

**City of Harrisburg  
Police Pension Plan**

Financial Statements and Required  
Supplementary Information

Years Ended December 31, 2016 and 2015 with  
Independent Auditor's Report

**MaherDuessel**

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# **CITY OF HARRISBURG POLICE PENSION PLAN**

YEARS ENDED DECEMBER 31, 2016 AND 2015

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## Independent Auditor's Report

Police Pension Board  
City of Harrisburg Police Pension Plan

We have audited the accompanying financial statements of the City of Harrisburg (City) Police Pension Plan (Plan) as of and for the years ended December 31, 2016 and 2015, 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 Plan as of December 31, 2016 and 2015, 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.

## **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 information on pages 14 through 16 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.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of the City, as of December 31, 2016 and 2015, 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 7, 2017

# CITY OF HARRISBURG POLICE PENSION PLAN

## STATEMENTS OF PLAN NET POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<hr/>		
Receivables:		
Interest and dividends	\$ 47,628	\$ 42,374
	<hr/>	<hr/>
Investments, at fair value:		
Money market funds	848,233	1,166,026
Certificates of deposit	601,181	1,266,966
Mutual funds:		
Equity	45,379,031	44,727,140
Fixed income	19,625,388	22,072,247
U.S. government obligations	1,872,547	956,089
U.S. government agency obligations	1,562,684	997,361
Corporate bonds	3,537,272	2,296,041
Municipal bonds	57,205	56,074
Partnership	1,548,521	-
	<hr/>	<hr/>
Total investments	75,032,062	73,537,944
	<hr/>	<hr/>
<b>Total Assets</b>	<b>75,079,690</b>	<b>73,580,318</b>
	<hr/>	<hr/>
<b>Net Position</b>		
<hr/>		
Restricted for pension benefits	\$ 75,079,690	\$ 73,580,318
	<hr/> <hr/>	<hr/> <hr/>

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

# CITY OF HARRISBURG POLICE PENSION PLAN

## STATEMENTS OF CHANGES IN PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Additions:</b>		
Contributions:		
Plan member	\$ 479,598	\$ 462,539
Employer	2,906,315	2,972,450
Total contributions	<u>3,385,913</u>	<u>3,434,989</u>
Investment income:		
Interest and dividend income	1,874,912	2,053,267
Net appreciation (depreciation) in fair value of investments	<u>2,500,339</u>	<u>(1,261,519)</u>
Total investment income	4,375,251	791,748
Less investment expense	<u>(199,806)</u>	<u>(204,804)</u>
Net investment income	<u>4,175,445</u>	<u>586,944</u>
Total additions	<u>7,561,358</u>	<u>4,021,933</u>
<b>Deductions:</b>		
Pension benefits	6,008,655	5,630,072
Administrative expenses	<u>53,331</u>	<u>48,790</u>
Total deductions	<u>6,061,986</u>	<u>5,678,862</u>
<b>Change in Plan Net Position</b>	1,499,372	(1,656,929)
<b>Net Position:</b>		
Beginning of year	<u>73,580,318</u>	<u>75,237,247</u>
End of year	<u>\$ 75,079,690</u>	<u>\$ 73,580,318</u>

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

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Plan Description and Administration*

The City of Harrisburg (City) Police Pension Plan (Plan) is a single-employer defined benefit pension plan covered by the Municipal Pension Plan Funding Standards and Recovery Act, Act 205-1984 of the Pennsylvania Legislature. The Plan was created by Ordinance No. 21 of 1998 and is controlled by the provisions of Ordinance No. 5 of 2001, as amended. The Plan is considered part of the City of Harrisburg's financial reporting entity and is included in the City's financial report 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 changes in financial position of the City in conformity with accounting principles generally accepted in the United States of America.

#### *Basis of Accounting*

The Plan's policy is to prepare its financial statements on the accrual basis of accounting. Revenues are recognized when earned and certain expenses and purchases of assets are recognized when the obligation is incurred.

#### *Valuation of Investments*

Investments are reported at fair value. Short-term investments are reported at cost, which approximate fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. All highly liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents. The Plan categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

#### *Use of Estimates*

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

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

The Plan has adopted GASB Statement No. 72 "Fair Value Measurement and Application." This Statement addresses accounting and financial reporting issues related to fair value measurements. As a result of implementation of this Statement, the investment disclosures at Note 3 have been enhanced.

