregating \$9,089,901. These various program loans bear interest at rates ranging from 0% to 7%, maturing over terms of 1 to 30 years, through 2040.

A summary of notes receivable activity for the year ended December 31, 2019 is as follows:

Balance January 1, 2019	New Loans Issued	Forgiveness/ Write-offs/ Principal Receipts	Balance December 31, 2019
<u>\$ 7,665,125</u>	<u>\$ 1,140,857</u>	<u>\$ (917,829)</u>	<u>\$ 7,888,153</u>

In addition, as of December 31, 2019, there were \$1,701,748 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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	\$ 3,379,483	\$ 4,422,806	\$ 2,738,320	\$ 10,540,609
Allowances for uncollectibles	-	-	-	-
Accounts, net	3,379,483	4,422,806	2,738,320	10,540,609
Other, gross	180,642	8,467	49,351	238,460
Allowances for uncollectibles	-	-	-	-
Other, net	180,642	8,467	49,351	238,460
Total receivables	<u>\$ 3,560,125</u>	<u>\$ 4,431,273</u>	<u>\$ 2,787,671</u>	<u>\$ 10,779,069</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 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

charged-off accounts are recorded when received. As of December 31, 2019, the Parking Authority's allowance for uncollectible accrued parking enforcement revenue was \$472,338.

During the year ended December 31, 2018, the Parking Authority and the CRIZ entered into a contract whereby 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. 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, CRIZ shall certify in writing to the Parking Authority the amount of the annual increment that the Parking Authority shall receive for that year. During the year ended December 31, 2019, CRIZ contributions totaled \$1,489,897 of which \$284,497 is due from CRIZ as of December 31, 2019.

Redevelopment Authority

The Redevelopment Authority's receivables relate to grants receivables, notes receivables, due from lessee, 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 and due from the lessee 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, 2019, the Redevelopment Authority purchased the full amount of delinquent real estate tax claims from the City for the year 2018 with a total carrying value of \$1,180,540 for total consideration of \$997,015. The City's

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

continuing involvement with the delinquent real estate tax receivables is effectively terminated.

In the event that this annual cycle of purchasing delinquent tax claims would be discontinued, the Redevelopment Authority would essentially return any accumulated cash balances to the City. Therefore, the Redevelopment Authority records a payable to the City in the amount of \$128,599 as of December 31, 2019, 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 2017B 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 \$11,657,041 as of December 31, 2019 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Future Minimum Rental Payments:

The following schedule represents the future minimum rental payments due to the Redevelopment Authority as of December 31, 2019:

2020	\$ 4,721,266
2021	6,259,279
2022	6,319,565
2023	6,383,709
2024	6,451,978
2025-2029	<u>18,713,835</u>
Total	<u>\$ 48,849,632</u>

Due from Other Governments

A summary of grants receivable due from other governmental units at December 31, 2019 follows:

Commonwealth of Pennsylvania:	
Infrastructure and Facilities Improvement Program Grant	\$ 5,502,784
Current portion	<u>637,899</u>
Long-term portion	<u>\$ 4,864,885</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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

A summary of interest due from other governmental units which has been accrued on grants at December 31, 2019 follows:

Commonwealth of Pennsylvania:

Interest accrued on Infrastructure and Facilities Improvement Program Grant, carried at present value	\$ 389,293
Other accrued interest	<u>48,253</u>
Total	<u>\$ 437,546</u>

Notes Receivable

Notes receivable at December 31, 2019 were as follows:

Note receivable from Lancaster Press Partners, originally due December 2017 and extended through December 2020. 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 until June 30, 2019. Starting July 1, 2019 until maturity, the applicable rate will be equal to the Wall Street Journal Prime Rate plus 0.5%. The loan is secured by a mortgage on property at 401-403 North Prince Street and at 37 and 39 West Lemon Street. Earlier principal payments are required when condominium units at this location are sold.

\$ 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 intallments 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

741,832
<u>1,641,832</u>
<u>971,623</u>
<u>\$ 670,209</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

CRIZ

On February 28, 2019, the CRIZ entered into a participation agreement with Community First Fund (CFF), by purchasing \$1,500,000 of a \$4,800,000 loan made by CFF to Square Development, L.P. (Square). Under the terms of this participation agreement, interest is paid monthly from CFF beginning March 15, 2019 at 7.0% per annum on the CRIZ's portion of the outstanding principal using a 360-day year. Monthly principal payments are scheduled to begin in 2020, with a final maturity and balloon payment of remaining outstanding principal due June 15, 2028. CFF is only required to remit payment of interest and principal to the CRIZ as collected from Square. No collateral is held by the CRIZ from CFF or Square in regards to this participation agreement. The principal balance of this participation agreement at December 31, 2019 was \$1,500,000 and is classified as notes receivable on the balance sheet. Interest earned was \$84,583 during 2019.

4. Delinquent Tax Lien Receivables

In January 2019, the City sold the full amount of delinquent real estate tax lien receivables for the 2018 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 \$958,459 and the revenue was recognized in the year of sale.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

In January 2020, the City sold the full amount of delinquent real estate tax lien receivables for the 2019 tax year. The full amount received by the City for this sale was \$1,033,852 and the revenue was recognized in the year of sale.

5. Properties Held for Resale

Component Unit

Redevelopment Authority

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

As of December 31, 2019, the following properties were held for resale:

316 Beaver Street	\$ 4,000
423 East Strawberry Street	13,000
156 Juniata Avenue	8,500
230 Hazel Street *	91,374
580 South Prince Street *	465,938
639 Stevens Avenue *	10,754
643 Stevens Avenue *	11,796
617 Stevens Avenue *	41,954
640 South Franklin Street *	22,133
152 Juniata Avenue *	910
1361 South Duke Street *	6,600
	<u>\$ 676,959</u>

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

6. Capital Assets

Primary Government

Capital asset activity for the year ended December 31, 2019 is as follows:

	December 31, 2018	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2019
Governmental activities				
Capital assets not being depreciated:				
Land, easements, right of ways	\$ 8,805,395	\$ 174,600	\$ (881,193)	\$ 8,098,802
Construction in progress	4,171,313	967,094	(3,959,899)	1,178,508
Total capital assets not being depreciated	12,976,708	1,141,694	(4,841,092)	9,277,310
Capital assets being depreciated:				
Land improvements	15,025,828	193,317	-	15,219,145
Buildings	42,042,773	5,601,467	(3,309,196)	44,335,044
Machinery and equipment	5,708,458	104,056	-	5,812,514
Vehicles	7,534,301	836,766	(149,948)	8,221,119
Infrastructure	49,485,943	8,089,312	-	57,575,255
Total capital assets being depreciated	119,797,303	14,824,918	(3,459,144)	131,163,077
Less accumulated depreciation for:				
Land improvements	(6,475,194)	(715,156)	-	(7,190,350)
Buildings	(10,157,947)	(796,038)	1,229,239	(9,724,746)
Machinery and equipment	(3,795,872)	(444,484)	-	(4,240,356)
Vehicles	(4,666,650)	(375,785)	149,948	(4,892,487)
Infrastructure	(31,289,214)	(1,330,393)	-	(32,619,607)
Total accumulated depreciation	(56,384,877)	(3,661,856)	1,379,187	(58,667,546)
Total capital assets being depreciated, net	63,412,426	11,163,062	(2,079,957)	72,495,531
Governmental activities, capital assets, net	\$ 76,389,134	\$ 12,304,756	\$ (6,921,049)	\$ 81,772,841

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

Governmental Activities:	
General government	\$ 234,777
Public safety	672,816
Community planning and economic development	12,802
Public works	<u>2,741,461</u>
Total depreciation expense - governmental activities	<u>\$ 3,661,856</u>

	December 31, 2018	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2019
Business-type activities:				
Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction in progress	<u>931,851</u>	<u>125,995</u>	<u>(504,478)</u>	<u>553,368</u>
Total capital assets not being depreciated	<u>2,416,675</u>	<u>125,995</u>	<u>(504,478)</u>	<u>2,038,192</u>
Capital assets being depreciated:				
Sewer system	188,944,198	6,102,287	-	195,046,485
Equipment and vehicles	<u>3,471,105</u>	<u>618,083</u>	<u>(46,839)</u>	<u>4,042,349</u>
Total capital assets being depreciated	<u>192,415,303</u>	<u>6,720,370</u>	<u>(46,839)</u>	<u>199,088,834</u>
Less accumulated depreciation for:				
Sewer system	(80,360,785)	(3,742,921)	-	(84,103,706)
Equipment and vehicles	<u>(1,510,741)</u>	<u>(275,587)</u>	<u>46,838</u>	<u>(1,739,490)</u>
Total accumulated depreciation	<u>(81,871,526)</u>	<u>(4,018,508)</u>	<u>46,838</u>	<u>(85,843,196)</u>
Total capital assets being depreciated, net	<u>110,543,777</u>	<u>2,701,862</u>	<u>(1)</u>	<u>113,245,638</u>
Sewer Fund capital assets, net	<u>112,960,452</u>	<u>2,827,857</u>	<u>(504,479)</u>	<u>115,283,830</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	December 31, 2018	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2019
Water Fund:				
Capital assets not being depreciated:				
Land	1,070,600	-	-	1,070,600
Construction in progress	8,820,867	14,845,547	(2,124,989)	21,541,425
Total capital assets not being depreciated	9,891,467	14,845,547	(2,124,989)	22,612,025
Capital assets being depreciated:				
Water system	211,329,623	17,661,350	-	228,990,973
Equipment and vehicles	5,232,850	1,152,642	(35,181)	6,350,311
Total capital assets being depreciated	216,562,473	18,813,992	(35,181)	235,341,284
Less accumulated depreciation for:				
Water system	(60,528,901)	(3,070,214)	-	(63,599,115)
Equipment and vehicles	(2,642,891)	(622,700)	35,181	(3,230,410)
Total accumulated depreciation	(63,171,792)	(3,692,914)	35,181	(66,829,525)
Total capital assets being depreciated, net	153,390,681	15,121,078	-	168,511,759
Water Fund capital assets, net	163,282,148	29,966,625	(2,124,989)	191,123,784

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	December 31, 2018	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2019
Other enterprise funds:				
Capital assets not being depreciated:				
Land	177,200	-	-	177,200
Construction in progress	24,049	179,758	-	203,807
Total capital assets not being depreciated	201,249	179,758	-	381,007
Capital assets being depreciated:				
Buildings	300,086	203,816	-	503,902
Infrastructure	5,201,952	1,791,594	-	6,993,546
Equipment and vehicles	1,340,560	292,880	-	1,633,440
Total capital assets being depreciated	6,842,598	2,288,290	-	9,130,888
Less accumulated depreciation for:				
Buildings	(79,159)	(4,995)	-	(84,154)
Infrastructure	(182,889)	(130,048)	-	(312,937)
Equipment and vehicles	(420,616)	(114,275)	-	(534,891)
Total accumulated depreciation	(682,664)	(249,318)	-	(931,982)
Total other enterprise funds capital assets, net	6,159,934	2,038,972	-	8,198,906
Other enterprise funds capital assets, net	6,361,183	2,218,730	-	8,579,913
Business-type activities capital assets, net	\$ 282,603,783	\$ 35,013,212	\$ (2,629,468)	\$ 314,987,527

