

City of Lancaster Sewer Fund

Financial Statements and Required
Supplementary Information

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

MaherDuessel

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CITY OF LANCASTER SEWER FUND

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

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

Other 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

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, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2018

CITY OF LANCASTER SEWER FUND

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

	2017	2016
Assets and Deferred Outflows of Resources		
<u>Assets:</u>		
Current assets:		
Cash and cash equivalents	\$ 300	\$ 300
Cash and cash equivalents - restricted	20,654,076	27,076,614
Receivables:		
Regular	1,510,042	1,272,172
Bulk - net of allowance for uncollectible accounts of \$4,124,266 and \$4,116,162 in 2017 and 2016, respectively	4,949,163	3,743,506
Unbilled	936,359	996,872
Industrial waste surcharge	118,532	68,610
Prepaid expenses	6,563	17,891
Total current assets	28,175,035	33,175,965
Long-term assets:		
Due from other governments	147,336	138,906
Prepaid debt insurance	389,682	435,651
Capital assets, not being depreciated	21,774,865	18,797,193
Capital assets, being depreciated, net	86,401,344	86,645,807
Total long-term assets	108,713,227	106,017,557
Total Assets	136,888,262	139,193,522
<u>Deferred Outflows of Resources:</u>		
Deferred charge on refunding	676,783	853,840
Deferred outflows of resources for pension	54,302	74,079
Total Deferred Outflows of Resources	731,085	927,919
Total Assets and Deferred Outflows of Resources	\$ 137,619,347	\$ 140,121,441

(Continued)

	2017	2016
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 2,284,551	\$ 3,222,180
Accrued expenses	371,499	377,009
Due to City of Lancaster General Fund	7,611,997	5,502,566
Due to other governments	8,131,254	9,374,906
Unearned revenue	178,060	185,000
Compensated absences, current portion	25,168	21,327
Capital lease, current portion	121,380	232,458
Notes payable, current portion	707,155	618,192
Bonds payable, current portion	1,750,000	1,415,000
Total current liabilities	<u>21,181,064</u>	<u>20,948,638</u>
Long-term liabilities:		
Compensated absences, net of current portion	84,211	71,358
Workers' compensation payable	-	1,276
Net pension liability	627,834	690,742
Net other post-employment liability	4,498,058	4,160,472
Capital lease, net of current portion	124,386	123,796
Notes payable, net of current portion	12,115,182	12,646,066
Bonds payable, net of current portion	33,608,308	35,625,311
Total long-term liabilities	<u>51,057,979</u>	<u>53,319,021</u>
Total Liabilities	<u>72,239,043</u>	<u>74,267,659</u>
Deferred Inflows of Resources:		
Deferred inflows of resources for pension	68,368	23,948
Total Deferred Inflows of Resources	<u>68,368</u>	<u>23,948</u>
Net Position:		
Net investment in capital assets	67,696,675	64,647,725
Restricted for capital acquisition	6,528,834	8,586,696
Unrestricted	(8,913,573)	(7,404,587)
Total Net Position	<u>65,311,936</u>	<u>65,829,834</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 137,619,347</u>	<u>\$ 140,121,441</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, 2017 AND 2016

	2017	2016
Operating Revenues:		
Sewage treatment revenue:		
Sewage treatment	\$ 9,532,305	\$ 8,822,430
Industrial waste surcharge	481,834	372,230
Bulk treatment	4,212,604	4,348,215
Maintenance fee income	176,851	177,290
Miscellaneous	98,075	72,292
Total operating revenues	14,501,669	13,792,457
Operating Expenses:		
Administration	4,093,719	3,725,911
Depreciation	3,262,285	3,153,135
Collection system	1,480,548	1,346,437
Sewage pumping station	1,175,590	1,208,807
Sewage treatment plants	4,602,625	4,413,497
Sewer grounds maintenance	27,965	45,041
Total operating expenses	14,642,732	13,892,828
Operating Loss	(141,063)	(100,371)
Non-Operating Revenue (Expenses):		
State pension contribution	168,742	137,844
Investment income	13,486	20,280
Insurance proceeds	26,769	91,748
Amortization expense	(45,969)	(47,689)
Interest expense	(1,791,117)	(1,995,237)
Bulk treatment adjustment	(1,367,812)	-
Loss on disposal of capital assets	-	(1,896)
Total non-operating revenue (expenses)	(2,995,901)	(1,794,950)
Loss before capital contributions	(3,136,964)	(1,895,321)
Capital contributions	2,619,066	3,491,811
Change in Net Position before Extraordinary Item	(517,898)	1,596,490
Extraordinary Item:		
Legal settlement (Note 12)	-	450,000
Change in Net Position	(517,898)	2,046,490
Net Position:		
Beginning of year	65,829,834	63,783,344
End of year	\$ 65,311,936	\$ 65,829,834