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### *Pending Changes in Accounting Principles*

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

The effect of implementation of this Statement has not yet been determined.

## 2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

### *Plan Participants*

Membership of the Plan consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Active members	131	132
Inactive members or beneficiaries currently receiving benefits	212	212
Inactive members entitled to but not yet receiving benefits	<u>1</u>	<u>2</u>
	<u>344</u>	<u>346</u>

### *Benefit Provisions*

The Plan is governed by the City’s Police Pension Board (Board), which consists of three persons appointed by the City, three persons appointed by the representatives of the Members’ collective bargaining unit, and a neutral person appointed by a majority of the first six representatives. The Board is responsible for the management of Plan assets, appointment of the Plan trustee or custodian, and selection of investment advisors and managers.

All full-time members of the police force are eligible to join the Plan upon employment. Members are eligible for normal retirement after attainment of age 50. For members hired after September 2013, members are eligible for normal retirement after attainment of age 50 and completion of 20 years of service. The normal retirement pension is payable monthly during the member’s lifetime, with payments continuing after the member’s death to the surviving spouse or, if there is no eligible surviving spouse, to the dependent children of the member under the age of 18, equal to 50% of the amount payable to the member at the time of the member’s death.

For members who complete 20 or more years of service, the amount of monthly pension is equal to 50% of the member’s average monthly compensation, plus an incremental pension equal to 2.5% of average monthly compensation for each complete year of service in excess of 20 years, up to a maximum of 65% of average monthly compensation for members who complete 26 years of service. An additional 5% of average monthly compensation is added for members who complete 27 years of service, up to a maximum

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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monthly pension of 70% of average monthly compensation. Effective September 2013, the benefit provisions of the Plan for new hires were changed to decrease the maximum monthly pension to 50% of average monthly compensation plus an incremental pension equal to 1/40<sup>th</sup> of the pension for each complete year of service in excess of 20 years and before age 65, up to a maximum of \$100 additional per month.

Average monthly compensation is based upon the final annualized basic compensation rate, including longevity payments, or the average monthly compensation, including longevity payments, received during the last five years of employment, if higher.

A member may continue to work after normal retirement date. The member's pension does not commence until the actual date of retirement and the benefit is equal to the benefit accrued to the late retirement date.

A member who has become disabled in the line of duty is eligible for a disability pension. The monthly disability pension is equal to 50% of average monthly compensation, reduced by any Worker's Compensation benefits received by the member. If an active member who had completed four years of service is disabled outside of the line of duty, the member is eligible for a disability pension equal to 50% of average monthly compensation. For members hired after September 2013, if an active member who had completed less than ten years of service is disabled outside of the line of duty, the member is eligible for a disability pension equal to 25% of average monthly compensation, and if an active member who had completed ten years of service is disabled outside of the line of duty, the member is eligible for a disability pension equal to 50% of average monthly compensation.

If a member who is eligible for retirement dies prior to retirement, a death benefit is payable to the surviving spouse, or if there is no eligible surviving spouse, to dependent children of the member under the age of 18, equal to 50% of the benefits the member would have been receiving had the member been retired at the time of the member's death.

A member's benefits vest upon completion of 20 years of service. The vested benefit is a deferred monthly pension beginning at normal retirement equal to the benefit accrued to the date of termination.

The benefit accrued at any date, other than the normal retirement date, is calculated by multiplying the projected normal retirement benefit by the ratio, not greater than one, of the number of years of service to date to 20.

As outlined in Ordinance No. 21 of 1998, as amended by Ordinance No. 5 of 2001, the authority to establish and amend benefit provisions rests with the members' collective bargaining unit and the City's administration. It then must be approved by the Board and ratified and enacted by City Council.

### ***Contributions***

During the years ended December 31, 2016 and 2015, Plan members contributed to the Plan at a rate of 5% of compensation, plus \$1 per month. As outlined in Ordinance No. 21 of 1998, as amended, the authority to make amendments to the contribution rates of Plan members rests with the members' collective bargaining unit and the City's administration. It then must be approved by the Board and ratified and enacted by City Council.

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

The City receives annual contributions from the Commonwealth of Pennsylvania in accordance with Act 205 that may be used by the City to meet employer contribution requirements.

The City contributed \$2,906,315 and \$2,972,450 to the Plan for the years ended December 31, 2016 and 2015, respectively.

### *Administrative Expenses*

Administration costs are financed through investment earnings.