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Component Units

Commission

Major classifications of capital assets and their respective depreciable lives consist of the following as of December 31, 2019:

	December 31, 2018	Additions/ Transfers In	Deletions/ Transfers Out	December 31, 2019	Depreciable Lives
Capital assets not being depreciated:					
Construction in progress	\$ 138,641	\$ 6,445	\$ (138,641)	\$ 6,445	
Total capital assets not being depreciated	138,641	6,445	(138,641)	6,445	
Capital assets being depreciated:					
Equipment	153,088	11,475	(2,560)	162,003	3 - 10 years
Furniture and improvements	236,524	-	-	236,524	5 - 15 years
Vehicles	94,407	-	-	94,407	5 - 10 years
Capital improvements	-	192,609	-	192,609	5 - 15 years
Total capital assets being depreciated	484,019	204,084	(2,560)	685,543	
Accumulated depreciation	(369,245)	(56,675)	2,560	(423,360)	
Capital assets being depreciated, net	114,774	147,409	-	262,183	
Total capital assets	\$ 253,415	\$ 153,854	\$ (138,641)	\$ 268,628	

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Parking Authority

Capital asset activity for the year ended December 31, 2019 is as follows:

	December 31, 2018	Additions	Deletions	December 31, 2019
Capital assets not being depreciated:				
Construction in process	\$ -	\$ 3,522,014	\$ -	\$ 3,522,014
Land	3,695,871	2,047,583	-	5,743,454
Total capital assets not being depreciated	3,695,871	5,569,597	-	9,265,468
Capital assets being depreciated:				
Parking garages, lots, and rental complex	36,660,383	8,608,568	(925)	45,268,026
Office furnishings and equipment	138,996	-	(4,600)	134,396
Equipment	3,783,828	46,230	(45,928)	3,784,130
Vehicles	271,074	23,100	-	294,174
Total capital assets being depreciated	40,854,281	8,677,898	(51,453)	49,480,726
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	(22,678,879)	(1,010,248)	925	(23,688,202)
Office furnishings and equipment	(72,172)	(14,088)	4,600	(81,660)
Equipment	(2,972,123)	(336,126)	45,928	(3,262,321)
Vehicles	(144,950)	(42,269)	-	(187,219)
Total accumulated depreciation	(25,868,124)	(1,402,731)	51,453	(27,219,402)
Total capital assets being depreciated, net	14,986,157	7,275,167	-	22,261,324
Total capital assets, net	\$ 18,682,028	\$ 12,844,764	\$ -	\$ 31,526,792

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Redevelopment Authority

Capital asset activity for the year ended December 31, 2019 is as follows:

	December 31, 2018	Additions	Deletions	December 31, 2019
Capital assets not being depreciated:				
Land and improvements	\$ 917,883	\$ -	\$ (897,583)	\$ 20,300
Construction in progress	429,617	67,133	-	496,750
Total capital assets not being depreciated	1,347,500	67,133	(897,583)	517,050
Capital assets being depreciated:				
Buildings	8,624,651	-	(8,624,651)	-
Less accumulated depreciation for:				
Buildings	(1,042,145)	(107,808)	1,149,953	-
Total capital assets being depreciated, net	7,582,506	(107,808)	(7,474,698)	-
Total capital assets, net	\$ 8,930,006	\$ (40,675)	\$ (8,372,281)	\$ 517,050

7. Line of Credit

Component Units

Commission

The Commission has a renewable \$250,000 line of credit agreement with PNC Bank, National Association. The line expires on October 6, 2020 and bears interest at a variable rate, which was 6.25% at December 31, 2019. There were no borrowings on the line of credit as of December 31, 2019.

Redevelopment Authority

The Redevelopment Authority entered into a \$1,550,000 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%

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

per annum or fall below 5.00% per annum for the year ended December 31, 2019. The interest rate was 5.80% as of December 31, 2019. 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 5, 2023. During the year ended December 31, 2019, 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, 2019 was as follows:

	January 1, 2019	Additions	Reduction	December 31, 2019
Line of credit - delinquent real estate taxes	<u>\$ 587,379</u>	<u>\$ 997,015</u>	<u>\$ 1,040,476</u>	<u>\$ 543,918</u>

8. Due to/from the Primary Government/Component Unit

Due from Component Unit

On June 19, 2019, the Parking Authority purchased the North Queen Street Garage from the Redevelopment Authority through the issuance of a \$3,000,000 unsecured note payable. As the Parking Authority and the Redevelopment Authority are both component units of the City, the asset purchase was treated as an intra-entity transaction, and the Redevelopment Authority's net book value of the asset at the time of the transaction was used for recording the acquisition. The Parking Authority recorded \$897,583 and \$7,474,697 of land and building, respectively, as part of the transaction.

During the year ended December 31, 2019, the Redevelopment Authority assigned the \$3,000,000 outstanding note payable to the City. The Parking Authority will make an annual payment in the amount of \$150,000 over a 20-year period, beginning in 2020, to satisfy the unsecured note payable to the City. The unsecured note payable to the City is scheduled to be paid in full in 2039.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Component Unit

Redevelopment Authority

As of December 31, 2019, the following amounts were due to the primary government:

Accumulated gain on tax collections (Note 3)	\$ 128,599
Amounts due for conveyed properties	<u>651,459</u>
	<u>\$ 780,058</u>

As discussed in Note 3, the City conveyed two properties to the Redevelopment Authority during the year ended December 31, 2019, 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 \$72,248. Sales proceeds of \$970,500 were immediately assigned to the City and, therefore, are not recognized as proceeds from property sales by the Redevelopment Authority.

9. Unearned Revenue

Component Unit

Redevelopment Authority

A summary of unearned revenue at December 31, 2019 follows:

Unearned grant revenue	\$ 2,332,957
Unearned interest income - capital lease (Note 3)	<u>11,657,041</u>
	13,989,998
Current portion	<u>2,248,490</u>
Long-term portion	<u>\$ 11,741,508</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 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019 is as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2019
2011/2041	\$ 38,860,000	General Obligation Bonds	\$ 31,630,000
2014/2044	42,490,000	General Obligation Bonds	38,240,000
2015/2034	11,840,000	General Obligation Bonds	10,045,000
2016/2046	118,820,000	General Obligation Bonds	113,405,000
2016/2036	11,560,000	General Obligation Bonds	10,985,000
2018/2048	113,325,000	General Obligation Bonds	113,325,000
2019/2029	22,140,000	General Obligation Bonds	22,040,000
			<u>339,670,000</u>
Direct Borrowings:			
2013/2035	7,000,000	Note Payable to Financing Agency	3,736,769
2014/2037	5,500,000	Note Payable to Financing Agency	4,348,163
2015/2028	6,950,000	General Obligation Note	5,130,000
2019/2039	9,040,000	General Obligation Note, Series A	50,822
			<u>13,265,754</u>
Total			<u>\$ 352,935,754</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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

of 1996; and (iii) to finance the refunding of a portion of the City's outstanding General Obligation Bonds, Series of 1996. These bonds were currently refunded through the issuance of General Obligation Notes, Series of 2009.

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

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

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

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

In 2016, the City issued \$118,820,000 of general obligation bonds, bearing interest at rates ranging from 3.00% to 5.00%. The proceeds of the bond issuance were used to advance refund the General Obligation Bonds, Series of 2007. The debt service on these bonds is paid by the General Fund, Sewer Fund, and Water Fund.

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

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.

In 2019, the City issued \$22,140,000 of general obligation bonds, bearing interest at 5.00%. The proceeds of the bond issuance were used to currently refund the General Obligation Notes, Series of 2009. The debt service on these bonds is paid by the General Fund, Sewer Fund, and Water 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. These notes were currently refunded through the issuance of General Obligation Bonds, Series of 2019.

In 2013, the City issued a direct borrowing \$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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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. Pennvest has a lien and security interest in all gross revenues generated or produced by the wastewater treatment system. In the event of default, the entire unpaid principal and accrued interest shall become due and payable immediately. This note bears interest at a rate of 1.495% for the first five years and 2.965% thereafter. As of December 31, 2019, \$5,170,705 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 a direct borrowing \$5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest loan for the construction of a preliminary treatment facility and diversion chamber. Pennvest has a lien and security interest in all gross revenues generated or produced by the wastewater treatment system. In the event of default, the entire unpaid principal and accrued interest shall become due and payable immediately. The note bears interest at a rate of 1.00% for the first five years and 1.74% thereafter. As of December 31, 2019, \$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 direct borrowing 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.

In 2019, the City issued a direct borrowing general obligation note Series A of 2019 in the amount of \$9,040,000, bearing interest at a fixed rate of 2.82% through November 1, 2029 and then bearing interest at a variable rate equal to 79% of Wall Street Journal Prime with a minimum rate of 2.50% and maximum of 5.00% until maturity in 2039. This is a loan for capital projects. The note is available for draw down through November 1, 2021 and annual principal payments commence on November 1, 2021. As of December 31, 2019, \$50,822 was drawn down on this note. The debt service on this note is paid by the Capital Projects Fund.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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
2020	\$ 3,168,800	\$ 2,735,371	\$ 5,904,171
2021	3,617,600	2,601,286	6,218,886
2022	3,797,222	2,455,528	6,252,750
2023	3,905,600	2,304,116	6,209,716
2024	4,054,400	2,155,369	6,209,769
2025-2029	23,051,800	8,000,313	31,052,113
2030-2034	10,700,000	4,327,296	15,027,296
2035-2039	8,980,000	2,408,400	11,388,400
2040-2043	7,235,000	737,600	7,972,600
	<u>\$ 68,510,422</u>	<u>\$ 27,725,279</u>	<u>\$ 96,235,701</u>

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
2020	\$ 6,454,128	\$ 11,221,926	\$ 17,676,054
2021	7,370,918	10,978,280	18,349,198
2022	7,697,183	10,672,745	18,369,928
2023	8,055,612	10,313,054	18,368,666
2024	8,407,675	9,960,881	18,368,556
2025-2029	39,281,846	44,926,162	84,208,008
2030-2034	44,297,857	37,116,023	81,413,880
2035-2039	49,410,113	28,672,697	78,082,810
2040-2044	60,035,000	18,021,078	78,056,078
2045-2048	53,415,000	5,446,200	58,861,200
	<u>\$ 284,425,332</u>	<u>\$ 187,329,046</u>	<u>\$ 471,754,378</u>

The City has pledged its full faith, credit, and taxing power on all bonds and notes payable.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Capital Leases

Governmental Activities

In 2015 through 2019, 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, 2019, the assets are included as governmental activities in the government-wide financial statements at a cost of \$3,248,827 and accumulated depreciation of \$449,354.