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

CITY OF LANCASTER SEWER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Cash received from users	\$ 13,053,363	\$ 12,576,429
Cash paid to suppliers	(8,789,936)	(8,110,399)
Cash paid to employees	(2,879,196)	(2,624,989)
Net cash provided by operating activities	1,384,231	1,841,041
Cash Flows From Investing Activities:		
Investment income	13,486	20,280
Net cash provided by investing activities	13,486	20,280
Cash Flows From Capital and Related Financing Activities:		
Principal payments on notes payable	(621,577)	(410,000)
Proceeds from bond payable	-	7,911,067
Principal payments on capital lease	(275,643)	(197,244)
Proceeds from note payable	179,656	2,499,647
Cash paid for debt issuance costs	-	(133,317)
Payments to bond escrow agent	-	(7,777,750)
Principal payments on bonds payable	(1,415,000)	(1,595,000)
Interest paid	(2,007,589)	(2,014,351)
Acquisition of capital assets	(5,992,646)	(8,664,947)
Insurance proceeds	26,769	91,748
Legal settlement proceeds	-	450,000
Net change in escrow deposits	7,602	7,508,771
Net cash used in capital and related financing activities	(10,098,428)	(2,331,376)
Cash Flows From Non-Capital Financing Activities:		
Due to the City of Lancaster General Fund	2,109,431	1,340,172
State pension contribution	168,742	137,844
Net cash provided by non-capital financing activities	2,278,173	1,478,016
Net Increase (Decrease) in Cash and Cash Equivalents	(6,422,538)	1,007,961
Cash and Cash Equivalents:		
Beginning of year	27,076,914	26,068,953
End of year	\$ 20,654,376	\$ 27,076,914

(Continued)

CITY OF LANCASTER SEWER FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016
(Continued)

	2017	2016
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	\$ (141,063)	\$ (100,371)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	3,262,285	3,153,135
Amortization	21,441	18,231
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables	(1,432,936)	(1,214,000)
Due from other governments	(8,430)	(2,028)
Prepaid expenses	11,328	(13,411)
Deferred outflows of resources for pension	(3,841)	(12,853)
Accounts payable	(660,468)	(401,903)
Accrued expenses	6,162	25,248
Unearned revenue	(6,940)	-
Compensated absences	16,694	21,531
Workers' compensation payable	(1,276)	1,276
Net pension liability	(62,908)	17,121
Net other post-employment liability	337,586	349,080
Deferred inflows of resources for pension	46,597	(15)
Total adjustments	1,525,294	1,941,412
Net cash provided by operating activities	\$ 1,384,231	\$ 1,841,041
Noncash Capital Financing Activities:		
Issuance of capital lease	\$ 165,155	\$ 108,406
		(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, 2017 AND 2016

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, 2017 AND 2016

Cash and Cash Equivalents

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

Capital Assets

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

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, 2017 and 2016 totaled \$114,854 and \$100,671, 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 hold 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

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 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 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 amounts and disclosures. Accordingly, actual results may differ from estimated amounts.

Pension Plans

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

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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, change of assumptions, and the difference between projected and actual earnings on pension plan investments are recorded as deferred inflows or outflows of resources related to pension on the financial statements. These amounts are determined based on the actuarial valuation performed for the pension plan.

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 74, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."* This Statement enhances note disclosures and required supplementary information (RSI) for the City's other post-employment benefit (OPEB) plan.

Pending Changes in Accounting Principles

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

In March of 2017, the GASB issued Statement No. 85, *"Omnibus 2017."* This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and post-employment benefits. The provisions of GASB Statement No. 85 are effective for the City's December 31, 2018 financial statements.

In May of 2017, the GASB issued Statement No. 86, *"Certain Debt Extinguishment Issues."* This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provisions of GASB Statement No. 86 are effective for the City's December 31, 2018 financial statements.

In June of 2017, the GASB issued Statement No. 87, *"Leases."* This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the City's December 31, 2020 financial statements.

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

In March of 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.*" This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the City's December 31, 2019 financial statements.

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

2. Deposits

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

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

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

As of December 31, 2017 and 2016, the Sewer Fund's non-pooled book balances were \$13,512,170 and \$17,961,902, respectively, and the bank balances were \$13,511,863 and \$17,961,602, respectively. At December 31, 2017 and 2016, \$250,000 and \$250,000, respectively, was covered by federal depository insurance and \$13,261,863 and \$17,711,602, 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 with the City. At December 31, 2017 and 2016, the book balance of the pooled deposits was \$26,611,373 and \$44,187,502, respectively, and the bank balance was \$28,243,374 and \$45,255,571, respectively. The Sewer Fund's position in the pooled deposits was \$7,142,206 and \$9,115,012 at December 31, 2017 and 2016, respectively. At December 31, 2017, \$250,000 was insured by federal depository

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

insurance and the remaining balance of \$6,892,206 was collateralized under Act No. 72. At December 31, 2016, \$500,000 was insured by federal depository insurance and the remaining balance of \$8,615,012 was collateralized under the Act.

3. Capital Assets

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

	December 31, 2016	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2017
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction-in-progress	17,312,369	4,087,706	(1,110,034)	20,290,041
Total capital assets, not being depreciated	<u>18,797,193</u>	<u>4,087,706</u>	<u>(1,110,034)</u>	<u>21,774,865</u>
Capital assets being depreciated:				
Sewer system	158,392,830	2,699,742	-	161,092,572
Equipment and vehicles	3,122,818	318,080	(92,595)	3,348,303
Total capital assets, being depreciated	<u>161,515,648</u>	<u>3,017,822</u>	<u>(92,595)</u>	<u>164,440,875</u>
Less accumulated depreciation for:				
Sewer system	(73,754,980)	(3,027,837)	-	(76,782,817)
Equipment and vehicles	(1,114,861)	(234,448)	92,595	(1,256,714)
Total accumulated depreciation	<u>(74,869,841)</u>	<u>(3,262,285)</u>	<u>92,595</u>	<u>(78,039,531)</u>
Capital assets being depreciated, net	<u>86,645,807</u>	<u>(244,463)</u>	<u>-</u>	<u>86,401,344</u>
Capital assets, net	<u>\$ 105,443,000</u>	<u>\$ 3,843,243</u>	<u>\$ (1,110,034)</u>	<u>\$ 108,176,209</u>

