

# **City of Lancaster Sewer Fund**

## Financial Statements and Required Supplementary Information

Years Ended December 31, 2015 and 2014  
with Independent Auditor's Report

**MaherDuessel**  
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# CITY OF LANCASTER SEWER FUND

YEARS ENDED DECEMBER 31, 2015 AND 2014

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### Independent Auditor's Report

To the Honorable J. Richard Gray, Mayor  
and Members of City Council  
City of Lancaster, Pennsylvania

We have audited the accompanying financial statements of the Sewer Fund of the City of Lancaster as of and for the years ended December 31, 2015 and 2014, 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 Sewer Fund of the City of Lancaster as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Change in Accounting Principle**

As described in Note 1, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," which requires the City to record its net pension liability and related items on the financial statements. Our opinion is not modified with respect to that 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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the historical pension and other post-employment benefit (OPEB) information on pages 34 through 37 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sewer Fund'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 (collectively, supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Sewer Fund and do not purport to, and do not present fairly the financial position of the City of Lancaster, as of December 31, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Maher Duessel*

Harrisburg, Pennsylvania  
September 15, 2016

# CITY OF LANCASTER SEWER FUND

## BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	2015	(Restated) 2014
<b>Assets and Deferred Outflows of Resources</b>		
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 300	\$ 200,300
Cash and cash equivalents - restricted	26,068,653	32,501,876
Investments	-	265,366
Receivables:		
Regular	873,743	891,591
Bulk - net of allowance for uncollectible accounts of \$4,170,161 and \$3,859,491 in 2015 and 2014, respectively	3,110,259	4,102,282
Unbilled	776,682	752,800
Industrial waste surcharge	106,476	88,996
Prepaid expenses	4,480	4,439
Total current assets	30,940,593	38,807,650
Long-term assets:		
Due from other governments	136,878	140,638
Prepaid debt insurance	498,894	552,888
Capital assets, not being depreciated	12,522,842	3,325,566
Capital assets, being depreciated, net	87,467,470	88,427,656
Total long-term assets	100,626,084	92,446,748
Total Assets	131,566,677	131,254,398
Deferred Outflows of Resources:		
Deferred charge on refunding	689,118	799,853
Deferred outflows of resources for pension	81,635	-
Total Deferred Outflows of Resources	770,753	799,853
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 132,337,430</b>	<b>\$ 132,054,251</b>

(Continued)

	2015	(Restated) 2014
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 3,890,387	\$ 1,988,613
Accrued expenses	378,307	422,160
Due to City of Lancaster General Fund	4,162,394	3,599,905
Due to other governments	5,357,946	7,346,801
Unearned revenue	185,000	185,000
Compensated absences, current portion	16,373	17,582
Workers' compensation payable, current portion	-	606
Capital lease, current portion	197,245	276,091
Notes payable, current portion	410,000	895,000
Bonds payable, current portion	1,595,000	870,000
Total current liabilities	<u>16,192,652</u>	<u>15,601,758</u>
Long-term liabilities:		
Compensated absences, net of current portion	54,781	58,844
Workers' compensation payable, net of current portion	-	1,225
Net pension liability	673,621	605,616
Net other post-employment liability	3,811,392	3,345,755
Capital lease, net of current portion	247,847	407,240
Notes payable, net of current portion	10,764,611	9,238,129
Bonds payable, net of current portion	36,783,041	38,472,064
Total long-term liabilities	<u>52,335,293</u>	<u>52,128,873</u>
Total Liabilities	<u>68,527,945</u>	<u>67,730,631</u>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows of resources for pension	26,141	-
Total Deferred Inflows of Resources	<u>26,141</u>	<u>-</u>
<b>Net Position:</b>		
Net investment in capital assets	68,077,378	63,418,759
Restricted for capital acquisition	3,008,650	4,016,346
Unrestricted	(7,302,684)	(3,111,485)
Total Net Position	<u>63,783,344</u>	<u>64,323,620</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<u>\$ 132,337,430</u>	<u>\$ 132,054,251</u>

(Concluded)

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

**CITY OF LANCASTER SEWER FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	(Restated) 2014
<b>Operating Revenues:</b>		
Sewage treatment revenue:		
Sewage treatment	\$ 8,187,832	\$ 8,273,698
Industrial waste surcharge	452,828	418,519
Bulk treatment	3,898,553	4,006,559
Maintenance fee income	169,443	178,940
Miscellaneous	92,406	109,241
Total operating revenues	12,801,062	12,986,957
<b>Operating Expenses:</b>		
Administration	3,844,851	3,813,973
Depreciation	3,082,197	2,940,303
Collection system	997,536	864,936
Sewage pumping station	1,118,761	1,110,371
Sewage treatment plants	4,439,130	4,199,630
Sewer grounds maintenance	35,887	163,619
Total operating expenses	13,518,362	13,092,832
<b>Operating Loss</b>	(717,300)	(105,875)
<b>Non-Operating Revenue (Expenses):</b>		
State pension contribution	141,570	113,371
Investment income	20,460	28,165
Amortization expense	(53,994)	(56,709)
Bad debt expense	(254,923)	-
Interest expense	(2,065,653)	(2,248,473)
Loss on disposal of capital assets	(4,152)	-
Total non-operating revenue (expenses)	(2,216,692)	(2,163,646)
Loss before transfers and capital contributions	(2,933,992)	(2,269,521)
Transfers in (out)	(3,605)	1,032,911
Capital contributions	2,397,321	1,002,290
<b>Change in Net Position before Extraordinary Item</b>	(540,276)	(234,320)
<b>Extraordinary Item:</b>		
Litigation Settlement (Note 12)	-	2,433,543
<b>Change in Net Position</b>	(540,276)	2,199,223
<b>Net Position:</b>		
Beginning of year	64,323,620	62,124,397
End of year	\$ 63,783,344	\$ 64,323,620