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2019 are as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2020	\$ 561,313
2021	388,619
2022	353,330
2023	303,656
2024	245,581
2025-2029	<u>684,463</u>
Total minimum lease payments	2,536,962
Less: amount representing interest	<u>(371,516)</u>
Present value of future minimum lease payments	<u><u>\$ 2,165,446</u></u>

Business-type Activities

In 2015 through 2019, 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, Water Fund, and Stormwater Fund, an other enterprise fund. As of December 31, 2019, the assets are included as business-type activities in the government-wide financial statements at a cost of \$2,170,307 and accumulated depreciation of \$329,941.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2019 are as follows:

Year Ending December 31,	Total
2020	\$ 497,755
2021	413,846
2022	280,437
2023	102,769
2024	23,525
Total minimum lease payments	1,318,332
Less: amount representing interest	(87,751)
Present value of future minimum lease payments	<u>\$ 1,230,581</u>

Changes in long-term obligations for the year ended December 31, 2019 are as follows:

	December 31, 2018	Increase	Decrease	December 31, 2019	Amount Due Within One Year
Governmental activities:					
Bonds payable	\$ 58,945,000	\$ 7,120,000	\$ (2,325,000)	\$ 63,740,000	\$ 2,695,000
Unamortized premium	2,838,383	1,177,727	(523,118)	3,492,992	-
Notes payable	13,199,200	50,822	(8,479,600)	4,770,422	473,800
Compensated absences	1,198,918	3,121,543	(2,940,297)	1,380,164	317,576
Capital leases	1,781,700	826,766	(443,020)	2,165,446	474,871
Workers' compensation payable	808,879	369,169	(206,852)	971,196	349,145
Total governmental activities	<u>\$ 78,772,080</u>	<u>\$ 12,666,027</u>	<u>\$ (14,917,887)</u>	<u>\$ 76,520,220</u>	<u>\$ 4,310,392</u>

	December 31, 2018	Increase	Decrease	December 31, 2019	Amount Due Within One Year
Business-type activities:					
Bonds payable	\$ 264,260,000	\$ 15,020,000	\$ (3,350,000)	\$ 275,930,000	\$ 5,800,000
Unamortized premium	7,355,914	1,912,047	(931,572)	8,336,389	-
Notes payable	25,135,764	381,836	(17,022,268)	8,495,332	654,128
Compensated absences	256,496	1,479,153	(1,472,173)	263,476	57,570
Capital leases	756,191	1,031,299	(556,909)	1,230,581	457,915
Workers' compensation payable	22,513	3,215	(9,724)	16,004	-
Total business-type activities	<u>\$ 297,786,878</u>	<u>\$ 19,827,550</u>	<u>\$ (23,342,646)</u>	<u>\$ 294,271,782</u>	<u>\$ 6,969,613</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

During the year ended December 31, 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 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.

Tax anticipation note transactions for the year ended December 31, 2019 were as follows:

Outstanding at December 31, 2018	\$ -
New borrowings	2,000,000
Repayments	<u>(2,000,000)</u>
Outstanding at December 31, 2019	<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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

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

On October 1, 2019, the Parking Authority Issued Series A and B of Guaranteed Parking Revenue Bonds (Series A and B of 2019 Bonds). The issuance of the Series A and B of 2019 Bonds were made to finance the design, planning, acquisition, and construction of an approximately 300 vehicle parking facility and public library. The Series A and B of 2019 Bonds are secured by a trust indenture dated October 1, 2019. Debt service payments are guaranteed by the City with a guaranty agreement dated October 1, 2019. The Series A and B of 2019 Bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the Series A and B of 2019 Bonds range from 2.10% to 4.00% through the maturity date of September 1, 2044.

In the event of default by the Parking Authority and the City, the Trustee may take and maintain possession of all or any part of the Parking Facilities, and may hold, manage, and operate such Parking Facilities and collect the amounts payable by reason of such operation.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	December 31, 2018	Increase	Decrease	December 31, 2019	Amount Due Within One Year
Direct Placements:					
Series of 2016 Parking Revenue Bonds	\$ 13,605,000	\$ -	\$ -	\$ 13,605,000	\$ -
Series of A of 2016 Parking Revenue Bonds	6,765,000	-	(945,000)	5,820,000	970,000
Series of A of 2019 Parking Revenue Bonds	-	27,825,000	-	27,825,000	-
Series of B of 2019 Parking Revenue Bonds	-	1,325,000	-	1,325,000	-
	<u>\$ 20,370,000</u>	<u>\$ 29,150,000</u>	<u>\$ (945,000)</u>	<u>\$ 48,575,000</u>	<u>\$ 970,000</u>

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2020	\$ 970,000	\$ 2,887,217	\$ 3,857,217
2021	1,485,000	2,861,817	4,346,817
2022	1,665,000	2,816,934	4,481,934
2023	2,045,000	2,720,503	4,765,503
2024	2,125,000	2,597,688	4,722,688
2025-2029	12,025,000	10,956,908	22,981,908
2030-2034	11,545,000	8,018,213	19,563,213
2035-2039	9,325,000	4,225,812	13,550,812
2040-2044	7,390,000	1,639,600	9,029,600
Total	<u>\$ 48,575,000</u>	<u>\$ 38,724,692</u>	<u>\$ 87,299,692</u>

Interest Expense

Interest expense on all bonds totaled \$1,393,536 for the year ended December 31, 2019. In addition, there was a total of \$310,052 included in interest expense related to debt issuance costs for the year ended December 31, 2019.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, the amount due is \$1,013,537.

For the second tower, there was an additional advance from the lessee of Penn Square Hotel for \$412,725 at December 31, 2019 to the Redevelopment Authority to facilitate debt service payments and construction costs on the hotel expansion. The amount as of December 31, 2019 will be reimbursed to the lessee when CRIZ grant funding is received as described in Note 15.

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, 2019, the remaining payments, which will be funded from a portion of the minimum participation rent payments to the Convention Center Authority, are as follows:

2020	\$	100,000
2021		50,000
		<hr/>
	\$	150,000
		<hr/>

Notes Payable

During the year ended December 31, 2013, the Redevelopment Authority entered into a direct borrowing 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019 was \$3,306,333, of which \$218,000 is due within one year.

Bonds Payable

The Redevelopment Authority issued Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of \$8,000,000 in a private placement at a premium of \$1,540,000. The bonds bear interest of 6.99% per annum. Bond proceeds were used to fund the construction of the Penn Square Hotel (Note 16). Proceeds from the Infrastructure and Facilities Improvement Grant (Notes 3 and 15) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The bonds mature in December 2025. The outstanding balance at December 31, 2019 is \$3,107,281, of which \$433,123 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, 2019 is \$1,757,604, of which \$248,950 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

rate with a third party. This rate is 4.45% as of December 31, 2019. 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, 2019 was \$9,396,995, of which \$1,626,600 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, 2019 was \$8,239,419, of which \$309,808 is due within one year.

Also in April 2017, the Redevelopment Authority issued the Federally Taxable Hotel Lease Revenue Bonds, Series B of 2017 in the maximum amount of \$27,872,000 in a private placement. The bonds bear interest at a variable rate which is related to the bondholder's funding interest rate with a third-party. This rate is 5.06% for the year ended December 31, 2019. 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, 2019 was \$26,597,192, of which \$970,536 is due within one year.

Aggregate maturities required on bonds and notes payable at December 31, 2019 are as follows:

	Principal	Interest	Total
2020	\$ 3,807,017	\$ 2,564,153	\$ 6,371,170
2021	5,663,420	2,336,896	8,000,316
2022	6,543,939	2,038,601	8,582,540
2023	6,854,090	1,704,991	8,559,081
2024	7,269,075	1,357,830	8,626,905
2025 - 2029	22,267,283	2,450,628	24,717,911
Total	<u>\$ 52,404,824</u>	<u>\$ 12,453,099</u>	<u>\$ 64,857,923</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Long-term obligation activity for the year ended December 31, 2019 can be summarized as follows:

	Balance January 1, 2019	Additions	Reductions	Balance December 31, 2019
Due to lessee	\$ 4,518,072	\$ 467,286	\$ (3,559,096)	\$ 1,426,262
LCCCA Obligation	250,000	-	(100,000)	150,000
Notes payable	3,517,333	-	(211,000)	3,306,333
Bonds payable	40,101,502	12,374,797	(3,377,808)	49,098,491
	<u>\$ 48,386,907</u>	<u>\$ 12,842,083</u>	<u>\$ (7,247,904)</u>	<u>\$ 53,981,086</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 \$4,864,885 as of December 31, 2019, all interest payments, as well as any fees and expenses resulting from events of default of the Redevelopment Authority. Future scheduled interest payments on these bonds amount to \$1,135,580 as of December 31, 2019. 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. 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, 2019 is \$9,396,995 and future interest payments, based on current interest rates, are \$1,312,801. The current tax-exempt assessment for the property is \$59,660,800 and the applicable combined millage rate is 36.4844. 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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. No interest was being charged on the obligation. The obligation was paid in full as of December 31, 2019.

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 were due in varying annual installments beginning December 2017 through December 2041, plus interest. The Tax Revenue Bonds, Series 2015 were paid in full as of December 31, 2019. The restricted cash balance of \$1,012,219 at December 31, 2018 was partially used to pay off the Tax Revenue Bonds, Series 2015.

The following is a summary of debt transactions for the year ended December 31, 2019:

Long-term debt at January 1, 2019	\$ 5,089,000
Payments	<u>(5,089,000)</u>
Long-term debt at December 31, 2019	<u><u>\$ -</u></u>

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, none of the FPP's and PPP's investments were more than five percent of the total asset value for each plan.

Plan Participants

At December 31, 2019, employee membership data related to the FPP and PPP was as follows:

	FPP	PPP
Inactive plan members or beneficiaries currently receiving benefits	127	185
Inactive plan members entitled to but not yet receiving benefits	2	2
Active plan members	63	138
Total	192	325

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

amended through the collective bargaining process. The FPP is governed by the City of Lancaster Fire Pension Board, which consists of the Mayor, Director of Administrative Services, Director of Public Safety, City Controller, Chief of Fire, and two members of the fire department. The PPP is governed by City of Lancaster Police Pension Board which consists of the Mayor, the City Treasurer, the City Controller, three active police officers to be duly elected by a majority of all active police officers for three-year overlapping terms, and one retired police officer on the pension list to be duly elected by a majority of the retired police officers on the pension list for a two-year term.