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31, 2015	Increase/ Transfers In	Decrease/ Transfers Out	December 31, 2016
Capital assets not being depreciated:				
Land	\$ 1,484,824	\$ -	\$ -	\$ 1,484,824
Construction-in-progress	11,038,018	6,352,566	(78,215)	17,312,369
Total capital assets, not being depreciated	12,522,842	6,352,566	(78,215)	18,797,193
Capital assets being depreciated:				
Sewer system	156,253,305	2,182,978	(43,453)	158,392,830
Equipment and vehicles	2,972,428	150,390	-	3,122,818
Total capital assets, being depreciated	159,225,733	2,333,368	(43,453)	161,515,648
Less accumulated depreciation for:				
Sewer system	(70,859,736)	(2,936,801)	41,557	(73,754,980)
Equipment and vehicles	(898,527)	(216,334)	-	(1,114,861)
Total accumulated depreciation	(71,758,263)	(3,153,135)	41,557	(74,869,841)
Capital assets being depreciated, net	87,467,470	(819,767)	(1,896)	86,645,807
Capital assets, net	\$ 99,990,312	\$ 5,532,799	\$ (80,111)	\$ 105,443,000

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

4. Long-term Liabilities

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

Date of Issue/ Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2017
2009/2025	\$ 14,030,000	General Obligation Notes, 2.50% - 4.875%	\$ 8,065,000
2011/2041	22,460,000	General Obligation Bonds, 1.75% - 5.00%	21,275,000
2014/2034	7,415,000	General Obligation Bonds, 3.00% - 5.00%	7,005,000
2014/2034	5,500,000	Note Payable to Financing Agency, 1.00% - 1.74%	4,757,337
2016/2022	7,000,000	General Obligation Bonds, 4.00% - 5.00%	6,125,000
			<u>\$ 47,227,337</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. These bonds were advance refunded through the issuance of General Obligations Bonds, Series of 2016. The balance outstanding on the defeased General Obligation Bonds, Series of 2007, was fully redeemed on May 1, 2017.

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 at 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.

CITY OF LANCASTER SEWER FUND

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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 at 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.

In 2016, the City issued \$118,820,000 of general obligation bonds. The portion allocable to the Sewer Fund amounted to \$7,000,000, bearing interest at rates ranging from 4.00% to 5.00%. The proceeds of the bond issuance were used for the advance refunding of the General Obligations Bonds, Series of 2007. The City completed the advance refunding to reduce its total debt service payments by \$9,514,789 through the year 2046 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$9,152,042. As a result of the advance refunding, the Sewer Fund reduced its total debt service payments by \$465,655 through the year 2022, with an economic gain of \$451,609.

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 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, 2017, \$4,948,914 was drawn down on the Guaranteed Revenue Note of 2014.

CITY OF LANCASTER SEWER FUND

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

<u>Year Ending December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2018	\$ 2,457,155	\$ 1,894,265	\$ 4,351,420
2019	2,559,717	1,788,484	4,348,201
2020	2,672,326	1,677,757	4,350,083
2021	2,779,961	1,563,372	4,343,333
2022	2,910,432	1,450,696	4,361,128
2023-2027	11,493,480	5,639,731	17,133,211
2028-2032	8,906,867	4,021,461	12,928,328
2033-2037	7,712,399	2,254,801	9,967,200
2038-2041	5,735,000	682,155	6,417,155
	<u>\$ 47,227,337</u>	<u>\$ 20,972,722</u>	<u>\$ 68,200,059</u>

Capital Lease

From 2013 through 2017, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. As of December 31, 2017 and 2016, the Sewer Fund includes these vehicles and equipment at a cost of \$520,377 and \$904,855, respectively, with accumulated depreciation of \$92,761 and \$147,197, respectively.

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

<u>Year Ending December 31,</u>	<u>Total</u>
2018	\$ 128,782
2019	71,550
2020	37,166
2021	21,848
Total minimum lease payments	259,346
Less amount representing interest	<u>(13,580)</u>
Present value of future minimum lease payments	<u>\$ 245,766</u>

CITY OF LANCASTER SEWER FUND

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

	December 31, 2016	Increase	Decrease	December 31, 2017	Amount Due Within One Year
Bonds payable	\$ 35,820,000	\$ -	\$ (1,415,000)	\$ 34,405,000	\$ 1,750,000
Unamortized premium	1,220,311	-	(267,003)	953,308	-
Notes payable	13,264,258	179,656	(621,577)	12,822,337	707,155
Capital lease	356,254	165,155	(275,643)	245,766	121,380
Compensated absences	92,685	494,265	(477,571)	109,379	25,168
Workers' compensation payable	1,276	-	(1,276)	-	-
	<u>\$ 50,754,784</u>	<u>\$ 839,076</u>	<u>\$ (3,058,070)</u>	<u>\$ 48,535,790</u>	<u>\$ 2,603,703</u>

	December 31, 2015	Increase	Decrease	December 31, 2016	Amount Due Within One Year
Bonds payable	\$ 37,715,000	\$ 7,000,000	\$ (8,895,000)	\$ 35,820,000	\$ 1,415,000
Unamortized premium	663,041	911,067	(353,797)	1,220,311	-
Notes payable	11,174,611	2,499,647	(410,000)	13,264,258	618,192
Capital lease	445,092	108,406	(197,244)	356,254	232,458
Compensated absences	71,154	411,193	(389,662)	92,685	21,327
Workers' compensation payable	-	1,531	(255)	1,276	-
	<u>\$ 50,068,898</u>	<u>\$ 10,931,844</u>	<u>\$ (10,245,958)</u>	<u>\$ 50,754,784</u>	<u>\$ 2,286,977</u>