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

# CITY OF LANCASTER SEWER FUND

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	(Restated) 2014
<b>Cash Flows From Operating Activities:</b>		
Cash received from users	\$ 13,518,408	\$ 12,907,273
Cash paid to suppliers	(5,780,633)	(7,661,133)
Cash paid to employees	(2,453,352)	(2,506,209)
Net cash provided by operating activities	5,284,423	2,739,931
<b>Cash Flows From Investing Activities:</b>		
Net sale of investments	265,366	202,227
Investment income	20,460	28,165
Net cash provided by investing activities	285,826	230,392
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Principal payments on notes payable	(895,000)	(870,000)
Proceeds from bond payable	-	7,663,284
Principal payments on capital lease	(273,055)	(358,077)
Proceeds from note payable	1,936,482	333,129
Principal payments on bonds payable	(870,000)	(840,000)
Interest paid	(2,116,895)	(2,215,821)
Acquisition of capital assets	(11,106,892)	(4,002,519)
Net change in escrow deposits	408,466	(1,456,445)
Net cash used in capital and related financing activities	(12,916,894)	(1,746,449)
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Transfers in	9,363	440,130
Due to the City of Lancaster General Fund	562,489	1,257,306
State pension contribution	141,570	113,371
Net cash provided by non-capital financing activities	713,422	1,810,807
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(6,633,223)	3,034,681
<b>Cash and Cash Equivalents:</b>		
Beginning of year	32,702,176	29,667,495
End of year	\$ 26,068,953	\$ 32,702,176

(Continued)



# CITY OF LANCASTER SEWER FUND

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

(Continued)

	2015	(Restated) 2014
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</b>		
Operating loss	\$ (717,300)	\$ (105,875)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	3,082,197	2,940,303
Amortization	18,231	-
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables	713,586	(92,600)
Due from other governments	3,760	12,916
Prepaid expenses	(41)	89,365
Deferred outflows of resources for pension	(102,044)	-
Accounts payable	1,763,924	(582,393)
Accrued expenses	(32,748)	12,498
Compensated absences	(5,272)	(5,084)
Workers' compensation payable	(1,831)	845
Net pension liability	68,005	8,994
Net other post-employment liability	465,637	460,962
Deferred inflows of resources for pension	28,319	-
Total adjustments	6,001,723	2,845,806
Net cash provided by operating activities	\$ 5,284,423	\$ 2,739,931
<b>Noncash Capital Financing Activities:</b>		
Issuance of capital lease	\$ 47,784	\$ 559,524
Debt transferred to Stormwater Fund	\$ (12,968)	\$ (592,781)

(Concluded)

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

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### *Basis of Presentation and Accounting*

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

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

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

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

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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### *Cash and Cash Equivalents*

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

### *Investments*

Investments are stated at fair value.

### *Capital Assets*

The sewer system's capital assets are recorded at their estimated historical cost.

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

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

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

### *Capitalization of Interest*

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest capitalized for the years ended December 31, 2015 and 2014 totaled \$71,327 and \$43,609, respectively.

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

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

### *Restricted Assets*

Certain cash accounts are classified as restricted assets on the balance sheets because these accounts withhold shared money to which a certain percentage is owed to various municipalities. This is due to agreements with the City and other municipalities, to share

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# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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costs associated with sewer projects. The amounts owed to the municipalities are included in Due to Other Governments.

The unexpended 2011 and 2014 bond proceeds as of December 31, 2015 and 2014 are also included in the restricted assets.

### ***Net Position***

Net position is classified in the following categories:

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

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

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

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

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses. 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.

### ***Pension Plans***

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

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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

In conjunction with pension accounting requirements, the effect of the differences in the Sewer Fund's expected and actual experience and the difference between projected and actual earnings on pension plan investments are recorded as deferred inflows or outflows of resources related to pension on the financial statements. These amounts are determined based on the actuarial valuation performed for the pension plan. Note 6 presents additional information about the pension plan.

### ***Adoption of Governmental Accounting Standards Board (GASB) Statements***

The City has adopted GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." These Statements revise and establish reporting requirements for most governments that provide their employees with pensions. As a result of adopting GASB Statement No. 68 and GASB Statement No. 71, the Sewer Fund's net position was restated as follows:

Net position at January 1, 2014 - as originally stated	\$ 62,721,019
Net pension liability at January 1, 2014	<u>(596,622)</u>
Net position at January 1, 2014 - restated	<u>\$ 62,124,397</u>

The net pension liability and its related components are described more fully in Note 6.

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

In February of 2015, the GASB issued Statement No. 72, "Fair Value Measurement and Application." This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the City's December 31, 2016 financial statements.

In June of 2015, the GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This Statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68). The provisions of GASB Statement No. 73 are effective for the City's December 31, 2016 financial statements – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City's December 31, 2017 financial statements.

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# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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In June of 2015, the GASB issued Statement No. 74, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*” This Statement addresses reporting by other post-employment benefit (OPEB) plans that administer benefits on behalf of governments. The provisions of GASB Statement No. 74 are effective for the City’s December 31, 2017 financial statements.

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

In June of 2015, the GASB issued Statement No. 76, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*” This Statement identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment. The provisions of GASB Statement No. 76 are effective for the City’s December 31, 2016 financial statements.

In March of 2016, the GASB issued Statement No. 82, “*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.*” This Statement addresses certain issues that have been raised with respect to previous pension standards. The provisions of GASB Statement No. 82 are effective for the City’s December 31, 2017 and 2018 financial statements.

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

## 2. DEPOSITS AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury obligations, other short-term U.S. and Pennsylvania government obligations, 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.