Normal Retirement

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

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

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

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, 2019, there were six participants in the DROP. As of December 31, 2019, the balance held by the FPP pursuant to the DROP totaled \$620,334.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 \$1,983,633 and \$3,674,585 for the year ended December 31, 2019 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, 2019

Changes in Net Pension Liability

The changes in the net pension liability for the FPP and PPP at December 31, 2019 were as follows:

	Increase (Decrease)		
FPP:	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 53,563,209	\$ 39,202,821	\$ 14,360,388
Changes for the year:			
Service cost	715,131	-	715,131
Interest	4,144,585	-	4,144,585
Changes for experience	(1,392,943)	-	(1,392,943)
Changes of assumptions	1,237,133	-	1,237,133
Contributions - employer	-	1,983,633	(1,983,633)
Contributions - employees	-	286,474	(286,474)
Net investment income	-	7,848,496	(7,848,496)
Benefit payments, including refunds	(3,603,314)	(3,603,314)	-
Net changes	1,100,592	6,515,289	(5,414,697)
Balances at December 31, 2019	\$ 54,663,801	\$ 45,718,110	\$ 8,945,691
Plan fiduciary net position as a percentage of the total pension liability			83.64%

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	Increase (Decrease)		
PPP:	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 97,611,944	\$ 65,590,515	\$ 32,021,429
Changes for the year:			
Service cost	1,736,735	-	1,736,735
Interest	7,795,539	-	7,795,539
Changes for experience	(887,895)	-	(887,895)
Changes of assumptions	1,846,367	-	1,846,367
Contributions - employer	-	3,674,585	(3,674,585)
Contributions - employees	-	629,147	(629,147)
Net investment income	-	13,229,706	(13,229,706)
Benefit payments, including refunds	(5,725,826)	(5,725,826)	-
Net changes	4,764,920	11,807,612	(7,042,692)
Balances at December 31, 2019	<u>\$ 102,376,864</u>	<u>\$ 77,398,127</u>	<u>\$ 24,978,737</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>75.60%</u>

The net pension liability was measured as of December 31, 2019 and was determined by rolling forward liabilities from the January 1, 2019 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year-end.

Actuarial Assumptions - The January 1, 2019 actuarial valuation used the entry age normal actuarial cost method and PubS-2010 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.

Changes in Actuarial Assumptions – In the January 1, 2019 actuarial valuations, the mortality tables were updated from the IRS 2017 Static Combined Table for Small Plans to the PubS-2010 mortality table for both the FPP and PPP.

Investment Policy - The Plans' policies in regard to the allocation of invested assets are established and may be amended by the respective Boards. The Boards seek to optimize the

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

total return of the Plans' portfolios through a policy of balanced investments, structured to achieve the maximum returns possible, as measured on the total portfolios, consistent with policies that emphasize the prudent management of risk.

Long-Term Expected Rate of Return - The long-term expected rates of return on both Plans' investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the both Plans as of December 31, 2019 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, 2019, the annual money-weighted rate of return on Plan investments, net of investment expense, was 20.54% and 20.60% for the FPP and PPP, respectively.

Discount Rate - The discount rate used to measure the total pension liability as of December 31, 2019 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
FPP	\$ 14,563,805	\$ 8,945,691	\$ 4,198,839
PPP	\$ 37,589,617	\$ 24,978,737	\$ 14,500,881

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

B. Plan Description and Contribution Information

Plan Participants

At December 31, 2019, employee membership data related to the CBPP was as follows:

Inactive plan members or beneficiaries currently receiving benefit:	66
Inactive plan members entitled to but not yet receiving benefits	36
Active members	<u>329</u>
Total	<u><u>431</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.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 \$1,221,228 to the CBPP for the year ended December 31, 2019.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Changes in the Net Pension Liability

The changes in the net pension liability for the CBPP at December 31, 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 18,651,631	\$ 12,980,959	\$ 5,670,672
Service cost	699,835	-	699,835
Interest	1,466,665	-	1,466,665
Changes for experience	(242,686)	-	(242,686)
Changes of assumptions	884,539	-	884,539
Contributions - employer	-	1,221,228	(1,221,228)
Net investment income	-	2,564,992	(2,564,992)
Benefit payments, including refunds	(875,567)	(875,567)	-
Administrative expenses	-	(5,872)	5,872
Net changes	1,932,786	2,904,781	(971,995)
Balances at December 31, 2019	<u>\$ 20,584,417</u>	<u>\$ 15,885,740</u>	<u>\$ 4,698,677</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>77.17%</u>

The net pension liability of the pension plan is allocated between governmental activities and business-type activities in the amounts of \$2,603,770 and \$2,094,907, respectively, at December 31, 2019.

The net pension liability was measured as of December 31, 2019 and was determined by rolling forward liabilities from the January 1, 2019 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year-end.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Actuarial Assumptions - The January 1, 2019 actuarial valuation included the following assumptions:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	12 years
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50%
Underlying inflation rate	3.00%
Basis for Mortality Rates	PubG-2010 Mortality Table

Change in Actuarial Assumptions – In the January 1, 2019 actuarial valuation for CBPP, the mortality tables were updated from the IRS 2017 Static Combined Table for Small Plans to the PubG-2010 Mortality Table. The remaining amortization periods were also updated from 13 years to 12 years.

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

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2019, 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, 2019, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 19.80%.

Concentrations – At December 31, 2019, 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, 2019 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%)
\$ 7,799,737	\$ 4,698,677	\$ 2,148,892

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

For the year ended December 31, 2019, the governmental activities and business-type activities recognized pension expense of \$7,119,664 and \$731,039, respectively.

At December 31, 2019, 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	\$ 562,303	\$ -
Changes of assumptions	<u>4,103,607</u>	<u>499,688</u>
Total Deferred Outflows of Resources	<u>\$ 4,665,910</u>	<u>\$ 499,688</u>
<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	\$ 2,894,670	\$ 253,238
Net difference between projected and actual earnings on pension plan investments	<u>2,704,562</u>	<u>244,396</u>
Total Deferred Inflows of Resources	<u>\$ 5,599,232</u>	<u>\$ 497,634</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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>
2020	\$ (117,223)	\$ (20,927)
2021	239,675	(31,580)
2022	1,060,048	20,210
2023	(2,529,772)	(142,934)
2024	186,717	17,295
Thereafter	227,233	159,990
	<u>\$ (933,322)</u>	<u>\$ 2,054</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, 2019, there were 199 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, 2019, SSP participants and the City made contributions of \$655,721 and \$120,214 respectively.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Pension Financial Statements

Financial statements for the individual pension plans are presented below:

Statement of Net Position December 31, 2019

	FPP	PPP	CBPP	SPP
Assets:				
Investments	\$ 45,581,932	\$ 77,168,015	\$ 15,837,200	\$10,497,497
Receivables:				
Investment income	136,178	230,112	48,540	-
Total Assets	<u>45,718,110</u>	<u>77,398,127</u>	<u>15,885,740</u>	<u>10,497,497</u>
Liabilities:				
Benefits payable	-	-	-	58,695
Net position restricted for pension benefits	<u>\$ 45,718,110</u>	<u>\$ 77,398,127</u>	<u>\$ 15,885,740</u>	<u>\$10,438,802</u>

Statement of Changes in Net Position Year Ended December 31, 2019

	FPP	PPP	CBPP	SPP
Additions:				
Contributions:				
Employees	\$ 286,474	\$ 629,147	\$ -	\$ 655,721
Employer	1,983,633	3,674,585	1,221,228	120,214
Total contributions	<u>2,270,107</u>	<u>4,303,732</u>	<u>1,221,228</u>	<u>775,935</u>
Investment income:				
Net appreciation in fair value of investments	6,814,558	11,486,162	2,222,150	1,399,856
Interest and dividends	1,214,298	2,054,825	402,026	252,262
Total investment income	<u>8,028,856</u>	<u>13,540,987</u>	<u>2,624,176</u>	<u>1,652,118</u>
Less: investment expenses	<u>(180,359)</u>	<u>(311,281)</u>	<u>(59,184)</u>	<u>-</u>
Net investment income	<u>7,848,497</u>	<u>13,229,706</u>	<u>2,564,992</u>	<u>1,652,118</u>
Total additions	<u>10,118,604</u>	<u>17,533,438</u>	<u>3,786,220</u>	<u>2,428,053</u>
Deductions:				
Benefits	3,603,315	5,725,826	875,567	933,740
Administrative expenses	-	-	5,872	57,758
Total deductions	<u>3,603,315</u>	<u>5,725,826</u>	<u>881,439</u>	<u>991,498</u>
Change in net position	<u>6,515,289</u>	<u>11,807,612</u>	<u>2,904,781</u>	<u>1,436,555</u>
Net position restricted for pension benefits:				
Beginning of year	<u>39,202,821</u>	<u>65,590,515</u>	<u>12,980,959</u>	<u>9,002,247</u>
End of year	<u>\$ 45,718,110</u>	<u>\$ 77,398,127</u>	<u>\$ 15,885,740</u>	<u>\$10,438,802</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 \$46,710 for the year ended December 31, 2019.

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019:

Active employees	32
Inactive employees and beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	<u>-</u>
Total	<u><u>44</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, 2019, the Parking Authority made a contribution of \$64,525. The MMO for the year ended December 31, 2018 was \$64,365. The 2019 contribution is reported as a deferred outflow of resources at December 31, 2019.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the Parking Authority for the year ended December 31, 2019 were as follows:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2018 (based on the measurement date of December 31, 2017)	\$ 1,466,554	\$ 1,618,000	\$ (151,446)
Changes for the year:			
Service cost	156,403	-	156,403
Interest	81,652	-	81,652
Differences between expected and actual experience	(62,989)	-	(62,989)
Contributions - employer	-	31,163	(31,163)
Contributions - employee	-	81,810	(81,810)
Net investment income (loss)	-	(179,827)	179,827
Benefit payments, including refunds	(102,194)	(102,194)	-
Administrative expenses	-	(4,354)	4,354
Net changes	72,872	(173,402)	246,274
Balances at December 31, 2019 (based on the measurement date of December 31, 2018)	<u>\$ 1,539,426</u>	<u>\$ 1,444,598</u>	<u>\$ 94,828</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>93.84%</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation performed on January 1, 2019, with liabilities rolled forward to December 31, 2018, 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 7.0%. 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, 2018 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 Liability (Asset) to Changes in the Discount Rate – The following presents the net pension liability (asset) of the Plan calculated using the discount rates described above, as well as what the Plan's net pension liability (asset) 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%)
\$ 269,061	\$ 94,828	\$ (50,950)

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

For the year ended December 31, 2019, the Parking Authority recognized pension expense of \$109,390. At December 31, 2019, 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	\$ 15,394	\$ 52,491
Parking Authority contributions subsequent to the measurement date	64,525	-
Changes of assumptions	12,698	-
Net difference between projected and actual earnings on pension plan investments	103,841	-
Total	\$ 196,458	\$ 52,491

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 at December 31, 2019 will be recorded as an increase to the

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

pension liability during the year ending December 31, 2020. 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>	
2020	\$ 33,288
2021	7,863
2022	7,300
2023	41,487
2024	<u>(10,496)</u>
	<u>\$ 79,442</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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

B. Plan Description and Contribution Information

At December 31, 2019, 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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 \$3,733,427, \$1,447,582, and \$345,761 to the OPEB Plan, Water OPEB Plan, and Sewer OPEB Plan for the year ended December 31, 2019, 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 nonuniform individuals over the age of 65, the monthly costs for the retiree and spouse are \$50 and the monthly costs for eligible dependent children is \$65.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Changes in Net OPEB Liability

The changes in the net OPEB liability of the OPEB Plans at December 31, 2019 were as follows:

	Increase (Decrease)		
OPEB Plan:	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at December 31, 2018	\$ 115,667,138	\$ -	\$ 115,667,138
Changes for the year:			
Service cost	4,597,057	-	4,597,057
Interest	4,327,650	-	4,327,650
Changes of assumptions	18,790,344	-	18,790,344
Contributions - employer	-	3,733,427	(3,733,427)
Benefit payments, including refunds	(3,733,427)	(3,733,427)	-
Net changes	23,981,624	-	23,981,624
Balances at December 31, 2019	<u>\$ 139,648,762</u>	<u>\$ -</u>	<u>\$ 139,648,762</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 \$137,756,085 and \$1,892,677, respectively, at December 31, 2019.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Water OPEB Plan:			
Balances at December 31, 2018	\$ 13,860,917	\$ 5,880,326	\$ 7,980,591
Changes for the year:			
Service cost	451,320	-	451,320
Interest	515,196	-	515,196
Changes of assumptions	2,625,999	-	2,625,999
Contributions - employer	-	1,447,582	(1,447,582)
Net investment income	-	115,919	(115,919)
Benefit payments, including refunds	(435,383)	(435,383)	-
Administrative expenses	-	(28,344)	28,344
Net changes	3,157,132	1,099,774	2,057,358
Balances at December 31, 2019	<u>\$ 17,018,049</u>	<u>\$ 6,980,100</u>	<u>\$ 10,037,949</u>
Plan fiduciary net position as a percentage of the total OPEB liability			<u>41.02%</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Sewer OPEB Plan:			
Balances at December 31, 2018	\$ 6,798,251	\$ 605,759	\$ 6,192,492
Changes for the year:			
Service cost	270,990	-	270,990
Interest	254,070	-	254,070
Changes of assumptions	1,237,236	-	1,237,236
Contributions - employer	-	345,761	(345,761)
Net investment income	-	11,987	(11,987)
Benefit payments, including refunds	(235,276)	(235,276)	-
Administrative expenses	-	(3,191)	3,191
Net changes	1,527,020	119,281	1,407,739
Balances at December 31, 2019	<u>\$ 8,325,271</u>	<u>\$ 725,040</u>	<u>\$ 7,600,231</u>
Plan fiduciary net position as a percentage of the total OPEB liability			<u>8.71%</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

The net OPEB liability was measured as of December 31, 2019 and was determined by the January 1, 2018 actuarial valuation. The following actuarial assumptions were used and applied to all periods in the measurement:

Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions:	
Interest rate	3.30%
Medical inflation	5.5% in 2019 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% in 2075 and later
Mortality table	PubS-2010 mortality table for police officers and firefighters and PubG-2010 mortality table for nonuniformed employees
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.

Change in actuarial assumptions: The interest rate changed from 3.66% in the January 1, 2018 actuarial valuation as of December 31, 2018 to 3.30% in the January 1, 2018 actuarial valuation as of December 31, 2019. In addition, the healthcare cost trend rates were also updated and the mortality table changed from IRS 2017 Static Combined Table for Small Plans to the PubS-2010 mortality table for police officers and firefighters and PubG-2010 mortality table for nonuniformed employees.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 2021 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, 2019 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, 2019, the annual money-weighted rate of return on the Sewer and Water OPEB Plan investments, net of investment expense, was 1.80% and 1.81%, respectively.

Concentrations – At December 31, 2019, none of the OPEB Plans' investments were more than five percent of the OPEB Plans' total asset value.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Discount Rate – The discount rate used to measure the total OPEB liability as of December 31, 2019 was 3.30%. 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 \$1,039,000 (which represents the average employer contributions to the OPEB trust over the last five years).

The rate of 3.30% as of December 31, 2019 is the single-effective discount rate using 4.50% on projected assets sufficient to cover expected cash flows and 3.26% 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 3.30% was used beginning in the cross-over depletion year of 2026, which is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2019.

In using the discount rate of 3.30% as of December 31, 2019, 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 2028. Therefore, the long-term expected rate of return on OPEB Plans' investments was applied to periods of projected benefit payments through year 2028 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, 2019:

	1% Decrease (2.30%)	Current Discount Rate (3.30%)	1% Increase (4.30%)
OPEB Plan	\$ 165,354,838	\$ 139,648,762	\$ 119,658,485
Water OPEB Plan	\$ 13,299,812	\$ 10,037,949	\$ 7,517,461
Sewer OPEB Plan	\$ 9,090,973	\$ 7,600,231	\$ 6,430,140

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 or higher than the current rates as of December 31, 2019:

	1% Decrease (4.5%)	Current Rates (5.5%)	1% Increase (6.5%)
OPEB Plan	\$ 115,330,193	\$ 139,648,762	\$ 171,654,212
Water OPEB Plan	\$ 6,917,816	\$ 10,037,949	\$ 14,142,854
Sewer OPEB Plan	\$ 6,144,756	\$ 7,600,231	\$ 9,493,195

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

For the year ended December 31, 2019, the governmental activities and business-type activities recognized OPEB expense of \$1,846,630 and \$140,112, respectively.

At December 31, 2019, 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>		
Changes of assumptions	\$ 15,860,458	\$ 3,556,895
Net difference between projected and actual earnings on OPEB plan investments	-	335,573
Total Deferred Outflows of Resources	\$ 15,860,458	\$ 3,892,468
<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	\$ 25,824,552	\$ 5,872,866
Changes of assumptions	3,442,952	1,442,671
Total Deferred Inflows of Resources	\$ 29,267,504	\$ 7,315,537

The differences in the governmental activities and business-type activities expected and actual experience and changes of assumptions is recognized over the average expected

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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>
2020	\$ (3,210,090)	\$ (758,030)
2021	(3,210,090)	(758,031)
2022	(3,210,090)	(796,942)
2023	(3,210,090)	(832,588)
2024	(3,210,094)	(870,293)
Thereafter	2,643,408	592,815
	<u>\$ (13,407,046)</u>	<u>\$ (3,423,069)</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Financial statements for the OPEB Trust Funds are presented below:

Statement of Net Position December 31, 2019

	Sewer OPEB Trust	Water OPEB Trust
Assets:		
Investments	\$ 725,040	\$ 6,980,100
Total Assets	725,040	6,980,100
Net position restricted for other post-employment benefits	\$ 725,040	\$ 6,980,100

Statement of Changes in Net Position Year Ended December 31, 2019

	Sewer OPEB Trust	Water OPEB Trust
Additions:		
Contributions:		
Employer	\$ 345,761	\$ 1,447,582
Total contributions	345,761	1,447,582
Investment income:		
Interest and dividends	11,987	115,919
Total investment income	11,987	115,919
Total additions	357,748	1,563,501
Deductions:		
Benefits	235,276	435,383
Administrative expenses	3,191	28,344
Total deductions	238,467	463,727
Change in net position	119,281	1,099,774
Net position restricted for other post-employment benefits:		
Beginning of year	605,759	5,880,326
End of year	\$ 725,040	\$ 6,980,100

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 2019, 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, 2019 and 2018 is as follows:

Unpaid claims as of January 1, 2018	\$ 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	831,392
Incurred claims and change in estimates during 2019	372,385
Payments during 2019	<u>(216,577)</u>
Unpaid claims as of December 31, 2019	<u><u>\$ 987,200</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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

amounts exceeding \$175,000. 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, 2019 and 2018 is as follows:

Unpaid claims as of January 1, 2018	\$ 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	396,304
Incurred claims and change in estimates during 2019	13,246,851
Payments during 2019	<u>(12,581,891)</u>
Unpaid claims as of December 31, 2019	<u><u>\$ 1,061,264</u></u>

14. Property Sales

Component Unit

Redevelopment Authority

During the year ended December 31, 2019, 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 these losses. Cost of

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019:

Property	Net Proceeds from Property Sales	Cost of Property Sold	Gain (Loss)
12 Coral Street	\$ 3,996	\$ 2,200	\$ 1,796
423 North Pine Street	74,767	55,000	19,767
759 Manor Street	21,604	17,000	4,604
445 East Strawberry Street	30,785	38,000	(7,215)
511 Church Street	22,508	4,000	18,508
639 East Madison Street	26,754	20,000	6,754
807 North Shippen Street	110,916	75,000	35,916
Additional Allocations	-	53,589	(53,589)
	<u>\$ 291,330</u>	<u>\$ 264,789</u>	<u>\$ 26,541</u>

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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, \$999,999 was received under this grant agreement for reimbursement of debt service requirements.

Receipt of annual grant funding of the Infrastructure and Facilities Improvement Program Grant is contingent upon the Redevelopment Authority demonstrating to the Commonwealth of Pennsylvania that anticipated tax revenues generated for the Commonwealth as a result of the Penn Square Hotel project equal or exceed the grant amount of the year. The Redevelopment Authority has offset the hotel construction costs by the maximum grant award of \$1,000,000 per year. Actual annual amounts received may be reduced by an amount that cannot be reasonably estimated at this time. The maximum annual grant award equals the debt service requirements of the Guaranteed Special Revenue Bonds, Series of 2005. The debt service is guaranteed by the City. For the year ended December 31, 2019, 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 recognized CRIZ grant proceeds of \$1,743,733 during the year ended December 31, 2019. The Authority recognize grant amounts annually based on the certified tax revenues for the year. Any such grant amounts are pledged for the payment of the Series A of 2017 bonds.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

16. Penn Square Hotel Project

Component Unit

Redevelopment Authority

Initial Acquisition, Construction, and Project Financing

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

Second Hotel Tower

During 2017, PSP and the Redevelopment Authority together with other parties finalized agreements to proceed with the Redevelopment Authority's construction of a second hotel tower. PSP leased the hotel expansion, by means of amending the existing hotel lease which is treated as a direct financing lease. The total construction project related costs are anticipated to be \$39,400,000. The Redevelopment Authority has entered into contracts with remaining commitments in the amount of approximately \$834,000 and has agreed to reimburse PSP for project related costs incurred to date in the amount of \$6,241,321. 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, 2019 was \$212,180 and \$159,135 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 2017B. For the year ended December 31, 2019, the Redevelopment Authority recognized interest income from the underlying capital lease in the amount of \$2,840,405 and received base rent cash flow in the amount of \$4,069,987. These funds were utilized to make principal payments in the amount of \$2,444,830 and interest payments in the amount of \$1,625,157.

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

Component Unit

Redevelopment Authority

In June 2019, the Redevelopment Authority sold the North Queen Street Parking Garage to the Parking Authority and assigned the related \$3,000,000 note receivable to the City. The net amount of the transferred asset was \$8,376,247. The Redevelopment Authority has retained the related debt for the garage (as described in Note 10) and will continue to service the debt through TIF revenues. Operating revenues from parking garage operations were \$145,045 for the year ended December 31, 2019. Operating expenses from parking garage operations were \$159,149 for the year ended December 31, 2019.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019:

City of Lancaster	\$ 237,721
Lancaster County	59,146
School District of Lancaster	<u>452,514</u>
Total	<u>\$ 749,381</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.

In 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. In 2017, the third property was purchased for \$77,486. Construction on the public urban park area began in 2018. The total amount paid for construction and design during the year ended December 31, 2019 was \$67,133.

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, 2019, the Redevelopment Authority made the required annual payment totaling \$371,315, of which \$271,315 was paid to the City and \$100,000 was paid to the Convention Center Authority.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

As of December 31, 2019, the remaining PILOT payments to be received by the City in accordance with the agreement are as follows:

2020	\$ 282,454
2021	343,928
2022	405,746
2023	417,918
2024	430,456
2025-2029	<u>2,353,910</u>
	<u>\$ 4,234,412</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.