5. Derivative Agreements

During the year ended December 31, 1998, the City issued its \$61,915,000, aggregate principal amount, General Obligation Bonds, Series A of 1998 (the "Series A Bonds"). During the year ended December 31, 2004, because of the market conditions, the City entered into a forward interest rate swap agreement (Basis Swap) with PNC Bank, N.A., as the counterparty in connection with the Series A Bonds through the final maturity date of the Series A Bonds (May 1, 2028). Beginning on May 1, 2009 and ending on the final maturity date of May 1, 2028, the City was to pay a variable interest rate equal to the SIFMA index

CITY OF LANCASTER SEWER FUND

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based on the notional amount remaining on the Series A Bonds and receive a variable interest rate equal to 67% of the 1-Month LIBOR rate. The Basis Swap agreement contained an embedded interest rate cap, providing that the floating rate to be paid by the City shall not exceed 25%. PNC Bank, N.A. paid a premium to the City in the amount of \$1,715,700 for the Basis Swap. The Basis Swap became effective on May 1, 2009 and was assigned to a proportionate share of the City's General Obligation Notes, Series of 2009 which refunded the Series A Bonds. On March 9, 2016, the City made a payment totaling \$261,700 to effectively terminate the Basis Swap.

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.

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.

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

B. Plan Description and Contribution Information

Plan Participants

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

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

Plan Description and Administration

The CBPP is a single-employer defined benefit pension plan that covers all full-time, nonuniformed employees of the City. The CBPP provides retirement, disability, and death benefits to plan members and their beneficiaries. The CBPP provisions are established and may be amended by the Nonuniformed Pension Board (Board). The Nonuniformed Pension Board consists of the Mayor, City Controller, the superintendent of finance, two nonuniformed employees, and a member of City Council.

Retirement Benefit

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

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

CITY OF LANCASTER SEWER FUND

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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/her beneficiary. Payment of the survivor benefit would begin on the date on which the participant would first have been eligible for retirement. The amount of survivor benefit would be the 50% survivor benefit payable under a joint and 50% survivor pension option, based upon the pension accrued to the date of death and reduced for early commencement of benefits, if applicable. The death benefit cannot be less than the participant's benefit account balance or the lump sum value of the vested accrued benefit.

Contributions

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

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

CITY OF LANCASTER SEWER FUND

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The City contributed \$1,050,161 and \$931,774, respectively, to the CBPP for the years ended December 31, 2017 and 2016. Of the amount contributed by the City, the Sewer Fund contributed \$168,742 and \$137,844 to the CBPP for the years ended December 31, 2017 and 2016, respectively.

Changes in the Net Pension Liability

The changes in the net pension liability of the City for the years ended December 31, 2017 and 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 16,519,032	\$ 11,972,620	\$ 4,546,412
Service cost	617,998	-	617,998
Interest	1,270,257	-	1,270,257
Changes for experience	(208,366)	-	(208,366)
Changes for assumptions	372,079	-	372,079
Contributions - employer	-	1,050,161	(1,050,161)
Net investment income	-	1,419,263	(1,419,263)
Benefit payments, including refunds	(727,961)	(727,961)	-
Administrative expense	-	(28,655)	28,655
Net changes	1,324,007	1,712,808	(388,801)
Balances at December 31, 2017	\$ 17,843,039	\$ 13,685,428	\$ 4,157,611
Plan fiduciary net position as a percentage of the total pension liability			76.70%

CITY OF LANCASTER SEWER FUND

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

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

The Sewer Fund's portion of the net pension liability as of December 31, 2017 and 2016 was \$627,834 and \$690,742, respectively.

Actuarial Assumptions - The actuarial valuations included the following assumptions:

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

CITY OF LANCASTER SEWER FUND

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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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2017 and 2016 are summarized in the following table:

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

Rate of Return – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the years ended December 31, 2017 and 2016, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 12.15% and 6.86%, respectively.

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

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

CITY OF LANCASTER SEWER FUND

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

December 31, 2017:

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

December 31, 2016:

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

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

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

For the years ended December 31, 2017 and 2016, the Sewer Fund recognized pension expense of \$170,031 and \$160,328, respectively. At December 31, 2017 and 2016, the Sewer Fund reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	2017	2016
<u>Deferred Outflows of Resources</u>		
Changes of assumptions	\$ 54,302	\$ -
Net difference between projected and actual earnings on pension plan investments	-	74,079
Total Deferred Outflows of Resources	\$ 54,302	\$ 74,079
<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	\$ 52,775	\$ 23,948
Net difference between projected and actual earnings on pension plan investments	15,593	-
Total Deferred Inflows of Resources	\$ 68,368	\$ 23,948

The differences in the Sewer Fund's expected and actual experience and changes of assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2018	\$ 17,878
2019	17,878
2020	(2,515)
2021	(5,740)
2022	(5,740)
Thereafter	(35,827)
	\$ (14,066)

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

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Defined Contribution Plan

The City administers a single-employer defined contribution plan, the Supplemental Savings Plan (SSP), in which all eligible, full-time, nonuniformed employees of the City may elect to participate. As of December 31, 2017 and 2016, there were 187 and 181 plan participants, respectively. The SSP participants may elect to contribute up to 10% of their after-tax pay. The City will match 25% of the participant's contribution, on the first 5% contributed by each participant. Participant contributions in excess of 5% of compensation will not be matched. The Plan provisions are established and may be amended by the Nonuniformed Pension Board. During the year ended December 31, 2017, plan participants and the City made contributions of \$536,562 and \$110,305, respectively. During the year ended December 31, 2016, plan participants and the City made contributions of \$538,221 and \$89,696, respectively. Of the amount contributed by the City, the Sewer Fund contributed \$17,052 and \$15,159 for the years ended December 31, 2017 and 2016, respectively.