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

### A. Deposits

*Custodial Credit Risk - Deposits.* 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 Sewer Fund does not have a

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# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

deposit policy for custodial credit risk. As of December 31, 2015 and 2014, the Sewer Fund's non-pooled book balances were \$8,366,896 and \$11,363,447, respectively, and the bank balances were \$8,366,596 and \$11,363,147, respectively. At December 31, 2015 and 2014, \$250,000 and \$250,000, respectively, was covered by federal depository insurance and \$8,116,596 and \$11,113,147, respectively, 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.

The Sewer Fund pools certain of its deposits and investments with the City. At December 31, 2015 and 2014, the book balance of the pooled deposits was \$48,195,690 and \$60,340,669, respectively, and the bank balance was \$50,183,103 and \$61,980,426, respectively. The Sewer Fund's position in the pooled deposits was \$17,702,057 and \$21,338,729 at December 31, 2015 and 2014, respectively. At December 31, 2015, \$500,000 was insured by federal depository insurance and the remaining balance of \$17,202,057 was collateralized under Act No. 72. At December 31, 2014, \$500,000 was insured by federal depository insurance and the remaining balance of \$20,838,729 was collateralized under the Act.

### **B. Investments**

The fair value of the investments of the Sewer Fund at December 31, 2015 and 2014 was zero and \$265,366, respectively. At December 31, 2014, all investments were money market funds.

**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 Sewer Fund does not have an investment policy for custodial credit risk. At December 31, 2014, all investments of the Sewer Fund are held by the financial institution's trust department, in the Sewer Fund's name.

**Concentration of credit risk.** The Sewer Fund places no limits on the amount the Sewer Fund may invest in any one issuer. At December 31, 2014, more than five percent of the Sewer Fund investments were held with the following issuer:

December 31, 2014	Fair Value	Percent of Investments
Goldman Sachs Financial Square Treasury Obligation Money Market	\$ 265,366	100.00%

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

**Credit risk.** The Sewer Fund does not have a formal policy that would limit its investment choices with regard to credit risk. At December 31, 2014, the Sewer Fund's investments in money market funds were rated AAA.

**Interest rate risk.** The Sewer 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. At December 31, 2014, the Sewer Fund's investments had maturities of less than one year.

### 3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2015 and 2014 is as follows:

	December 31, 2014	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2015
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction-in-progress	1,840,742	9,245,487	(48,211)	11,038,018
Total capital assets, not being depreciated	<u>3,325,566</u>	<u>9,245,487</u>	<u>(48,211)</u>	<u>12,522,842</u>
Capital assets being depreciated:				
Sewer system	154,194,375	2,058,930	-	156,253,305
Equipment and vehicles	2,944,547	107,647	(79,766)	2,972,428
Total capital assets, being depreciated	<u>157,138,922</u>	<u>2,166,577</u>	<u>(79,766)</u>	<u>159,225,733</u>
Less accumulated depreciation for:				
Sewer system	(67,975,487)	(2,884,249)	-	(70,859,736)
Equipment and vehicles	(735,779)	(221,788)	59,040	(898,527)
Total accumulated depreciation	<u>(68,711,266)</u>	<u>(3,106,037)</u>	<u>59,040</u>	<u>(71,758,263)</u>
Capital assets being depreciated, net	<u>88,427,656</u>	<u>(939,460)</u>	<u>(20,726)</u>	<u>87,467,470</u>
Capital assets, net	<u>\$ 91,753,222</u>	<u>\$ 8,306,027</u>	<u>\$ (68,937)</u>	<u>\$ 99,990,312</u>



# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>December 31, 2013</u>	<u>Increase/ Transfers In</u>	<u>Decrease/ Transfers Out</u>	<u>December 31, 2014</u>
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction-in-progress	<u>441,190</u>	<u>1,840,742</u>	<u>(441,190)</u>	<u>1,840,742</u>
Total capital assets, not being depreciated	<u>1,926,014</u>	<u>1,840,742</u>	<u>(441,190)</u>	<u>3,325,566</u>
Capital assets being depreciated:				
Sewer system	151,067,133	3,127,242	-	154,194,375
Equipment and vehicles	<u>2,345,280</u>	<u>612,757</u>	<u>(13,490)</u>	<u>2,944,547</u>
Total capital assets, being depreciated	<u>153,412,413</u>	<u>3,739,999</u>	<u>(13,490)</u>	<u>157,138,922</u>
Less accumulated depreciation for:				
Sewer system	(65,164,451)	(2,811,036)	-	(67,975,487)
Equipment and vehicles	<u>(620,002)</u>	<u>(129,267)</u>	<u>13,490</u>	<u>(735,779)</u>
Total accumulated depreciation	<u>(65,784,453)</u>	<u>(2,940,303)</u>	<u>13,490</u>	<u>(68,711,266)</u>
Capital assets being depreciated, net	<u>87,627,960</u>	<u>799,696</u>	<u>-</u>	<u>88,427,656</u>
Capital assets, net	<u><u>\$ 89,553,974</u></u>	<u><u>\$ 2,640,438</u></u>	<u><u>\$ (441,190)</u></u>	<u><u>\$ 91,753,222</u></u>

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

### 4. LONG-TERM LIABILITIES

A summary of long-term liabilities for the year ended December 31, 2015 is as follows:

Date of Issue/ Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2015
2007/2022	\$ 12,150,000	General Obligation Bonds, 4.00% - 5.00%	\$ 8,415,000
2009/2025	14,030,000	General Obligation Notes, 2.50% - 4.875%	8,905,000
2011/2041	22,460,000	General Obligation Bonds, 1.75% - 5.00%	21,885,000
2014/2034	7,415,000	General Obligation Bonds, 3.00% - 5.00%	7,415,000
2014/2037	2,269,611	Note Payable to Financing Agency, 1.00% - 1.74%	2,269,611
			<u>\$ 48,889,611</u>

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

In 1998, the City issued \$61,915,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to \$27,390,000, bearing interest at rates ranging from 3.2% to 5.25%. The proceeds of the bond issuance were used to finance the acquisition of the sewer system through the refunding of the Lancaster Municipal Authority's outstanding (a) Sewer Revenue Bonds, Series of 1987; (b) Sewer Revenue Bonds, Series of 1991; and (c) Sewer Project Notes, Series of 1996. These bonds were currently refunded through the issuance of General Obligation Notes, Series of 2009.