A reconciliation of the interfund receivables and payables at December 31, 2019 is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental funds:		
General Fund	\$ 10,781,780	\$ 600,000
Capital Projects	600,000	-
Non-major governmental funds	-	3,000,000
Proprietary funds:		
Sewer Fund	-	4,053,477
Water Fund	1,500,000	4,800,000
Other Enterprise Funds	-	428,303
	<u>\$ 12,881,780</u>	<u>\$ 12,881,780</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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

During the year ended December 31, 2019, \$600,000 was appropriated from the General Fund for capital projects. The full amount was transferred to Capital Projects in 2020.

Other than the 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, 2019 are as follows:

	Interfund Transfers In	Interfund Transfers Out
Governmental funds:		
General Fund	\$ 4,000,000	\$ 6,110,476
Capital Projects	650,822	-
Debt Service Fund	5,513,486	50,822
Non-major governmental funds	-	146,638
Proprietary funds:		
Water Fund	-	4,000,000
Other Enterprise Funds	143,628	-
	<u>\$ 10,307,936</u>	<u>\$ 10,307,936</u>

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 2019.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

The City, through Capital Projects, has entered into contracts with construction contractors totaling \$7,923,846. The commitment remaining on the contracts at December 31, 2019 was \$533,971.

The City, through the Sewer Fund, has entered into contracts with construction contractors totaling \$6,519,677. The commitment remaining on the contracts at December 31, 2019 was \$1,475,903.

The City, through the Water Fund, has entered into contracts with construction contractors totaling \$26,424,493. The commitment remaining on the contracts at December 31, 2019 was \$17,546,317.

The City, through the Stormwater Fund, an other enterprise fund, has entered into contracts with construction contractors totaling \$3,829,496. The commitment remaining on the contracts at December 31, 2019 was \$2,829,372.

Guarantee

The City is guarantor of the outstanding revenue bonds of the Parking Authority. As of December 31, 2019, the outstanding bonds amounted to \$48,575,000. 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 OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

The City was not required to make payments under any of the above guarantees during the year ended December 31, 2019.

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, 2019, there were bonds and notes issued and outstanding of \$237,456,764.

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. As of April 1, 2019, PSP leased an additional 117 spaces. All modifications are 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.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

In 2015, the Parking Authority entered into a lease agreement with Hotel Lancaster. The lease provides Hotel Lancaster with 134 guaranteed spaces for an annual rent of \$80,400. As of April 1, 2019, Hotel Lancaster leased an additional 84 spaces for monthly rent of \$10,900. The term of the original agreement was 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. The agreement has been extended to March 31, 2029, with an option to extend for two additional five-year terms subject to the Parking Authority's right to increase the rent per space upon then existing market conditions.

The Parking Authority entered into two construction contracts totaling \$13,000,914 during the year ended December 31, 2019 for development and construction of the Christian Street mixed-use parking garage. The commitments outstanding on the contracts were \$9,892,161 as of December 31, 2019.

Redevelopment Authority

The Redevelopment Authority has entered into a construction contract for Lemon Street Park. The amount remaining on the outstanding contract is approximately \$247,000 at December 31, 2019.

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, 2019:

<u>Property</u>	<u>Accrued Loss</u>
445 East Strawberry Street	\$ 38,000
423 North Pine Street	55,000
	<u>\$ 93,000</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

As of December 31, 2019, LanCity Connect Fund and Miscellaneous Local Grants Fund (other governmental funds) had deficits in fund balance of \$1,668,414 and \$5,471, respectively. 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. The total interfund loan of \$3,000,000 is to be repaid through a 13% surcharge on LanCity Connect customer bills and remains outstanding as of December 31, 2019.

As of December 31, 2019, LOOP (other enterprise fund) had a deficit in net position totaling \$25,403. 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, 2019, Stormwater Fund (other enterprise fund) had a deficit in net position totaling \$1,975,945. 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%), 2018 (12%), and again in 2020 (35%). The PA Public Utility Commission (PUC) approved a rate increase for outside City sewer customers in March 2020 for an annualized revenue increase of \$499,000.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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. A final payment from East Lampeter Township for \$128,000 was made in November 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. These negotiations were finalized in late 2019, and as a result, LASA made its final payment of pre-2019 bulk sewer charges in late October 2019. The net amount of disputed charges paid by LASA as a result of these negotiations was approximately \$5.75 million.

The final 5th Amendment to the 1983 Sewage Capital Contribution and Treatment Agreement was approved and executed by all bulk sewer partners in December 2019. The adoption of the 5th Amendment resolved all disputes among the partners and resulted in a new formula by which all partners to the agreement are charged for bulk sewage treatment services by the City from January 1, 2019 forward.

In the Water Fund, a series of inside City rate increases and a nearly 75% increase in rates for outside City customers approved by the PUC in July 2011 had begun to gradually improve operating results and cash flow. Following the lengthy PUC review process for an outside City customer rate increase proposal filed in 2014, the City settled with the State parties for a \$4.2 million revenue increase applied to outside City customers. This increase, paired with a City Council approved rate increase for inside City customers of \$1.3 million, went into effect on March 5, 2015 per the PUC approved settlement agreement. An additional rate increase of 7% for inside City customers was approved by City Council in January 2016. Another inside City increase was approved by City Council effective January 1, 2020 that is anticipated to increase Water revenues by an additional \$1.4 million. The City originally planned to initiate a PUC rate filing in 2020 for an outside City customer water rate increase. However, due to a variety of factors, most importantly the COVID-19 pandemic, the decision was made to defer a PUC rate case filing until 2021.

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

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

Beginning with the City's 2018 financial statements, the requirements of GASB Statement No. 75 were incorporated for the first time. GASB Statement No. 75 requires the long-term costs of employee OPEB to be included in determining the net position of the City and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. Thus, the net position now clearly reveals the long-term cost of providing OPEB to City employees. GASB Statement No. 75 requirements resulted in the Sewer, Water, and Other Enterprise Funds' OPEB liabilities increasing compared to 2018 year-end.

22. Subsequent Events

In early 2020, an outbreak of a novel strain of coronavirus was identified, and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of the coronavirus on the City and its component units' operational and financial performance is currently uncertain and cannot be predicted.

Primary Government

On January 15, 2020, the City entered into an agreement to finance the purchase of a fire truck. Annual payments of principal and interest totaling \$127,351 are due from 2021 to 2030 and will be paid from the General Fund.

Component Units

Redevelopment Authority

Following the process described in Note 3, subsequent to December 31, 2019, the Redevelopment Authority purchased the City's 2019 delinquent real estate taxes. The Redevelopment Authority drew down approximately \$1,112,000 on its line of credit (Note 7) to finance the purchase price of approximately \$1,034,000 payable to the City and the related transaction costs.



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

	2019*	2018*	2017*	2016*	2015*	2014*
Total Pension Liability:						
Service cost	\$ 715,131	\$ 703,268	\$ 669,779	\$ 701,974	\$ 668,547	\$ 646,693
Interest	4,144,585	4,374,735	4,010,127	4,093,510	3,963,234	3,820,058
Changes for experience	(1,392,943)	-	(3,048,275)	-	(658,793)	-
Changes of assumptions	1,237,133	-	1,004,921	-	-	-
Benefit payments, including refunds	(3,603,314)	(3,591,266)	(3,726,084)	(4,162,059)	(3,517,597)	(3,163,900)
Net Changes in Total Pension Liability	1,100,592	1,486,737	(1,089,532)	633,425	455,391	1,302,851
Total Pension Liability - Beginning	53,563,209	52,076,472	53,166,004	52,532,579	52,077,188	50,774,337
Total Pension Liability - Ending (a)	\$ 54,663,801	\$ 53,563,209	\$ 52,076,472	\$ 53,166,004	\$ 52,532,579	\$ 52,077,188
Plan Fiduciary Net Position:						
Contributions - employer	\$ 1,983,633	\$ 2,315,107	\$ 2,257,853	\$ 2,153,346	\$ 2,059,043	\$ 1,623,658
Contributions - employees	286,474	284,272	274,034	288,150	290,678	293,263
Net investment income (loss)	7,848,496	(2,327,495)	4,556,627	2,547,826	531,376	3,312,384
Benefit payments, including refunds	(3,603,314)	(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	6,515,289	(3,346,013)	3,353,730	820,883	(669,201)	2,059,715
Plan Fiduciary Net Position - Beginning	39,202,821	42,548,834	39,195,104	38,374,221	39,043,422	36,983,707
Plan Fiduciary Net Position - Ending (b)	\$ 45,718,110	\$ 39,202,821	\$ 42,548,834	\$ 39,195,104	\$ 38,374,221	\$ 39,043,422
Net Pension Liability - Ending (a-b)	\$ 8,945,691	\$ 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	83.64%	73.19%	81.70%	73.72%	73.05%	74.97%
Covered Payroll	\$ 5,412,936	\$ 4,947,462	\$ 4,822,392	\$ 4,832,626	\$ 4,521,715	\$ 4,122,312
Net Pension Liability as a Percentage of Covered Payroll	165.27%	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

	2019*	2018*	2017*	2016*	2015*	2014*
Total Pension Liability:						
Service cost	\$ 1,736,735	\$ 1,782,287	\$ 1,697,416	\$ 1,811,305	\$ 1,725,052	\$ 1,755,477
Interest	7,795,539	7,437,735	7,156,987	6,673,575	6,375,804	6,117,633
Changes for experience	(887,895)	-	1,124,608	-	(613,024)	-
Changes of assumptions	1,846,367	-	1,556,000	-	-	-
Benefit payments, including refunds	(5,725,826)	(5,594,950)	(5,264,907)	(4,752,979)	(4,176,983)	(3,828,043)
Net Changes in Total Pension Liability	4,764,920	3,625,072	6,270,104	3,731,901	3,310,849	4,045,067
Total Pension Liability - Beginning	97,611,944	93,986,872	87,716,768	83,984,867	80,674,018	76,628,951
Total Pension Liability - Ending (a)	\$ 102,376,864	\$ 97,611,944	\$ 93,986,872	\$ 87,716,768	\$ 83,984,867	\$ 80,674,018
Plan Fiduciary Net Position:						
Contributions - employer	\$ 3,674,585	\$ 3,104,156	\$ 2,996,610	\$ 2,814,350	\$ 2,748,596	\$ 2,439,350
Contributions - employees	629,147	617,420	621,225	699,760	636,599	723,981
Net investment income (loss)	13,229,706	(3,800,159)	7,547,203	4,172,859	809,462	5,207,899
Benefit payments, including refunds	(5,725,826)	(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	11,807,612	(5,704,085)	5,895,961	2,907,890	6,330	4,538,647
Plan Fiduciary Net Position - Beginning	65,590,515	71,294,600	65,398,639	62,490,749	62,484,419	57,945,772
Plan Fiduciary Net Position - Ending (b)	\$ 77,398,127	\$ 65,590,515	\$ 71,294,600	\$ 65,398,639	\$ 62,490,749	\$ 62,484,419
Net Pension Liability - Ending (a-b)	\$ 24,978,737	\$ 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	75.60%	67.20%	75.86%	74.56%	74.41%	77.45%
Covered Payroll	\$ 12,230,601	\$ 11,716,931	\$ 11,562,299	\$ 10,995,284	\$ 10,972,837	\$ 10,707,385
Net Pension Liability as a Percentage of Covered Payroll	204.23%	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