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

7. Other Post-employment Benefits Plan

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

A. Summary of Significant Accounting Policies

Basis of Accounting

The OPEB Plan's financial statements are prepared using the accrual basis of accounting. Monthly retiree contributions to the OPEB Plan are recognized when due. Monthly employer contributions to the OPEB Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and administrative expenses are recognized when due and payable in accordance with terms of the OPEB Plan.

Method Used to Value Investments

Investments are reported at fair value.

CITY OF LANCASTER SEWER FUND

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B. Plan Description and Contribution Information

At December 31, 2017, participants in the OPEB Sewer Plan were as follows:

Inactive plan members or beneficiaries currently receiving benefits	40
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>17</u>
	<u><u>57</u></u>

Plan Description and Administration

In addition to the retirement benefits described in Note 6, the City provides health care benefits for all retired employees, their spouses, and dependents. These benefit provisions and all other requirements are established under the various union contracts and City policy for non-organized employees. The union labor contract establishes the OPEB plan provisions for nonuniformed union employees. The union contract does not require City Council approval and may be amended through future negotiations. The OPEB plan provisions for non-organized employees are established through the City's human resources policies, which are approved by the Mayor.

Benefits Provided

Nonuniformed employees are eligible to retire after completion of 10 years of service and attainment of age 55 or upon disability after completion of 10 years of service.

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

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

Nonuniformed employees are required to pay a portion of the cost of the plan, which generally ranges from approximately 2% to 10% of the annual premiums.

CITY OF LANCASTER SEWER FUND

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Contributions

The City's Sewer and Water Funds have been making contributions to the respective OPEB trust funds based on a percentage of the annual required contribution, as determined by an actuarial valuation. The balance of the City's contribution is based on projected pay-as-you-go financing requirements through the General Fund. For the years ended December 31, 2017 and 2016, respectively, the City's net cost of providing health benefits and life insurance for retired employees was \$5,122,539 and \$5,034,792. Of the amount contributed by the City, the Sewer Fund contributed \$325,360 and \$319,589 for the years ended December 31, 2017 and 2016, respectively. A portion of the contributions made during the years ended December 31, 2017 and 2016, in the amount of \$89,196 and \$100,416, respectively, was made directly to the City's OPEB trust fund by the City's Sewer Fund. Plan members receiving benefits contributed \$50,036 and \$47,410 through their contributions as required by the cost sharing provisions of the plans for the years ended December 31, 2017 and 2016, respectively.

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

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

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

Net OPEB Liability

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

Total OPEB Liability	\$	9,745,524
Plan fiduciary net position		<u>498,659</u>
Net OPEB liability	\$	<u><u>9,246,865</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability		<u><u>5.12%</u></u>

CITY OF LANCASTER SEWER FUND

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The total OPEB liability was measured as of December 31, 2017 and was determined by rolling forward the liabilities from the January 1, 2016 actuarial valuation, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	3.17%
Salary increases	5.00%
Medical inflation	6.0% in 2017 and 2018 and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later
Mortality table	IRS 2017 Static Combined Table for Small Plans
Retirement age	Nonuniformed employees are assumed to retire at age 62 and completion of 10 years of service.

Change in actuarial assumptions: The interest rate was decreased from 4.50% to 3.17% in the January 1, 2016 actuarial valuation. In addition, mortality rates were updated from the RP2000 Table to the IRS 2017 Static Combined Table for Small Plans and medical inflation periods were also updated.

Investment Policy - The City has not yet adopted an investment policy for the Sewer OPEB Trust Fund. Policies regarding the allocation of invested assets in the Sewer OPEB Trust are established and may be amended by the Mayor and/or the Mayor's designee at the recommendation of the Business Administrator. Upon creation of the Sewer OPEB Trust, the City's priority was to build up an invested balance over a period of years and to preserve invested principal by investing 100% of the Sewer OPEB Trust in a Fidelity Money Market Fund managed by the Sewer OPEB Trust administrator, ICMA-RC.

Until the principal balance, invested in a moderate-risk portfolio, could reasonably be expected to produce investment earnings higher than the annual medical insurance expenses for Sewer Fund retirees, the Sewer OPEB Trust would remain invested in the Money Market Fund. As of June 30, 2018, the Sewer OPEB Trust reached a balance where, with a modest 4% annual return, the Sewer OPEB Trust would provide sufficient investment return to cover retiree medical insurance expenses (based on annual expenses for 2017).

CITY OF LANCASTER SEWER FUND

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With this milestone reached, the City will work to establish an investment policy for the Sewer OPEB Trust to establish guidelines for a moderate-risk portfolio of investments in 2019 and begin paying a portion of the Sewer Fund retiree medical insurance expenses from the Sewer OPEB Trust.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the OPEB Plan as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Money market	100.0%	4.5%

Rate of Return – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on OPEB Plan investments, net of investment expense, was .52%.