In 2007, the City issued \$125,315,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to \$12,150,000, bearing interest at rates ranging 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, and the current refunding of the 2004 note payable.

In 2011, the City issued \$38,860,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to \$22,460,000, bearing interest rates ranging from 1.75% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the wastewater treatment plant and various miscellaneous capital projects.

In 2014, the City issued \$42,490,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to \$7,415,000, bearing interest rates ranging from 3.00% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the wastewater treatment plant and various miscellaneous capital projects.

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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### *Notes Payable*

In 2009, the City issued \$43,990,000 of general obligation notes. The portion allocable to the Sewer Fund amounted to \$14,030,000, bearing interest at rates ranging from 2.50% to 4.875%. The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series A of 1998, and to pay the termination costs of the Swaption agreement with Wachovia Bank.

In 2013, the City issued \$7,000,000 Guaranteed Revenue Note of 2012. This is a Pennvest drawdown loan that is for the construction of a series of green infrastructure source control practices, including porous pavement in parking lots, paths, alleys, and streets; infiltration and bio-retention systems; green roofs; rain gardens and rain barrels in order to capture storm water runoff, various other green infrastructure improvements throughout the City, and other ongoing capital improvement projects of the City. During the year ended December 31, 2014, the Guaranteed Revenue Note of 2012 was transferred to the City's Stormwater Fund.

In 2014, the City issued \$5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest drawdown loan that is for the construction of the North Pump Station Preliminary Treatment Facility and Diversion Chamber. This Note bears interest at a rate of 1.00% for the first five years and 1.74% thereafter. As of December 31, 2015, \$2,269,611 was drawn down on the Guaranteed Revenue Note of 2014.

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

<u>Year Ended December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2016	\$ 2,005,000	\$ 2,037,503	\$ 4,042,503
2017	2,220,446	1,961,894	4,182,340
2018	2,308,203	1,866,687	4,174,890
2019	2,409,290	1,762,381	4,171,671
2020	2,525,388	1,653,165	4,178,553
2021-2025	13,235,374	6,497,682	19,733,056
2026-2030	7,420,173	4,556,625	11,976,798
2031-2035	8,355,599	2,958,224	11,313,823
2036-2040	6,875,138	1,321,515	8,196,653
2041	1,535,000	71,378	1,606,378
	<u>\$ 48,889,611</u>	<u>\$ 24,687,054</u>	<u>\$ 73,576,665</u>

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

### *Capital Lease*

From 2012 through 2015, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. As of December 31, 2015 and 2014, the Sewer Fund includes these vehicles and equipment at a cost of \$992,928 and \$1,475,167, respectively, with accumulated depreciation of \$126,321 and \$148,701, respectively.

The future minimum payments under these capital leases and the present value of the minimum lease payments at December 31, 2015 are as follows:

Year Ended December 31,	Total
2016	\$ 215,781
2017	203,654
2018	43,559
2019	13,009
Total minimum lease payments	476,003
Less amount representing interest	(30,911)
Present value of future minimum lease payments	\$ 445,092

Changes in long-term liabilities for the years ended December 31, 2015 and 2014 are as follows:

	December 31, 2014	Increase	Decrease	Transfer Out	December 31, 2015	Amount Due Within One Year
Bonds payable	\$38,585,000	\$ -	\$ (870,000)	\$ -	\$37,715,000	\$ 1,595,000
Unamortized premium	757,064	-	(94,023)	-	663,041	-
Notes payable	10,133,129	1,936,482	(895,000)	-	11,174,611	410,000
Capital lease	683,331	47,784	(273,055)	(12,968)	445,092	197,245
Compensated absences	76,426	366,672	(371,944)	-	71,154	16,373
Workers' compensation payable	1,831	-	(1,831)	-	-	-
	\$50,236,781	\$ 2,350,938	\$ (2,505,853)	\$ (12,968)	\$50,068,898	\$ 2,218,618

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	December 31, 2013	Increase	Decrease	Transfer Out	December 31, 2014	Amount Due Within One Year
Bonds payable	\$32,010,000	\$ 7,415,000	\$ (840,000)	\$ -	\$38,585,000	\$ 870,000
Unamortized premium	594,478	248,284	(85,698)	-	757,064	-
Notes payable	11,262,781	333,129	(870,000)	(592,781)	10,133,129	895,000
Capital lease	481,884	559,524	(358,077)	-	683,331	276,091
Compensated absences	81,510	367,438	(372,522)	-	76,426	17,582
Workers' compensation payable	986	4,900	(4,055)	-	1,831	606
	<u>\$44,431,639</u>	<u>\$ 8,928,275</u>	<u>\$ (2,530,352)</u>	<u>\$ (592,781)</u>	<u>\$50,236,781</u>	<u>\$ 2,059,279</u>

In conjunction with the Basis Swap transaction described in Note 5, the City received an upfront cash payment. This upfront cash payment received by the City was considered to be a borrowing at a rate of 4.4%. As of December 31, 2015 and 2014, the borrowing had an outstanding balance of \$1,112,801 and \$1,249,816, respectively, which is reflected in the governmental activities portion of the City's financial statement. Payments on the borrowing commenced on May 1, 2009, the date the Basis Swap became effective, and are scheduled to mature on May 1, 2028. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap. Interest is currently being accreted to the principal amount annually. Accreted interest on the borrowing was \$818,587 and \$768,775 at December 31, 2015 and 2014, respectively.