	2019*	2018*	2017*	2016*	2015*	2014*
Total Pension Liability:						
Service cost	\$ 699,835	\$ 645,808	\$ 617,998	\$ 569,268	\$ 542,160	\$ 533,032
Interest	1,466,665	1,342,427	1,270,257	1,168,991	1,096,819	1,048,689
Changes for experience	(242,686)	-	(208,366)	-	(184,304)	-
Changes of assumptions	884,539	-	372,079	-	-	-
Benefit payments, including refunds	(875,567)	(1,179,643)	(727,961)	(473,019)	(934,559)	(595,063)
Net Changes in Total Pension Liability	1,932,786	808,592	1,324,007	1,265,240	520,116	986,658
Total Pension Liability - Beginning	18,651,631	17,843,039	16,519,032	15,253,792	14,733,676	13,747,018
Total Pension Liability - Ending (a)	\$ 20,584,417	\$ 18,651,631	\$ 17,843,039	\$ 16,519,032	\$ 15,253,792	\$ 14,733,676
Plan Fiduciary Net Position:						
Contributions - employer	\$ 1,221,228	\$ 1,097,191	\$ 1,050,161	\$ 931,774	\$ 900,704	\$ 697,517
Net investment income (loss)	2,564,992	(585,458)	1,419,263	722,581	139,124	854,651
Benefit payments, including refunds	(875,567)	(1,179,643)	(727,961)	(473,019)	(934,559)	(595,063)
Administrative expenses	(5,872)	(36,559)	(28,655)	(26,770)	(27,730)	(24,140)
Net Change in Plan Fiduciary Net Position	2,904,781	(704,469)	1,712,808	1,154,566	77,539	932,965
Plan Fiduciary Net Position - Beginning	12,980,959	13,685,428	11,972,620	10,818,054	10,740,515	9,807,550
Plan Fiduciary Net Position - Ending (b)	\$ 15,885,740	\$ 12,980,959	\$ 13,685,428	\$ 11,972,620	\$ 10,818,054	\$ 10,740,515
Net Pension Liability - Ending (a-b)	\$ 4,698,677	\$ 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	77.17%	69.60%	76.70%	72.48%	70.92%	72.90%
Covered Payroll	\$ 17,186,114	\$ 16,675,240	\$ 16,203,075	\$ 15,105,036	\$ 14,312,665	\$ 13,618,505
Net Pension Liability as a Percentage of Covered Payroll	27.34%	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 LIABILITY (ASSET) AND RELATED RATIOS

	2019*	2018*	2017*	2016*	2015*
Total Pension Liability:					
Service cost	\$ 156,403	\$ 97,605	\$ 69,238	\$ 64,414	\$ 34,602
Interest	81,652	75,453	72,523	71,493	70,961
Benefit payments, including refunds	(102,194)	(107,021)	(123,976)	(119,340)	(137,991)
Changes of assumptions	-	-	30,135	3,220	-
Differences between expected and actual experience	(62,989)	-	38,482	-	3,085
Net Changes in Total Pension Liability	72,872	66,037	86,402	19,787	(29,343)
Total Pension Liability - Beginning	1,466,554	1,400,517	1,314,115	1,294,328	1,323,671
Total Pension Liability - Ending (a)	\$1,539,426	\$1,466,554	\$1,400,517	\$1,314,115	\$1,294,328
Plan Fiduciary Net Position:					
Contributions - employer	\$ 31,163	\$ 19,000	\$ 20,875	\$ 5,112	\$ 7,687
Contributions - employees	81,810	47,920	31,547	24,532	16,561
Net investment income (loss)	(179,827)	247,783	143,577	(43,585)	104,945
Benefit payments, including refunds	(102,194)	(107,021)	(123,976)	(119,340)	(137,991)
Administrative expenses	(4,354)	(4,314)	(4,590)	(3,948)	(3,843)
Net Change in Plan Fiduciary Net Position	(173,402)	203,368	67,433	(137,229)	(12,641)
Plan Fiduciary Net Position - Beginning	1,618,000	1,414,632	1,347,199	1,484,428	1,497,069
Plan Fiduciary Net Position - Ending (b)	\$1,444,598	\$1,618,000	\$1,414,632	\$1,347,199	\$1,484,428
Net Pension Liability (Asset) - Ending (a-b)	\$ 94,828	\$ (151,446)	\$ (14,115)	\$ (33,084)	\$ (190,100)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.8%	110.3%	101.0%	102.5%	114.7%
Covered Payroll	\$1,364,462	\$ 910,049	\$ 696,471	\$ 697,602	\$ 396,954
Net Pension Liability (Asset) as a Percentage of Covered Payroll	6.95%	-16.64%	-2.03%	-4.74%	-47.89%

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

See accompanying note to required supplementary information - pension plans.

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - FIRE PENSION PLAN

	2019*	2018*	2017*	2016*	2015*	2014*	2013	2012	2011	2010
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 1,983,633	\$ 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
Contributions in relation to the actuarially determined contribution	1,983,633	2,315,107	2,257,853	2,153,346	2,059,043	1,623,658	1,623,453	1,075,765	1,154,230	1,183,751 (1)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (115,000)
Covered payroll	\$ 5,412,936	\$ 4,947,462	\$ 4,822,392	\$ 4,832,626	\$ 4,521,715	\$ 4,122,312				
Contributions as a percentage of covered payroll	36.65%	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	20.54% -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

	2019*	2018*	2017*	2016*	2015*	2014*	2013	2012	2011	2010
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 3,674,585	\$ 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
Contributions in relation to the actuarially determined contribution	3,674,585	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)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (970,000)
Covered payroll	\$ 12,230,601	\$ 11,716,931	\$ 11,562,299	\$ 10,995,284	\$ 10,972,837	\$ 10,707,385				
Contributions as a percentage of covered payroll	30.04%	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

20.60%	-5.47%	12.04%	7.10%	1.22%	9.29%
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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 CITY CONTRIBUTIONS AND INVESTMENT RETURNS - CASH BALANCE PENSION PLAN

	2019*	2018*	2017*	2016*	2015*	2014*	2013	2012	2011	2010
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 1,221,228	\$ 1,097,191	\$ 1,050,161	\$ 931,774	\$ 900,704	\$ 697,516	\$ 658,895	\$ 516,512	\$ 504,280	\$ 499,125
Contributions in relation to the actuarially determined contribution	1,221,228	1,097,191	1,050,161	931,774	900,704	697,517	658,895	516,512	504,280	499,125
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 17,186,114	\$ 16,675,240	\$ 16,203,075	\$ 15,105,036	\$ 14,312,665	\$ 13,618,505				
Contributions as a percentage of covered payroll	7.11%	6.58%	6.48%	6.17%	6.29%	5.12%				
Investment Returns										
Annual money-weighted rate of return, net of investment expense	19.80%	-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

	2019*	2018*	2017*	2016*	2015*	2014	2013	2012	2011	2010
Actuarially determined contribution under Act 205	\$ 31,043	\$ 18,720	\$ 20,835	\$ 5,032	\$ 6,907	\$ 2,736	\$ 14,139	\$ 13,371	\$ 10,008	\$ 5,479
Contribution in relation to the actuarially determined contribution	31,163	19,000	20,875	5,112	7,687	2,736	14,139	13,371	10,008	5,479
Contribution deficiency (excess)	\$ (120)	\$ (280)	\$ (40)	\$ (80)	\$ (780)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,364,462	\$ 910,049	\$ 696,471	\$ 697,602	\$ 96,954					
Contributions as a percentage of covered payroll	2.28%	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	1/1/2017	1/1/2017	1/1/2017
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	5 years	7 years	13 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%	4.5%
Underlying inflation rate	3.0%	3.0%	3.0%
Mortality table	IRS 2017 Static Combined Table for Small Plans	IRS 2017 Static Combined Table for Small Plans	IRS 2017 Static Combined Table for Small Plans

Changes in Actuarial Assumptions

In the January 1, 2017 FPP and PPP actuarial valuations, the mortality table was changed to the IRS 2017 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 7 years, respectively.

CITY OF LANCASTER, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

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

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

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

In the January 1, 2013 FPP and PPP actuarial valuation, the asset valuation method was updated from smoothed value with a corridor of 70% to 130% of market value to smoothed value with a corridor of 80% to 120% of market value. The remaining amortization method was also updated from 10 years to 9 years for FPP and 15 years to 13 years for PPP.

In the January 1, 2013 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, 2018 (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

	2019*	2018*	2017*
Total OPEB Liability:			
Service cost	\$ 4,597,057	\$ 6,922,393	\$ 6,592,755
Interest	4,327,650	4,886,806	4,638,834
Benefit payments	(3,733,427)	(3,860,539)	(3,594,807)
Changes for experience	-	(36,654,434)	-
Changes of assumptions	18,790,344	(4,953,863)	-
Net Changes in Total OPEB Liability	23,981,624	(33,659,637)	7,636,782
Total OPEB Liability - Beginning	115,667,138	149,326,775	141,689,993
Total OPEB Liability - Ending (a)	<u>\$ 139,648,762</u>	<u>\$ 115,667,138</u>	<u>\$149,326,775</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 3,733,427	\$ 3,860,539	\$ 3,594,807
Net investment income	-	-	-
Benefit payments	(3,733,427)	(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)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 139,648,762</u>	<u>\$ 115,667,138</u>	<u>\$149,326,775</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</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 PLAN

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

	2019*	2018*	2017*
Total OPEB Liability:			
Service cost	\$ 451,320	\$ 978,590	\$ 931,990
Interest	515,196	619,303	583,655
Benefit payments	(435,383)	(435,122)	(440,716)
Changes for experience	-	(4,747,005)	-
Changes of assumptions	2,625,999	(1,348,338)	-
Net Changes in Total OPEB Liability	3,157,132	(4,932,572)	1,074,929
Total OPEB Liability - Beginning	13,860,917	18,793,489	17,718,560
Total OPEB Liability - Ending (a)	<u>\$ 17,018,049</u>	<u>\$ 13,860,917</u>	<u>\$ 18,793,489</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 1,447,582	\$ 1,340,156	\$ 1,354,601
Net investment income	115,919	79,521	23,346
Benefit payments	(435,383)	(435,122)	(440,716)
Administrative expense	(28,344)	(23,751)	(19,549)
Net Change in Plan Fiduciary Net Position	1,099,774	960,804	917,682
Plan Fiduciary Net Position - Beginning	5,880,326	4,919,522	4,001,840
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,980,100</u>	<u>\$ 5,880,326</u>	<u>\$ 4,919,522</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 10,037,949</u>	<u>\$ 7,980,591</u>	<u>\$ 13,873,967</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>41.02%</u>	<u>42.42%</u>	<u>26.18%</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 PLAN