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

Discount Rate – The discount rate used to measure the total OPEB liability as of December 31, 2017 was 3.17%. The projection of cash flows used to determine the discount rate assumed that annual employer contributions are equal to pay-as-you-go costs plus \$950,000 (which represents the average employer contributions to the OPEB trust over the last five years).

The rate of 3.17% as of December 31, 2017 is the single-effective discount rate using 4.50% on projected assets sufficient to cover expected cash flows and 3.16% on remaining cash flows expected to be paid from the OPEB Trust, not already funded for by current assets, on a projected basis. As the January 1, 2016 discount rate of 4.50% resulted in a projected depletion of OPEB Trust net position, a rate of 3.17% was used

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

beginning in the cross-over depletion year of 2021, which is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

In using the discount rate of 3.17% as of December 31, 2017, the OPEB Plan's fiduciary net position is projected to only be available to make projected future benefit payments of current active and inactive employees through the year 2024. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to periods of projected benefit payments through year 2024 to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability Changes in the Discount Rate – The following presents the net OPEB liability of the OPEB Sewer Plan calculated using the discount rate described above, as well as what the OPEB Sewer Plan's net OPEB liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates as of December 31, 2017:

<u>1% Decrease</u> <u>(2.17%)</u>	<u>Current Discount</u> <u>Rate (3.17%)</u>	<u>1% Increase</u> <u>(4.17%)</u>
<u>\$ 10,826,688</u>	<u>\$ 9,246,865</u>	<u>\$ 7,974,678</u>

Sensitivity of the Net OPEB Liability Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability of the OPEB Sewer Plan calculated using the healthcare cost trend rates described above, as well as what the OPEB Sewer Plan's net OPEB liabilities would be if they were calculated using a healthcare cost trend rate that is one-percentage-point lower (5.0% decreasing to 2.8%) or higher (7.0% decreasing to 4.8%) than the current rates (6.0% decreasing to 3.8%) as of December 31, 2017:

<u>1% Decrease</u>	<u>Current Rates</u>	<u>1% Increase</u>
<u>\$ 7,594,057</u>	<u>\$ 9,246,865</u>	<u>\$ 11,371,760</u>

Additional Employer Disclosures Required by GASB Statement No. 45

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

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 were as follows:

	2017	2016
Annual required contribution	\$ 731,143	\$ 731,143
Interest on net OPEB obligation	187,221	171,513
Adjustment to annual required contribution	(255,418)	(233,987)
Annual OPEB cost	662,946	668,669
Contribution made	(325,360)	(319,589)
Change in Net OPEB obligation	337,586	349,080
Net OPEB obligation, beginning	4,160,472	3,811,392
Net OPEB obligation, ending	\$ 4,498,058	\$ 4,160,472

Three-Year Trend Information -

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2015	\$ 768,203	39.4%	\$ 3,811,392
2016	668,669	47.8%	4,160,472
2017	662,946	49.1%	4,498,058

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ 278,954	\$ 6,722,767	\$ 6,443,813	4.15%	\$ 1,988,388	324.07%

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

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

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2016
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions:	
Interest rate	4.5%
Salary increases	5% per year
Medical inflation	6.5% in 2016, 6.0% in 2017, 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later
Amortization period	30 years, open period

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.

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Insurance contracts cover public officials, law enforcement, automobile, excess workers' compensation, excess health claims, and umbrella liabilities. The contracts also provide employee, tax collector/treasurer, mayor, controller, city engineer, and employee blanket bonds.

Self-Insurance-Workers' Compensation

The City has a self-funded third-party administered workers' compensation arrangement through Murray Risk Management and Insurance. During 2017, the City was limited to \$750,000 per each accident and \$750,000 per each employee for disease. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

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

Unpaid claims as of January 1, 2016	\$ -
Incurred claims during 2016	1,531
Payments during 2016	<u>(255)</u>
Unpaid claims as of January 1, 2017	1,276
Incurred claims during 2017	-
Payments during 2017	<u>(1,276)</u>
Unpaid claims as of December 31, 2017	<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 2017.

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

10. Contract Commitments

During the years ended December 31, 2017, 2016, and 2015, the Sewer Fund contracted for pumping stations upgrades and maintenance and collection system improvements. As a result of this, the City entered into contracts with construction contractors totaling \$24,053,537. The commitment remaining on the contracts at December 31, 2017 was \$6,432,791.

11. Negative Unrestricted Net Position

Sewer rate increases for inside City customers were approved by City Council in 2010 (10%), 2011 (20%), 2012 (35%), 2016 (10%), 2017 (10%), and again in 2017 (12%). 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. The City is currently reviewing options for another PUC sewer rate case with its PUC counsel and consulting engineers.

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. Final payment from East Lampeter Township is anticipated to be received by year-end 2018 in conjunction with the adoption of a bulk sewer agreement amendment with the City's bulk sewer partners as described below.

In March 2015, the City initiated the process to begin binding arbitration with the Lancaster Area Sewer Authority (LASA) to resolve this bulk sewer treatment expense dispute. Through 2018, the amount due to the City for the period from January 2003 to March 2018, based on the East Lampeter Township arbitration award and subsequent modifications to the City's billing process, was just over \$5.2 million. Subsequent to year-end 2017, arbitration had yet to be scheduled. In early July 2018, City Administration and LASA officials began meeting to resolve the ongoing billing dispute and negotiate the terms of the bulk sewer agreement amendment outside the arbitration process. While those

CITY OF LANCASTER SEWER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

negotiations are ongoing, LASA has paid the City \$3 million in good-faith payments to move the negotiations to a positive outcome. It is anticipated that a final agreement will be reached before year-end 2018 with a full resolution and payment by LASA to the City for all outstanding amounts.