A summary of principal and interest maturities on the borrowing at December 31, 2015 is as follows:

Year Ended December 31,	Principal	Interest	Total
2016	\$ 122,402	\$ 43,286	\$ 165,688
2017	116,794	38,234	155,028
2018	110,586	33,453	144,039
2019	114,444	28,509	142,953
2020	107,842	23,853	131,695
2021-2025	424,948	53,359	478,307
2026-2028	115,785	-	115,785
	<u>\$ 1,112,801</u>	<u>\$ 220,694</u>	<u>\$ 1,333,495</u>

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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As noted above, this borrowing is reflected in the governmental activities section of the City's financial statement and, as such, the Sewer Fund does not report a portion of the City's borrowing.

### 5. DERIVATIVE AGREEMENTS

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

**Fair value.** As of December 31, 2015, the Basis Swap had a fair value of (\$258,380). As the Basis Swap is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative asset and as a borrowing on the City's government-wide statement of net position. The change in fair market value of \$185,518 during the year ended December 31, 2015 is recorded as a component of investment income on the City's government-wide statement of activities. The fair value is calculated using the zero-coupon method.

**Credit risk.** The City solicited competitive bids in connection with the Basis Swap agreement. The City solicited bids only from counterparties with an excellent credit rating (see – The City's Interest Rate Management Plan). PNC Bank, N.A. is rated A+ by Fitch Ratings, A by Standard & Poor's, and A2 by Moody's Investors Service as of December 31, 2015. To mitigate the potential for credit risk, if PNC Bank's credit rating falls below A-/A3 (threshold ratings) the counterparty will be obligated to post a certain amount of collateral or the City will have the right to terminate the swap agreement; PNC Bank negotiated a credit support annex with the City at the time the transactions was entered into, which would require PNC Bank to collateralize its obligations with direct obligations guaranteed by the United States of America if its respective credit ratings fell below the predetermined threshold ratings.

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# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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**Termination risk.** The City or the counterparty may terminate the Basis Swap agreement if the other party defaults under the terms of the Agreement. In addition, the City may terminate the Basis Swap Agreement without cause at any time with notice to the counterparty of not less than two days. The termination value would be determined by the Calculation Agent (counterparty) using commercially reasonable judgment, or if disputed, the Calculation Agent shall seek bids from Reference Market-makers consistent with Section 6 of the Agreement. If the Basis Swap Agreement is terminated and has a negative fair value, the City would be liable to the counterparty for the termination payment. If the Basis Swap Agreement is terminated and has a positive fair value, the counterparty would be liable to the City for the termination payment. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap.

**Basis risk.** The City is subject to basis risk because the interest index on the variable rate receipt arm of the swap is based on one-month LIBOR and the variable interest rate payment arm is based on a different index. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the City's calculated payments and, as a result, cost savings or synthetic interest rates may not be realized. As of December 31, 2015, the interest rate the City is paying under the Basis Swap was 0.01%, whereas the interest the City is receiving at 67% of the one-month LIBOR rate was 0.29%.

**Contingent feature.** If the City's credit rating is below A- by Standard & Poor's or A3 by Moody's Investors Service, as well as fails to deliver eligible collateral, then the swap transaction may be terminated. In the event that the collateral is called, the City would have to post eligible collateral up to the fair value of the Basis Swap at that time. Eligible collateral includes cash, negotiable debt obligations issued by the U.S. Treasury Department, securities guaranteed by the Government National Mortgage, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation, and agency notes issued directly by any of the Federal Home Loan Banks, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation. As of December 31, 2015, the City's rating is not below the rating threshold and, therefore, the City had not posted any collateral due to a ratings trigger.

## 6. PENSION PLANS

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

The CBPP does not issue stand-alone financial reports.

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# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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

#### Basis of Accounting

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

#### Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

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

#### Plan Participants

At December 31, 2015 and 2014, employee membership data related to the CBPP was as follows:

	<u>2015</u>	<u>2014</u>
Inactive plan members or beneficiaries currently receiving benefits	50	49
Inactive plan members entitled to but not yet receiving benefits	30	33
Active plan members	<u>298</u>	<u>307</u>
	<u>378</u>	<u>389</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 Nonuniformed Pension Board consists of the Mayor, City Controller, the superintendent of finance, two nonuniformed employees, and a member of City Council.

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# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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### Retirement Benefit

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

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

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

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

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

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

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

The death benefit for an active vested participant who has completed five years of service is a 50% survivor pension for his beneficiary. Payment of the survivor benefit would begin on the date on which the participant would first have been eligible for retirement. The amount of survivor benefit would be the 50% survivor benefit payable under a joint and 50% survivor pension option, based upon the pension accrued to the date of death and reduced for early commencement of benefits, if applicable. The death benefit cannot

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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be less than the participant's benefit account balance or the lump sum value of the vested accrued benefit.

### Contributions

The CBPP is funded by the City on an annual basis pursuant to the provisions of the Act 205 of 1984 of the Commonwealth of Pennsylvania. The CBPP members are not required to contribute to the CBPP. The City is required to make actuarial determined periodic contributions at rates that for individual employees increase over time so that sufficient assets will be available to pay benefits when due.

The annual required contribution is determined annually during the budgeting process. The results of actuarial valuations are used in budgeting for future years.

