

City of Lancaster
Police Pension Fund
Financial Statements and Required
Supplementary Information

Years Ended December 31, 2014 and 2013 with
Independent Auditor's Report

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CITY OF LANCASTER POLICE PENSION FUND

YEARS ENDED DECEMBER 31, 2014 AND 2013

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Police Pension Fund of the City of Lancaster as of and for the years ended December 31, 2014 and 2013, 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 Police Pension Fund of the City of Lancaster as of December 31, 2014 and 2013, and the changes in the financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Police Pension Fund and do not purport to, and do not present fairly the financial position of the City of Lancaster, as of December 31, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the historical pension plan information on pages 11 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maher Duessel

Harrisburg, Pennsylvania
June 30, 2015

CITY OF LANCASTER POLICE PENSION FUND

STATEMENTS OF PLAN NET POSITION

DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<hr/> Assets <hr/>		
Investments (at fair value):		
Money market funds	\$ 3,934,517	\$ 2,828,930
U.S. government obligations	6,335,716	9,718,521
U.S. government agency obligations	126,733	192,964
Corporate notes and bonds	11,569,114	7,255,762
Common stock	40,331,431	37,777,221
Accrued interest	<u>186,908</u>	<u>187,340</u>
Total Assets	<u>62,484,419</u>	<u>57,960,738</u>
<hr/> Liabilities <hr/>		
Accounts payable	<u>-</u>	<u>14,966</u>
<hr/> Net Position <hr/>		
Restricted for pension benefits	<u>\$ 62,484,419</u>	<u>\$ 57,945,772</u>

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

CITY OF LANCASTER POLICE PENSION FUND

STATEMENTS OF CHANGES IN PLAN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Additions:		
<hr/>		
Contributions:		
Employees	\$ 723,981	\$ 695,341
Employer	2,439,350	2,427,282
	3,163,331	3,122,623
Investment income:		
Net appreciation in fair value of investments	3,784,153	6,442,247
Interest and dividends	1,687,351	1,468,169
	5,471,504	7,910,416
Less: investment expenses	(263,605)	(232,737)
	5,207,899	7,677,679
Total additions	8,371,230	10,800,302
Deductions:		
<hr/>		
Benefits	3,828,043	3,643,869
Administrative expenses	4,540	24,045
	3,832,583	3,667,914
Net Increase in Plan Net Position	4,538,647	7,132,388
Net Position:		
<hr/>		
Beginning of year	57,945,772	50,813,384
End of year	\$ 62,484,419	\$ 57,945,772

The accompanying notes are integral part of these financial statements.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Basis of Accounting

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

Investments

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

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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

Use of Estimates

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

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 67, "*Financial Reporting for Pension Plans.*" This Statement enhances note disclosures and required supplementary information (RSI) for the Plan.

2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Plan Participants

Membership of the Plan consisted of the following at December 31, 2014:

Inactive plan members or beneficiaries currently receiving benefits	159
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	143
	<hr/>
	307
	<hr/> <hr/>

Plan Description and Administration

The Plan is a single-employer defined benefit pension plan that covers all full-time members of the City's Bureau of Police. The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries. Plan provisions are established and may be amended through the collective bargaining process. The Plan is governed by City of Lancaster Police Pension Board (Board) which consists of the Mayor, the City Treasurer, the City Controller, three active police officers to be duly elected by a majority of all active police officers for three-year overlapping terms, and one retired police officer on the pension list to be duly elected by a majority of the retired police officers on the pension list for a two-year term.

Benefits Provided

A participant is eligible for normal retirement after completion of 25 years of services. The normal retirement pension is payable monthly during the participant's lifetime, with payments continuing after the participants' death to the surviving spouse, or to dependent children under the age of 18 equal to 100% of the initial amount payable to the participant.