12. Extraordinary Item

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

During the year ended December 31, 2016, the City filed legal proceedings against businesses for breach of contract, breach of warranty, negligence, and professional negligence relating to deficiencies in a completed pump station project. In April 2016, the court ordered in favor of the City and the matter was settled in the amount of \$450,000. The settlement revenue has been presented on the statement of revenues, expenses, and changes in fund net position as an extraordinary item for the year ended December 31, 2016.

13. Bulk Treatment Adjustment

During the year ended December 31, 2017, the City reevaluated the amounts charged to two municipalities for prior bulk treatment billings and agreed to provide credits to these two municipalities in the amount of \$1,367,812. The adjustment has been presented on the statement of revenues, expenses, and changes in fund net position as a non-operating expense for the year ended December 31, 2017.

14. Subsequent Event

In August 2018, the City issued General Obligation Bonds, Series of 2018, in the aggregate amount of \$113,325,000. The portion allocable to the Sewer Fund amounted to \$20,330,000. Bond proceeds are to be used for general municipal projects, including upgrades and improvements to the City's sewer system, the City's water system, and the City's stormwater system. The bonds bear interest ranging from 2.00% and 5.00% until maturity on November 1, 2048.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF LANCASTER SEWER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

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

	2017*	2016*	2015*	2014*
Total Pension Liability:				
Service cost	\$ 617,998	\$ 569,268	\$ 542,160	\$ 533,032
Interest	1,270,257	1,168,991	1,096,819	1,048,689
Changes for experience	(208,366)	-	(184,304)	-
Changes of assumptions	372,079	-	-	-
Benefit payments, including refunds	(727,961)	(473,019)	(934,559)	(595,063)
Net Changes in Total Pension Liability	1,324,007	1,265,240	520,116	986,658
Total Pension Liability - Beginning	16,519,032	15,253,792	14,733,676	13,747,018
Total Pension Liability - Ending (a)	<u>\$17,843,039</u>	<u>\$16,519,032</u>	<u>\$15,253,792</u>	<u>\$14,733,676</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 1,050,161	\$ 931,774	\$ 900,704	\$ 697,517
Net investment income	1,419,263	722,581	139,124	854,651
Benefit payments, including refunds	(727,961)	(473,019)	(934,559)	(595,063)
Administrative expense	(28,655)	(26,770)	(27,730)	(24,140)
Net Change in Plan Fiduciary Net Position	1,712,808	1,154,566	77,539	932,965
Plan Fiduciary Net Position - Beginning	11,972,620	10,818,054	10,740,515	9,807,550
Plan Fiduciary Net Position - Ending (b)	<u>\$13,685,428</u>	<u>\$11,972,620</u>	<u>\$10,818,054</u>	<u>\$10,740,515</u>
Net Pension Liability - Ending (a-b)	<u>\$ 4,157,611</u>	<u>\$ 4,546,412</u>	<u>\$ 4,435,738</u>	<u>\$ 3,993,161</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>76.70%</u>	<u>72.48%</u>	<u>70.92%</u>	<u>72.90%</u>
Covered Employee Payroll	<u>\$16,203,075</u>	<u>\$15,105,036</u>	<u>\$14,312,665</u>	<u>\$13,618,505</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	<u>25.66%</u>	<u>30.10%</u>	<u>30.99%</u>	<u>29.32%</u>

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

See accompanying note to required supplementary information - pension plan.

CITY OF LANCASTER SEWER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS - PENSION PLAN

CASH BALANCE PENSION PLAN:

<u>Schedule of City Contributions</u>	2017*	2016*	2015*	2014*	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$1,050,161	\$ 931,774	\$ 900,704	\$ 697,516	\$ 658,895	\$ 516,512	\$ 504,280	\$ 499,125	\$ 475,248	\$ 459,603
Contributions in relation to the actuarially determined contribution	<u>1,050,161</u>	<u>931,774</u>	<u>900,704</u>	<u>697,517</u>	<u>658,895</u>	<u>516,512</u>	<u>504,280</u>	<u>499,125</u>	<u>475,248</u>	<u>459,603</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$16,203,075</u>	<u>\$ 15,105,036</u>	<u>\$ 14,312,665</u>	<u>\$ 13,618,505</u>						
Contributions as a percentage of covered employee payroll	6.48%	6.17%	6.29%	5.12%						
Investment Returns										
Annual money-weighted rate of return, net of investment expense	12.15%	6.86%	1.23%	8.89%						

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

See accompanying note to required supplementary information - pension plan.

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

Changes in Actuarial Assumptions

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

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

CITY OF LANCASTER SEWER FUND

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

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

CITY OF LANCASTER SEWER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN

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

	2017*
Total OPEB Liability:	
Service cost	\$ 484,935
Interest	302,702
Benefit payments	(231,564)
	556,073
Net Changes in Total OPEB Liability	556,073
Total OPEB Liability - Beginning	9,189,451
Total OPEB Liability - Ending (a)	\$ 9,745,524
Plan Fiduciary Net Position:	
Contributions - employer	\$ 335,755
Net investment income	2,340
Benefit payments	(231,564)
Administrative expense	(1,948)
	104,583
Net Change in Plan Fiduciary Net Position	104,583
Plan Fiduciary Net Position - Beginning	394,076
Plan Fiduciary Net Position - Ending (b)	\$ 498,659
Net OPEB Liability - Ending (a-b)	\$ 9,246,865
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	5.12%
Covered Employee Payroll	\$ 1,988,388
Net OPEB Liability as a Percentage of Covered Employee Payroll	465.04%

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

See accompanying note to required supplementary information - OPEB plan.