The City contributed \$900,704 and \$697,517, respectively, to the CBPP for the years ended December 31, 2015 and 2014. Of the amount contributed by the City, the Sewer Fund contributed \$141,570 and \$110,716 to the CBPP for the years ended December 31, 2015 and 2014, respectively.

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

### Changes in the Net Pension Liability

The changes in the net pension liability of the City for the years ended December 31, 2015 and 2014 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2013	\$ 13,747,018	\$ 9,807,550	\$ 3,939,468
Service cost	533,032	-	533,032
Interest	1,048,689	-	1,048,689
Contributions - employer	-	697,517	(697,517)
Net investment income	-	854,651	(854,651)
Benefit payments, including refunds	(595,063)	(595,063)	-
Administrative expense	-	(24,140)	24,140
Net changes	986,658	932,965	53,693
Balances at December 31, 2014	<u>\$ 14,733,676</u>	<u>\$ 10,740,515</u>	<u>\$ 3,993,161</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>72.90%</u>

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 14,733,676	\$ 10,740,515	\$ 3,993,161
Service cost	542,160	-	542,160
Interest	1,096,819	-	1,096,819
Changes for experience	(184,304)	-	(184,304)
Contributions - employer	-	900,704	(900,704)
Net investment income	-	139,124	(139,124)
Benefit payments, including refunds	(934,559)	(934,559)	-
Administrative expense	-	(27,730)	27,730
Net changes	520,116	77,539	442,577
Balances at December 31, 2015	<u>\$ 15,253,792</u>	<u>\$ 10,818,054</u>	<u>\$ 4,435,738</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>70.92%</u>

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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The net pension liability was measured as of December 31, 2015 and 2014 and was determined by rolling forward the liabilities from actuarial valuations as of January 1, 2015 and January 1, 2013, respectively. No significant events or changes occurred between the valuation date and the fiscal year ends.

The Sewer Fund's portion of the net pension liability as of December 31, 2015 and 2014 was \$673,621 and \$605,616, respectively.

*Actuarial Assumptions* - The January 1, 2015 actuarial valuation included the following assumptions:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	14 years
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.00%
Underlying inflation rate	3.00%

RP2000 mortality table

The January 1, 2013 actuarial assumptions were consistent with the January 1, 2015 assumptions with the exception of the amortization period, which was 15 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 SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2015 and 2014 are summarized in the following table:

Asset Class	2015	Long-Term Expected
	Target Allocation	Real Rate of Return
Domestic equity	66.0%	5.5% - 7.5%
Fixed income	30.0%	1.0% - 3.0%
Cash	4.0%	0.0% - 1.0%
	<u>100.0%</u>	

  

Asset Class	2014	Long-Term Expected
	Target Allocation	Real Rate of Return
Domestic equity	61.0%	7.0%
Fixed income	29.0%	2.5%
Cash	10.0%	0.0%
	<u>100.0%</u>	

*Rate of Return* – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the years ended December 31, 2015 and 2014, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 1.23% and 8.89%, respectively.

*Concentrations* – The CBPP had investments in Goldman Sachs Financial Square Federal Fund Money Market Fund that were approximately 7% of the CBPP’s fiduciary net position at December 31, 2015.

*Discount Rate* – The discount rate used to measure the total pension liability as of December 31, 2015 and 2014 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.

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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

December 31, 2015:

<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
<u>\$ 6,415,359</u>	<u>\$ 4,435,738</u>	<u>\$ 2,783,696</u>

December 31, 2014:

<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
<u>\$ 5,684,083</u>	<u>\$ 3,993,161</u>	<u>\$ 2,182,649</u>

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

For the years ended December 31, 2015 and 2014, the Sewer Fund recognized pension expense of \$68,005 and \$8,994, respectively. At December 31, 2015, the Sewer Fund reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

<u>Deferred Outflows of Resources</u>	
Differences between expected and actual experience	<u>\$ 81,635</u>
Total Deferred Outflows of Resources	<u>\$ 81,635</u>
<u>Deferred Inflows of Resources</u>	
Net difference between projected and actual earnings on pension plan investments	<u>\$ 26,141</u>
Total Deferred Inflows of Resources	<u>\$ 26,141</u>

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The effect of the differences in the Sewer Fund's expected and actual experience 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. 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 ended December 31,</u>	
2016	\$ 18,231
2017	18,231
2018	18,231
2019	18,230
2020	(2,178)
Thereafter	<u>(15,251)</u>
	<u>\$ 55,494</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, 2015 and 2014, there were 184 and 188 plan participants, respectively. The SSP participants may elect to contribute up to 10% of their after-tax pay. The City will match 25% of the participant's contribution, on the first 5% contributed by each participant. Participant contributions in excess of 5% of compensation will not be matched. The Plan provisions are established and may be amended by the Nonuniformed Pension Board. During the year ended December 31, 2015, plan participants and the City made contributions of \$519,490 and \$93,475, respectively. During the year ended December 31, 2014, plan participants and the City made contributions of \$433,362 and \$92,954, respectively. Of the amount contributed by the City, the Sewer Fund contributed \$14,659 and \$14,939 for the years ended December 31, 2015 and 2014, respectively.

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

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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### 7. OTHER POST-EMPLOYMENT BENEFITS

#### Plan Description

In addition to the retirement benefits described in Note 6, the City provides single-employer 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. Those 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.

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

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

The union labor contract establishes the post-retirement health care plan provisions for nonuniformed union employees. The union contract does not require City Council approval and may be amended through future negotiations. The post-retirement health care plan provisions for non-union employees are established through the City's human resources policies, which are approved by the Mayor.