The amount of monthly pension is equal to 50% of the final month's salary plus longevity, plus a service increment of 2.5% of the benefit multiplied by years of service in excess of 20, but not more than \$500 additional if hired before January 1, 2011, \$100 if hired on or after January 1, 2011.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Contributions

Plan members hired on or before January 1, 2011 are required to contribute 5% of lieutenant's pay (or actual pay, if higher) and longevity, plus \$5.00 per month for the service increment. Plan members hired on or after January 1, 2011 contribute 5% of base pay and longevity, plus \$1.00 per month for the service increment. The City is required to make actuarially determined periodic contributions at rates that, for individual employees, increase over time so that sufficient assets will be available to pay benefits when due.

The 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 \$2,439,350 and \$2,427,282 to the Plan for the years ended December 31, 2014 and 2013, respectively.

Administrative Expenses

Administration costs are financed through investment income.

Net Pension Liability

The components of the net pension liability at December 31, 2014 and 2013 were as follows:

	2014	2013
Total pension liability	\$ 80,674,018	\$ 76,628,951
Plan fiduciary net position	(62,484,419)	(57,945,772)
Net pension liability	\$ 18,189,599	\$ 18,683,179
Plan fiduciary net position as a percentage of the total pension liability	77.45%	75.62%

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

Actuarial Assumptions – The January 1, 2013 actuarial valuation used the entry age normal actuarial cost method and RP2000 mortality table. The actuarial assumptions include: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c) 3.00% inflation

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

rate, d) level dollar closed amortization method, and e) 13-year remaining amortization period. These assumptions were applied to all periods included in the measurement of total pension liability.

Investment Policy – The Plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board. The Board seeks to optimize the total return of the Plan’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 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2014 and 2013 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	65.0%	7.0%
Fixed income	29.0%	2.5%
Cash	6.0%	0.0%
	100.0%	

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the years ended December 31, 2014 and 2013, the annual money-weighted rate of return on Plan investments, net of investment expense, were 8.30% and 13.25%, respectively.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2014 and 2013 was 8.00%. The Plan’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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 28,293,476	\$ 18,189,599	\$ 9,731,004

Additional Employer Disclosures Required by GASB Statements No. 27 and 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013, as required by Act 205.

The Plan assumptions under Act 205 are as follows:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	13 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Underlying inflation rate	3.0%
RP2000 mortality table	

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

The City's annual pension cost and net pension asset for the Plan for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Annual required contribution	\$ 2,439,350	\$ 2,427,282
Interest on net pension asset	(569,171)	(580,787)
Adjustment to annual required contribution	711,464	725,984
Annual pension cost	2,581,643	2,572,479
Contributions made	2,439,350	2,427,282
Change in net pension asset	142,293	145,197
Net pension asset, beginning of year	(7,114,635)	(7,259,832)
Net pension asset, end of year	\$ (6,972,342)	\$ (7,114,635)

Three-year trend information:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2012	\$ 1,867,001	92.1%	\$ (7,259,832)
2013	2,572,479	94.4%	(7,114,635)
2014	2,581,643	94.5%	(6,972,342)

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.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	\$ 60,520,074	\$ 72,813,781	\$ 12,293,707	83.1%	\$ 10,605,553	115.9%

3. DEPOSITS AND INVESTMENTS

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

Investments consist of the following as of December 31:

	2014	2013
Money market funds	\$ 3,934,517	\$ 2,828,930
U.S. government obligations	6,335,716	9,718,521
U.S. government agency obligations	126,733	192,964
Corporate notes and bonds	11,569,114	7,255,762
Common stock	40,331,431	37,777,221
Total investments	\$ 62,297,511	\$ 57,773,398

Custodial Credit Risk. Custodial credit risk is the risk that the financial institution or the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Fund does not have an investment policy for custodial credit risk. All of the Fund's investments are uninsured, registered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Fund's name.