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

	2019*	2018*	2017*
Total OPEB Liability:			
Service cost	\$ 270,990	\$ 509,182	\$ 484,935
Interest	254,070	320,534	302,702
Benefit payments	(235,276)	(264,372)	(231,564)
Changes for experience	-	(2,974,945)	-
Changes of assumptions	1,237,236	(537,672)	-
Net Changes in Total OPEB Liability	1,527,020	(2,947,273)	556,073
Total OPEB Liability - Beginning	6,798,251	9,745,524	9,189,451
Total OPEB Liability - Ending (a)	<u>\$ 8,325,271</u>	<u>\$ 6,798,251</u>	<u>\$ 9,745,524</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 345,761	\$ 365,769	\$ 335,755
Net investment income	11,987	8,124	2,340
Benefit payments	(235,276)	(264,372)	(231,564)
Administrative expense	(3,191)	(2,421)	(1,948)
Net Change in Plan Fiduciary Net Position	119,281	107,100	104,583
Plan Fiduciary Net Position - Beginning	605,759	498,659	394,076
Plan Fiduciary Net Position - Ending (b)	<u>\$ 725,040</u>	<u>\$ 605,759</u>	<u>\$ 498,659</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 7,600,231</u>	<u>\$ 6,192,492</u>	<u>\$ 9,246,865</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>8.71%</u>	<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	2019*	2018*	2017*
Actuarially determined contribution	\$ 3,733,427	\$ 3,860,539	\$ 3,594,807
Contributions in relation to the actuarially determined contribution	3,733,427	3,860,539	3,594,807
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Investment Returns			
Annual money-weighted rate of return, net of investment expense	N/A	N/A	N/A

OPEB WATER PLAN:

Schedule of City Contributions			
Actuarially determined contribution	\$ 1,447,582	\$ 1,340,156	\$ 1,354,601
Contributions in relation to the actuarially determined contribution	1,447,582	1,340,156	1,354,601
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Investment Returns			
Annual money-weighted rate of return, net of investment expense	1.81%	1.47%	0.52%

OPEB SEWER PLAN:

Schedule of City Contributions			
Actuarially determined contribution	\$ 345,761	\$365,769	\$335,755
Contributions in relation to the actuarially determined contribution	345,761	365,769	335,755
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Investment Returns			
Annual money-weighted rate of return, net of investment expense	1.80%	1.48%	0.52%

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

See accompanying note to required supplementary information - OPEB plan.

CITY OF LANCASTER

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, 2019. 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	3.30%
Medical inflation	5.5% in 2019 through 2023. Rates gradually decrease from 5.4% in 2024 to 4.0% in 2075 and later
Mortality table	PubS-2010 mortality table for police officers and firefighters and PubG-2010 mortality table for nonuniformed employees
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 changed from 3.66% in the January 1, 2018 actuarial valuation as of December 31, 2018 to 3.30% in the January 1, 2018 actuarial valuation as of December 31, 2019. In addition, the healthcare cost trend rates were also updated and the mortality table changed from IRS 2017 Static Combined Table for Small Plans to the PubS-2010 mortality table for police officers and firefighters and PubG-2010 mortality table for nonuniformed employees.

CITY OF LANCASTER

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB PLANS

The interest rate was increased from 3.17% to 3.66% 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, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
Real estate taxes, net of discount	\$ 30,155,800	\$ 30,155,800	\$ 30,325,628	\$ 169,828
Real estate transfer tax	1,050,000	1,050,000	1,376,778	326,778
Penalties, interest, and costs on delinquent real estate taxes	82,500	82,500	139,093	56,593
Earned income tax	6,375,000	6,375,000	6,645,381	270,381
Local services tax	1,700,000	1,700,000	1,648,207	(51,793)
Total taxes	39,363,300	39,363,300	40,135,087	771,787
Intergovernmental revenues:				
Grants	5,000	5,000	27,716	22,716
PA state reimbursement	20,000	20,000	75,096	55,096
Pension state aid	2,903,332	2,903,332	3,190,372	287,040
Public utility reality tax	37,000	37,000	34,045	(2,955)
Alcohol beverage tax	35,000	35,000	33,050	(1,950)
Total intergovernmental revenues	3,000,332	3,000,332	3,360,279	359,947
Licenses and permits	2,355,000	2,355,000	2,304,723	(50,277)
Fines and forfeitures	1,800,000	1,800,000	2,128,646	328,646
Rents and charges for services	1,376,500	1,376,500	1,391,395	14,895
Investment income	2,500	2,500	51,145	48,645
Miscellaneous	2,610,645	2,610,645	2,654,415	43,770
Other financing sources:				
Interfund reimbursements	3,043,188	3,043,188	3,187,715	144,527
Sale of general capital assets	345,000	945,000	1,393,383	448,383
Transfers in	4,000,000	4,000,000	4,000,000	-
Total other financing sources	7,388,188	7,988,188	8,581,098	592,910
Total revenues and other financing sources	\$ 57,896,465	\$ 58,496,465	\$ 60,606,788	\$ 2,110,323

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, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Executive department:				
Office of the Mayor	\$ 272,439	\$ 270,079	\$ 269,845	\$ 234
Office of Neighborhood Engagement	196,274	198,634	150,126	48,508
Office of the City Solicitor	399,000	399,000	327,146	71,854
	<u>867,713</u>	<u>867,713</u>	<u>747,117</u>	<u>120,596</u>
Legislative department:				
Office of the City Council	69,900	69,900	64,917	4,983
Office of the City Clerk	82,718	82,718	68,230	14,488
	<u>152,618</u>	<u>152,618</u>	<u>133,147</u>	<u>19,471</u>
Office of the City Treasurer/Controller	<u>17,000</u>	<u>17,000</u>	<u>17,000</u>	<u>-</u>
Administrative services:				
Office of the Director	385,827	397,292	396,235	1,057
Bureau of Accounting	478,190	491,895	488,492	3,403
Bureau of Procurement and Collections	93,034	100,074	88,552	11,522
Bureau of Human Resources	394,488	400,188	360,992	39,196
Bureau of Information Services	705,322	706,172	675,140	31,032
Community Involvement	630,656	630,656	617,690	12,966
Insurance	574,500	574,500	543,100	31,400
Fringe benefits	2,855,469	2,930,352	2,867,465	62,887
	<u>6,117,486</u>	<u>6,231,129</u>	<u>6,037,666</u>	<u>193,463</u>
Public safety:				
Bureau of Police	25,235,844	25,139,449	24,473,429	666,020
Bureau of Fire	11,272,296	11,270,048	11,436,757	(166,709)
	<u>36,508,140</u>	<u>36,409,497</u>	<u>35,910,186</u>	<u>499,311</u>
Community planning and economic development:				
Office of the Director	1,690,886	1,652,639	1,627,551	25,088
Building Code Administration	504,622	509,517	431,124	78,393
Property Maintenance	1,098,357	1,113,259	1,064,439	48,820
Public Art	88,030	95,030	80,943	14,087
Lancaster Office of Promotion	390,324	398,024	347,426	50,598
Bureau of Planning	287,140	297,890	242,847	55,043
	<u>4,059,359</u>	<u>4,066,359</u>	<u>3,794,330</u>	<u>272,029</u>
Public works:				
Office of the Director	1,308,167	1,190,975	1,131,370	59,605
Bureau of Engineering	581,841	755,833	703,223	52,610
Bureau of Streets:				
Administration	327,829	405,629	391,109	14,520
Maintenance	594,769	605,941	532,393	73,548
Traffic	1,102,320	1,108,130	1,049,073	59,057
Motor Vehicles	287,749	290,116	272,143	17,973
Bureau of Parks:				
Administration	150,100	153,700	142,224	11,476
Buildings	1,265,735	1,275,787	1,181,468	94,319
Parks	622,714	619,721	609,127	10,594
Trees	211,748	214,482	210,202	4,280
Central Market building	97,377	98,035	88,107	9,928
Southern Market building	22,900	22,900	1,911	20,989
	<u>6,573,249</u>	<u>6,741,249</u>	<u>6,312,350</u>	<u>428,899</u>
Other financing uses:				
Transfers out	6,050,516	6,460,516	6,110,476	350,040
Total expenditures and other financing uses	<u>\$ 60,346,081</u>	<u>\$ 60,946,081</u>	<u>\$ 59,062,272</u>	<u>\$ 1,883,809</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, 2019

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 safety:		
Bureau of Fire	\$ 11,270,048	\$ 11,436,757

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, 2019

Direct Expenses and Costs:

City Bureau of Sewers (Administration - 880)	\$ 1,592,803
Collection system (881) *	1,816,130
Sewage pumping stations (882)	1,277,489
Sewage treatment plants (883)	4,785,283
Sewage grounds maintenance (884)	27,197
	<hr/>
	9,498,902
Allowance per contracts for indirect expenses and costs (\$9,498,902 x 5.0%)	<hr/>
	474,945
	<hr/>
	9,973,847
	<hr/>
Less reimbursements (as defined in agreements):	
Miscellaneous	456,573
Industrial waste surcharge	859,753
Management and operation service fee	156,425
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	1,472,751
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Net Cost of Operations of the City Sewer System	\$ 8,501,096
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* Combined total for all municipalities

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULE OF DIRECT EXPENSES AND COSTS

YEAR ENDED DECEMBER 31, 2019

City Bureau of Sewers (Administration - 880):

Salaries and wages	325,549
Consultant and contract services	152,817
Training	15,104
Uniforms	10,812
Telephone	34,129
Insurance package	155,957
Miscellaneous expense	27,783
Fringe benefits	870,652
	<hr/>
	1,592,803

Collection System (881) *:

Salaries and wages	973,516
Vehicle maintenance	130,651
Gasoline and oil	51,512
Miscellaneous expenses	660,451
	<hr/>
	1,816,130

Sewage Pumping Stations (882):

Salaries and wages	825,226
Equipment maintenance	51,752
Building maintenance	1,428
Fuel	18,514
Power	376,086
Miscellaneous expenses	4,483
	<hr/>
	1,277,489

Sewage Treatment Plants (883):

Salaries and wages	869,190
Chemicals and laboratory supplies	653,484
Equipment maintenance	484,656
Vehicle maintenance	19,933
Gasoline, oil, and fuel	60,044
Water utility expense	130,296
Power	921,828
Building maintenance	30,391
Sludge disposal	1,531,759
Miscellaneous expenses	83,702
	<hr/>
	4,785,283

Sewer Grounds Maintenance (884):

Salaries and wages	7,905
Operating equipment	15,318
Fringe benefits	3,974
	<hr/>
	27,197

Total Direct Expenses and Costs

\$ 9,498,902

* Combined total for all municipalities

CITY OF LANCASTER, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2019

Net cost of operation of the City of Lancaster sewer system *	\$ 8,501,096
Number of units of 1,000 gallons of sewage treated per records of the City of Lancaster (unaudited)	<u>7,809,331</u>
Net Cost of Treating 1,000 Gallons of Sewage (unaudited) **	<u><u>\$ 1.0886</u></u>

* Combined total for all municipalities

** Combined total for all municipalities. Actual net cost of treating 1,000 gallons of sewage per partner will vary based upon the calculation performed in accordance with the 5th amendment to the agreement.