#### Funding Policy and Annual OPEB Costs

The City's Sewer and Water Funds have been making contributions to the OPEB trust fund based on a percentage of the annual required contribution, as determined by an actuarial valuation. The balance of the City's contribution is based on projected pay-as-you-go financing requirements through the General Fund. For the years ended December 31, 2015 and 2014, respectively, the City's net cost of providing health benefits and life insurance for retired employees was \$5,126,642 and \$5,039,896. Of the amount contributed by the City, the Sewer Fund contributed \$302,566 and \$314,797 for the years ended December 31, 2015 and 2014, respectively. A portion of the contributions made during the years ended December 31, 2015 and 2014, in the amount of \$100,416 and \$132,677, respectively, was made directly to the City's OPEB trust fund by the City's Sewer Fund. Plan members receiving benefits contributed \$47,313 and \$62,719 through their contributions as required



# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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by the cost sharing provisions of the plans for the years ended December 31, 2015 and 2014, respectively.

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

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

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

The City's annual OPEB costs (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimate are made about the future.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Information as of the latest actuarial valuation follows:

Valuation date	1/1/2014
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5% per year
Medical inflation	6.5% in 2014, decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later
Amortization period	30 years, open period

### Annual OPEB Cost and Net OPEB Obligation

The Sewer Fund's portion of the City's annual OPEB costs and net OPEB obligations to the plan for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Annual required contribution	\$ 823,045	\$ 823,045
Interest on net OPEB obligation	150,559	129,816
Adjustment to annual required contribution	(205,401)	(177,102)
Annual OPEB cost	768,203	775,759
Contribution made	(302,566)	(314,797)
Change in Net OPEB obligation	465,637	460,962
Net OPEB obligation, beginning	3,345,755	2,884,793
Net OPEB obligation, ending	<u>\$ 3,811,392</u>	<u>\$ 3,345,755</u>

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# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

### Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	\$ 611,587	36.3%	\$ 2,884,793
2014	775,759	40.6%	3,345,755
2015	768,203	39.4%	3,811,392

### Funded Status and Schedule of Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2014	\$ -	\$ 7,063,327	\$ 7,063,327	0.00%	\$ 2,085,629	338.67%

## 8. 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 2015, the City was limited to

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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

A summary of workers' compensation claims for the Sewer Fund for the years ended December 31, 2015 and 2014 is as follows:

Unpaid claims as of January 1, 2014	\$ 986
Incurred claims during 2014	4,055
Payments during 2014	<u>(3,210)</u>
Unpaid claims as of January 1, 2015	1,831
Incurred claims during 2015	-
Payments during 2015	<u>(1,831)</u>
Unpaid claims as of December 31, 2015	<u><u>\$ -</u></u>

### 9. CONTINGENCIES

#### *Litigation*

In the normal course of business, there are various claims and lawsuits pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss, if any, on all claims and lawsuits will not materially affect the City's financial position. With the exception of workers' compensation and health insurance, the City purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2015.

### 10. CONTRACT COMMITMENTS

During the year ended December 31, 2015, the Sewer Fund contracted for pumping stations upgrades and maintenance. As a result of this, the City entered into contracts with construction contractors totaling \$20,827,340. The commitment remaining on the contracts at December 31, 2015 was \$7,434,951.

### 11. NEGATIVE UNRESTRICTED NET POSITION

In addition to sewer rate increases for inside City customers in 2010 (10%), 2011 (20%), and 2012 (35%), City Council approved a 10% increase for inside City customers effective in

# CITY OF LANCASTER SEWER FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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January 2016. The Pennsylvania Public Utility Commission (PUC) also approved a rate increase for outside City sewer customers in April 2013 for an annualized revenue increase of \$399,000.

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

In March 2015, following a binding arbitration decision favorable to the City in 2014, East Lampeter Township made a payment to the City of \$1.685 million. In mid-June 2015 another payment on the amount due from East Lampeter Township was made in the amount of \$171,000.

Also in March 2015, the City initiated the process to begin binding arbitration with the Lancaster Area Sewer Authority to resolve this bulk sewer treatment expense dispute. The City's demand, based on the East Lampeter Township arbitration award, included a demand of \$2.186 million in past due bulk sewer payments from 2008 through 2013. At year-end 2015, the City's bulk sewer treatment expense dispute with the Lancaster Area Sewer Authority was still unresolved and continued to be a drag on Sewer Fund revenues and cash flow.

### **12. EXTRAORDINARY ITEM - LITIGATION SETTLEMENT**

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. During the year ended December 31, 2014, the City won a litigation settlement regarding outstanding bulk treatment receivables due from another municipality in the amount of \$2,433,543. The settlement revenue has been presented on the statement of revenues and expenses as an extraordinary item for the year ended December 31, 2014.

### **13. SUBSEQUENT EVENT**

On April 7, 2016, the City issued General Obligation Bonds, Series of 2016, in the aggregate amount of \$118,820,000. The portion allocable to the Sewer Fund amounted to \$7,000,000. Bond proceeds are to be used to advance refund the General Obligation Bonds, Series of 2007. The bonds bear interest ranging from 3.00% to 5.00% until maturity on November 1, 2046.

**Required Supplementary  
Information**

# CITY OF LANCASTER SEWER FUND

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

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

	2015*	2014*
<b>Total Pension Liability:</b>		
Service cost	\$ 542,160	\$ 533,032
Interest	1,096,819	1,048,689
Changes for experience	(184,304)	-
Benefit payments, including refunds of member contributions	(934,559)	(595,063)
<b>Net Changes in Total Pension Liability</b>	520,116	986,658
<b>Total Pension Liability - Beginning</b>	14,733,676	13,747,018
<b>Total Pension Liability - Ending (a)</b>	\$ 15,253,792	\$ 14,733,676
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 900,704	\$ 697,517
Net investment income	139,124	854,651
Benefit payments, including refunds of member contributions	(934,559)	(595,063)
Administrative expense	(27,730)	(24,140)
<b>Net Change in Plan Fiduciary Net Position</b>	77,539	932,965
<b>Plan Fiduciary Net Position - Beginning</b>	10,740,515	9,807,550
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 10,818,054	\$ 10,740,515
<b>Net Pension Liability - Ending (a-b)</b>	\$ 4,435,738	\$ 3,993,161
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	70.92%	72.90%
<b>Covered Employee Payroll</b>	\$ 14,312,665	\$ 13,618,505
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	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 plan.