Concentration of Credit Risk. The Fund places no limit on the amount the Fund may invest in any one issuer. At December 31, 2014, none of the Fund's investments were more than five percent of the Fund's total asset value.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Credit Risk. The Fund does not have a formal policy that would limit its investment choices with regard to credit risk. The Fund’s money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2014:

	Fair Value	Rating
Money market funds	\$ 3,934,517	AAA
U.S. government agency obligations	126,733	AA+
Corporate notes and bonds	613,395	AAA
Corporate notes and bonds	337,284	AA+
Corporate notes and bonds	616,966	AA
Corporate notes and bonds	2,763,012	AA-
Corporate notes and bonds	2,739,950	A+
Corporate notes and bonds	1,079,006	A
Corporate notes and bonds	3,419,501	A-

Interest Rate Risk. The Fund does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average maturity of the Fund’s money market funds at December 31, 2014 was less than one year. The average maturities for the Fund’s fixed income investments as of December 31, 2014 were as follows:

	Fair Value	Investment Maturity			Subsequent to 2025
		2015	2016-2020	2021-2025	
U.S. government obligations	\$ 6,335,716	\$ 6,335,716	\$ -	\$ -	\$ -
U.S. government agency obligations	126,733	-	27,222	12,374	87,137
Corporate notes and bonds	11,569,114	248,952	9,268,811	2,051,351	-
	\$ 18,031,563	\$ 6,584,668	\$ 9,296,033	\$ 2,063,725	\$ 87,137

**Required Supplementary
Information**

CITY OF LANCASTER POLICE PENSION FUND

SCHEDULE OF CHANGES IN PLAN NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 1,755,477
Interest	6,117,633
Benefit payments, including refunds of member contributions	(3,828,043)
	4,045,067
Net Changes in Total Pension Liability	4,045,067
Total Pension Liability - Beginning	76,628,951
Total Pension Liability - Ending (a)	\$ 80,674,018
Plan Fiduciary Net Position:	
Contributions - employer	\$ 2,439,350
Contributions - employees	723,981
Net investment income	5,207,899
Benefit payments, including refunds of member contributions	(3,828,043)
Administrative expense	(4,540)
	4,538,647
Net Change in Plan Fiduciary Net Position	4,538,647
Plan Fiduciary Net Position - Beginning	57,945,772
Plan Fiduciary Net Position - Ending (b)	\$ 62,484,419
Net Pension Liability - Ending (a-b)	\$ 18,189,599
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.45%
Covered Employee Payroll	\$ 10,707,385
Net Pension Liability as a Percentage of Covered Employee Payroll	169.88%

See accompany note to required supplementary information.

CITY OF LANCASTER POLICE PENSION FUND

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

Schedule of City Contributions

Actuarially determined contribution under Act 2015	\$ 2,439,350
Contributions in relation to the actuarially determined contributions	<u>2,439,350</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 10,707,385</u>
Contributions as a percentage of covered employee payroll	22.78%

Investment Returns

Annual money-weighted rate of return, net of investment expense	8.30%
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See accompany note to required supplementary information.

CITY OF LANCASTER POLICE PENSION FUND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) YEARS ENDED DECEMBER 31, 2014 AND 2013

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 for the years ended December 31, 2014 and 2013 are as follows:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	13 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Underlying inflation rate	3.0%
RP2000 mortality table	

CITY OF LANCASTER POLICE PENSION FUND

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

Actuarial Valuation January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
2008	\$ 48,600,558	\$ -	\$ -	-	\$ -	-
2009	49,259,232	57,157,584	7,898,352	86.2%	10,119,512	78.1%
2010	52,071,868	-	-	-	-	-
2011	55,593,841	66,275,125	10,681,284	83.9%	9,909,871	107.8%
2012	57,992,567	-	-	-	-	-
2013	60,520,074	72,813,781	12,293,707	83.1%	10,605,553	115.9%

The following changes affect the comparability of costs:

Actuarial Valuation Date	Reason	Change in Unfunded Actuarial Accrued Liability
1/1/2009	Assumption change	\$(3,789,172)
1/1/2011	Assumption change	2,247,464

SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

Calendar Year	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2009	\$ 1,565,272	\$ 1,565,272	100.0%
2010	1,618,199	2,588,199	159.9% (1)
2011	1,732,970	1,732,970	100.0%
2012	1,718,841	1,718,841	100.0%
2013	2,427,282	2,427,282	100.0%
2014	2,439,350	2,439,350	100.0%

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