CITY OF LANCASTER SEWER FUND

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN

SCHEDULE OF SEWER FUND CONTRIBUTIONS AND INVESTMENT RETURNS - OPEB PLAN

<u>Schedule of City Contributions</u>	<u>2017*</u>
Actuarially determined contribution	\$335,755
Contributions in relation to the actuarially determined contribution	<u>335,755</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,988,388</u>
Contributions as a percentage of covered employee payroll	16.89%
<u>Investment Returns</u>	
Annual money-weighted rate of return, net of investment expense	0.52%

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

See accompanying note to required supplementary information - OPEB plan.

CITY OF LANCASTER SEWER FUND

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB PLAN

1. Actuarial Methods and Assumptions

The information presented in the required supplementary information was determined as part of the actuarial valuations at December 31, 2017. Methods and assumptions used to determine contribution rates are as follows:

Actuarial valuation date	1/1/2016
Actuarial cost method	Entry age normal, level dollar
Amortization period	30 years, open period
Actual value of assets	Market value
Actuarial assumptions:	
Investment rate of return	3.17%
Projected salary increases	5.00%
Medical inflation rate	6.0% in 2017 and 2018 and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later.
Retirement age	Nonuniformed employees are assumed to retire at age 62 and completion of 10 years of service
Mortality table	IRS 2017 Static Combined Table for Small Plans

Changes in Actuarial Assumptions

The interest rate was decreased from 4.50% to 3.17% in the January 1, 2016 actuarial valuation. In addition, mortality rates were updated from the RP2000 Table to the IRS 2017 Static Combined Table for Small Plans and medical inflation periods were also updated.

CITY OF LANCASTER 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	0.00%	\$ 1,897,820	236.94%
1/1/2010	-	4,715,588	4,715,588	0.00%	1,761,965	267.63%
1/1/2012	-	5,703,505	5,703,505	0.00%	1,899,710	300.23%
1/1/2014	-	7,063,327	7,063,327	0.00%	2,085,629	338.67%
1/1/2016	278,954	6,722,767	6,443,813	4.15%	1,988,388	324.07%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB

Year	Annual Required Contribution	Percentage Contributed
2012	\$ 652,488	33.4%
2013	652,488	34.0%
2014	823,045	38.2%
2015	823,045	36.8%
2016	731,143	43.7%
2017	731,143	44.5%

SUPPLEMENTARY INFORMATION

CITY OF LANCASTER SEWER FUND

SCHEDULE OF NET COST OF OPERATIONS OF THE CITY SEWER SYSTEM

YEAR ENDED DECEMBER 31, 2017

Direct Expenses and Costs:

Collection system	\$ 1,480,548
Sewage treatment plants	4,374,645
Sewage pumping station	1,175,590
City Bureau of Sewers	1,959,282
Sewage grounds maintenance	<u>27,965</u>
	9,018,030
Allowance per contracts for indirect expenses and costs (\$9,018,030 x 5.0%)	<u>450,902</u>
	<u>9,468,932</u>
Less reimbursements (as defined in agreements):	
Miscellaneous	273,673
Industrial waste surcharge	481,834
Management and operation service fee	<u>176,851</u>
	<u>932,358</u>
Net Cost of Operations of the City Sewer System	<u><u>\$ 8,536,574</u></u>

CITY OF LANCASTER SEWER FUND

SCHEDULE OF DIRECT EXPENSES AND COSTS

YEAR ENDED DECEMBER 31, 2017

Collection System:

Salaries and wages	\$ 817,286
Vehicle maintenance	159,950
Gasoline and oil	44,955
Miscellaneous expenses	458,357
	<hr/>
	1,480,548

Sewage Treatment Plants:

Salaries and wages	838,509
Chemicals and laboratory supplies	525,933
Equipment maintenance	354,202
Vehicle maintenance	9,595
Gasoline, oil, and fuel	62,621
Water utility expense	108,277
Power	975,040
Building maintenance	21,236
Sludge disposal	1,390,944
Miscellaneous expenses	88,288
	<hr/>
	4,374,645

Sewage Pumping Station:

Salaries and wages	751,900
Equipment maintenance	61,778
Building maintenance	1,580
Fuel	16,313
Power	341,310
Miscellaneous expenses	2,709
	<hr/>
	1,175,590

City Bureau of Sewers:

Salaries and wages	247,830
Consultant and contract services	206,157
Special training	18,360
Uniforms	9,759
Telephone	30,341
Miscellaneous expense	29,511
Fringe benefits	1,417,324
	<hr/>
	1,959,282

Sewer Grounds Maintenance:

Salaries and wages	8,169
Operating equipment	15,871
Fringe benefits	3,925
	<hr/>
	27,965

Total Direct Expenses and Costs

\$ 9,018,030

CITY OF LANCASTER SEWER FUND

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

YEAR ENDED DECEMBER 31, 2017

Net cost of operation of the City of Lancaster sewer system	\$ 8,536,574
Number of units of 1,000 gallons of sewage treated per records of the City of Lancaster (unaudited)	<u>6,189,522</u>
Net Cost of Treating 1,000 Gallons of Sewage (unaudited)	<u><u>\$ 1.3792</u></u>