**CITY OF LANCASTER SEWER FUND**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -**  
**PENSION PLAN**  
**SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS**

**CASH BALANCE PENSION PLAN:**

<u>Schedule of City Contributions</u>	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 900,704	\$ 697,516	\$ 658,895	\$ 516,512	\$ 504,280	\$ 499,125	\$ 475,248	\$ 459,603	\$ 410,346	\$ 421,948
Contributions in relation to the actuarially determined contribution	<u>900,704</u>	<u>697,517</u>	<u>658,895</u>	<u>516,512</u>	<u>504,280</u>	<u>499,125</u>	<u>475,248</u>	<u>459,603</u>	<u>410,346</u>	<u>421,948</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 14,312,665</u>	<u>\$ 13,618,505</u>								
Contributions as a percentage of covered employee payroll	6.29%	5.12%								
<b><u>Investment Returns</u></b>										
Annual money-weighted rate of return, net of investment expense	1.23%	8.89%								

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

See accompanying note to required supplementary information - pension plan.



# CITY OF LANCASTER SEWER FUND

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

### 1. ACTUARIAL METHODS AND ASSUMPTIONS

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

Contribution Year	12/31/2015	12/31/2014
Actuarial valuation date	1/1/2013	1/1/2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	15 years	16 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 70% to 130% of market value
Actuarial assumptions:		
Investment rate of return	6.5-7.5%	7.5%
Projected salary increases	5.0%	5.0%
Underlying inflation rate	3.0%	3.0%
Mortality table	RP2000 mortality table	RP2000 mortality table

# CITY OF LANCASTER SEWER FUND

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS - OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 4,496,765	\$ 4,496,765	0.0%	\$ 1,897,820	236.94%
1/1/2010	-	4,715,588	4,715,588	0.0%	1,761,965	267.63%
1/1/2012	-	5,703,505	5,703,505	0.0%	1,899,710	300.23%
1/1/2014	-	7,063,327	7,063,327	0.0%	2,085,629	338.67%

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

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB

Year	Annual Required Contribution	Percentage Contributed
2010	\$ 574,517	4.3%
2011	574,517	22.9%
2012	652,488	33.4%
2013	652,488	34.0%
2014	823,045	38.2%
2015	823,045	36.8%

## **Supplementary Information**

# CITY OF LANCASTER SEWER FUND

## SCHEDULE OF NET COST OF OPERATIONS OF THE CITY SEWER SYSTEM

YEAR ENDED DECEMBER 31, 2015

### Direct Expenses and Costs:

Collection system	\$ 997,536
Sewage treatment plants	4,227,365
Sewage pumping station	1,118,761
City Bureau of Sewers	1,991,699
Sewage grounds maintenance	35,887
	<hr/>
	8,371,248
Allowance per contracts for indirect expenses and costs (\$8,371,248 x 5.0%)	418,562
	<hr/>
	8,789,810
	<hr/>
Less reimbursements (as defined in agreements):	
Miscellaneous	235,883
Industrial waste surcharge	452,828
Management and operation service fee	169,443
	<hr/>
	858,154
	<hr/>
<b>Net Cost of Operations of the City Sewer System</b>	<b>\$ 7,931,656</b>
	<hr/> <hr/>

# CITY OF LANCASTER SEWER FUND

## SCHEDULE OF DIRECT EXPENSES AND COSTS

YEAR ENDED DECEMBER 31, 2015

### Collection System:

Salaries and wages	\$ 538,188
Vehicle maintenance	53,050
Gasoline and oil	35,594
Miscellaneous expenses	370,704
	<hr/>
	997,536

### Sewage Treatment Plants:

Salaries and wages	769,145
Chemicals and laboratory supplies	505,066
Equipment maintenance	345,255
Vehicle maintenance	14,533
Gasoline, oil, and fuel	74,936
Water utility expense	76,117
Power	1,022,888
Building maintenance	29,339
Sludge disposal	1,259,374
Miscellaneous expenses	130,712
	<hr/>
	4,227,365

### Sewage Pumping Station:

Salaries and wages	652,824
Equipment maintenance	55,521
Building maintenance	5,774
Fuel	6,658
Power	396,666
Miscellaneous expenses	1,318
	<hr/>
	1,118,761

### City Bureau of Sewers:

Salaries and wages	216,670
Consultant and contract services	217,321
Special training	19,623
Uniforms	8,355
Telephone	27,929
Miscellaneous expense	16,999
Fringe benefits	1,484,802
	<hr/>
	1,991,699

### Sewer Grounds Maintenance:

Salaries and wages	10,568
Operating equipment	20,045
Fringe benefits	5,274
	<hr/>
	35,887

### **Total Direct Expenses and Costs**

**\$ 8,371,248**

# CITY OF LANCASTER SEWER FUND

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

YEAR ENDED DECEMBER 31, 2015

Net cost of operation of the City of Lancaster sewer system	\$ 7,931,656
Number of units of 1,000 gallons of sewage treated per records of the City of Lancaster (unaudited)	<u>6,868,655</u>
<b>Net Cost of Treating 1,000 Gallons of Sewage</b>	<u><u>\$ 1.1548</u></u>