

**City of Lancaster**

**Fire Pension Fund**

Financial Statements and Required  
Supplementary Information

Years Ended December 31, 2013 and 2012 with  
Independent Auditor's Report

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# CITY OF LANCASTER FIRE PENSION FUND

YEARS ENDED DECEMBER 31, 2013 AND 2012

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## Independent Auditor's Report

To the Honorable J. Richard Gray, Mayor  
and Members of the Fire Pension Fund  
City of Lancaster, Pennsylvania

We have audited the accompanying financial statements of the Fire Pension Fund of the City of Lancaster, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fire Pension Fund of the City of Lancaster, as of December 31, 2013 and 2012, and the changes in the financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Fire Pension Fund and do not purport to, and do not, present fairly the financial position of the City of Lancaster, as of December 31, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and employer contributions on page 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Maher Duessel*

Harrisburg, Pennsylvania  
July 9, 2014

**CITY OF LANCASTER  
FIRE PENSION FUND**

STATEMENTS OF PLAN NET POSITION

DECEMBER 31, 2013 AND 2012

<b>Assets</b>	<u>2013</u>	<u>2012</u>
Investments (at fair value):		
Money market funds	\$ 1,751,742	\$ 461,393
U.S. government obligations	6,164,377	5,650,042
U.S. government agency obligations	75,540	115,967
Corporate notes and bonds	4,690,864	5,097,329
Common stock	24,191,561	21,761,198
Accrued interest	<u>120,061</u>	<u>103,810</u>
<b>Total Assets</b>	<u>36,994,145</u>	<u>33,189,739</u>
<b>Liabilities</b>		
Accounts payable	<u>10,438</u>	<u>10,830</u>
<b>Net Position</b>		
Restricted for pension benefits	<u><u>\$ 36,983,707</u></u>	<u><u>\$ 33,178,909</u></u>

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

# CITY OF LANCASTER FIRE PENSION FUND

## STATEMENTS OF CHANGES IN PLAN NET POSITION YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Additions:</b>		
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Contributions:		
Employees	\$ 277,848	\$ 283,109
Employer	1,623,453	1,075,765
Total contributions	1,901,301	1,358,874
Investment income:		
Net appreciation in fair value of investments	4,175,659	1,730,123
Interest and dividends	948,866	969,367
	5,124,525	2,699,490
Less: investment expenses	(150,199)	(142,293)
Net investment income	4,974,326	2,557,197
Total additions	6,875,627	3,916,071
<b>Deductions:</b>		
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Benefits	3,047,354	3,219,858
Administrative expenses	23,475	25,430
Total deductions	3,070,829	3,245,288
<b>Net Increase in Plan Net Position</b>	3,804,798	670,783
<b>Net Position:</b>		
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Beginning of year	33,178,909	32,508,126
End of year	\$ 36,983,707	\$ 33,178,909

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

# CITY OF LANCASTER FIRE PENSION FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General

The Fire Pension Fund (Fund) is a single-employer public employee retirement system established and administered by the City of Lancaster, Pennsylvania (City), to provide pension benefits for employees of its Bureau of Fire. The Fund is considered part of the City's financial reporting entity and is included in the City's financial reports as a pension trust fund. The accompanying financial statements do not include any other funds of the City and, therefore, do not present fairly the financial position and the changes in financial position of the City in conformity with accounting principles generally accepted in the United States of America.

#### Basis of Accounting

These financial statements are prepared using the accrual basis of accounting. Fire Pension Plan (Plan) member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

#### Investments

Investments are recorded at fair value. Securities traded on a national exchange are valued at quoted market prices.

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 in fair value of investments includes both realized and unrealized gains and losses.

#### Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, additions to net position restricted for pension benefits, and deductions from net position restricted for pension benefits. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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# CITY OF LANCASTER FIRE PENSION FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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### 2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

#### Plan Participants

At January 1, 2013, the date of the most recent actuarial report, the Plan's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	138
Terminated employees entitled to benefits	3
Active Plan participants	<u>55</u>
	<u><u>196</u></u>

#### Plan Description

The Plan is a single-employer defined benefit pension plan that covers all full-time members of the City's Bureau of Fire. The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries. Plan provisions are established and may be amended through the collective bargaining process.

#### Contributions

Plan members are required to contribute 5% of their pay and longevity plus \$5.00 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 annual required contribution is determined annually during the budgeting process. The results of actuarial valuations are used in budgeting for future years.

The City made contributions to the Plan of \$1,623,453 and \$1,075,765 for the years ended December 31, 2013 and 2012, respectively.

#### Administrative Expenses

Administration costs are financed through investment income.

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# CITY OF LANCASTER FIRE PENSION FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

### 3. ANNUAL PENSION COST AND NET PENSION ASSET

The City's annual pension cost and net pension asset for the Plan for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Annual required contribution	\$ 1,623,453	\$ 1,075,765
Interest on net pension asset	(435,374)	(444,260)
Adjustment to annual required contribution	544,218	555,325
Annual pension cost	1,732,297	1,186,830
Contributions made	1,623,453	1,075,765
Change in net pension asset	108,844	111,065
Net pension asset, beginning of year	(5,442,181)	(5,553,246)
Net pension asset, end of year	\$ (5,333,337)	\$ (5,442,181)

The January 1, 2013 actuarial valuation used the entry age normal actuarial cost method. The actuarial assumptions include: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c) level dollar closed amortization method, and d) 9-year remaining amortization period. The actuarial value of assets for the Plan from the prior valuation report (reduced for benefits paid and increased for contributions) is projected forward at an artificial investment return of 7.00% (interest rate assumption minus 1%). In no event is the actuarial value of assets allowed to be greater than 120% or less than 80% of market value.

Three-year trend information:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2011	\$ 1,267,562	91.1%	\$ (5,553,246)
2012	1,186,830	90.6%	(5,442,181)
2013	1,732,297	93.7%	(5,333,337)

# CITY OF LANCASTER FIRE PENSION FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

### Funded Status and Schedule of Funding Progress:

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2013	\$ 39,814,691	\$ 49,376,555	\$ 9,561,864	80.6%	\$ 3,669,545	260.6%

#### 4. DEPOSITS AND INVESTMENTS

The deposit and investment policy of the Fund is administered by the trustees and the Fire Pension Board. The Fund adheres to state statutes, the Third Class City Code, and prudent business practice.

Investments consist of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Money market funds	\$ 1,751,742	\$ 461,393
U.S. government obligations	6,164,377	5,650,042
U.S. government agency obligations	75,540	115,967
Corporate notes and bonds	4,690,864	5,097,329
Common stock	<u>24,191,561</u>	<u>21,761,198</u>
Total investments	<u>\$ 36,874,084</u>	<u>\$ 33,085,929</u>

*Custodial Credit Risk.* Custodial credit risk is the risk that the financial institution or 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 Fund does not have an investment policy for custodial credit risk. All of the Fund's investments are uninsured, registered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Fund's name.

# CITY OF LANCASTER FIRE PENSION FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

*Concentration of Credit Risk.* The Fund places no limit on the amount the Fund may invest in any one issuer. At December 31, 2013, none of the Fund's investments were more than five percent of the Fund's total asset value.

*Credit Risk.* The Fund does not have a formal policy that would limit its investment choices with regard to credit risk. The Fund's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2013:

	Fair Value	Rating
Money market funds	\$ 1,751,742	AAA
U.S. government agency obligations	75,540	AA+
Corporate notes and bonds	343,257	AAA
Corporate notes and bonds	345,296	AA+
Corporate notes and bonds	369,763	AA
Corporate notes and bonds	724,427	AA-
Corporate notes and bonds	1,158,262	A+
Corporate notes and bonds	121,470	A
Corporate notes and bonds	1,628,389	A-

*Interest Rate Risk.* The Fund 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 average maturity of the Fund's money market funds at December 31, 2013 was less than one year. The average maturities for the Fund's fixed income investments as of December 31, 2013 were as follows:

	Fair Value	Investment Maturity			
		2014	2015-2019	2020-2024	Subsequent to 2024
U.S. government obligations	\$ 6,164,377	\$ 3,977,679	\$ 2,053,641	\$ 133,057	\$ -
U.S. government agency obligations	75,540	847	49,170	3,004	22,519
Corporate notes and bonds	4,690,864	95,231	2,883,607	1,712,026	-
	\$10,930,781	\$ 4,073,757	\$ 4,986,418	\$ 1,848,087	\$ 22,519

**Required Supplementary  
Information**

# CITY OF LANCASTER FIRE PENSION FUND

## SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

Actuarial Valuation January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
2008	\$ 35,648,730	\$ -	\$ -	-	\$ -	-
2009	35,258,887	41,692,040	6,433,153	84.6%	4,736,888	135.8%
2010	36,773,767	-	-	-	-	-
2011	37,934,781	46,785,075	8,850,294	81.1%	4,390,834	201.6%
2012	39,377,784	-	-	-	-	-
2013	39,814,691	49,376,555	9,561,864	80.6%	3,669,545	260.6%

The following changes affect the comparability of costs:

Actuarial Valuation Date	Reason	Change in Unfunded Actuarial Accrued Liability
1/1/2009	Assumption change/plan amendment	\$ (2,364,437)
1/1/2011	Assumption change	2,280,365

## SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

Calendar Year	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2008	\$ 980,923	\$ 980,923	100.0%
2009	1,002,631	1,002,631	100.0%
2010	1,068,751	1,183,751	110.8% (1)
2011	1,154,230	1,154,230	100.0%
2012	1,075,765	1,075,765	100.0%
2013	1,623,453	1,623,453	100.0%

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