### *Net Pension Liability*

The components of the net pension liability at December 31, 2016 and 2015 were as follows:

	2016	2015
Total pension liability	\$ 92,939,765	\$ 90,276,750
Plan fiduciary net position	(75,079,690)	(73,580,318)
Net pension liability	<u>\$ 17,860,075</u>	<u>\$ 16,696,432</u>
Plan fiduciary net position as a percentage of the total pension liability	80.78%	81.51%

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

*Actuarial Assumptions* – The actuarial assumptions for the January 1, 2015 actuarial valuation include: a) mortality rates based on the RP-2000 Table for Males and Females; b) 8.00% investment rate of return, c) projected salary increase of 5.00%, d) 3.00% inflation rate, e) level dollar closed amortization method, and f) 11-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 achieve long-term growth of the Plan’s assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Plan’s current and long-term pension obligations.

*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.

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2016 and 2015 are summarized in the following tables:

December 31, 2016		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.0%	5.50% - 7.50%
International equity	18.0%	4.50% - 6.50%
Fixed income	33.0%	1.00% - 3.00%
Cash	2.0%	0.00% - 1.00%
	100.0%	

December 31, 2015		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.0%	5.50% - 7.50%
International equity	18.0%	4.50% - 6.50%
Fixed income	33.0%	1.00% - 3.00%
Cash	2.0%	0.00% - 1.00%
	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, 2016 and 2015, the annual money-weighted rate of return on Plan investments, net of investment expense, was 6.08% and 1.01%, respectively.

*Discount Rate* – The discount rate used to measure the total pension liability as of December 31, 2016 and 2015 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.

*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:

December 31, 2016		
1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 27,797,541	\$ 17,860,075	\$ 9,426,096

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

December 31, 2015		
1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 26,411,709	\$ 16,696,432	\$ 8,455,501

### 3. DEPOSITS AND INVESTMENTS

The deposit and investment policy of the Plan adheres to state statutes. Permissible investments include direct obligations of the U.S. Treasury and U.S. governmental agencies; certificates of deposit issued by insured banks, bank and trust companies, and savings and loan associations; short-term commercial paper issued by a public corporation; bankers acceptances; repurchase agreements not exceeding 30 days, secured by U.S. government obligations with collateral to be delivered to a third-party custodian, shares of registered investment companies whose portfolios consist solely of government securities; general obligation bonds of any state, Pennsylvania subdivisions or any of its agencies or instrumentalities backed by the full faith and credit of the issuing entity and saving the highest rating of a recognized bond rating agency; pooled funds of public agencies of the Commonwealth of Pennsylvania; corporate stocks and bonds; and other investments consistent with sound business practices.

The Plan's investments, at fair value, at December 31, 2016 are as follows:

Investments	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Money market funds	\$ 848,233	\$ 848,233	\$ -	\$ -
Certificates of deposit	601,181	601,181	-	-
Mutual funds:				
Equity - domestic	34,081,032	34,081,032	-	-
Equity - international	11,297,999	11,297,999	-	-
Fixed income	19,625,388	19,625,388	-	-
U.S. government obligations	1,872,547	1,872,547	-	-
U.S. government agency obligations	1,562,684	1,562,684	-	-
Corporate bonds	3,537,272	-	3,537,272	-
Municipal bonds	57,205	-	57,205	-
Partnership	1,548,521	-	-	1,548,521
Total	\$ 75,032,062	\$ 69,889,064	\$ 3,594,477	\$ 1,548,521

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

The Plan's investments, at fair value, at December 31, 2015 are as follows:

Investments	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Money market funds	\$ 1,166,026	\$ 1,166,026	\$ -	\$ -
Certificates of deposit	1,266,966	1,266,966	-	-
Mutual funds:				
Equity - domestic	29,038,165	29,038,165	-	-
Equity - international	15,688,975	15,688,975	-	-
Fixed income	22,072,247	22,072,247	-	-
U.S. government obligations	956,089	956,089	-	-
U.S. government agency obligations	997,361	997,361	-	-
Corporate bonds	2,296,041	-	2,296,041	-
Municipal bonds	56,074	-	56,074	-
<b>Total</b>	<b>\$ 73,537,944</b>	<b>\$ 71,185,829</b>	<b>\$ 2,352,115</b>	<b>\$ -</b>

*Corporate and Municipal Bonds:* Certain corporate and municipal bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate and municipal bonds are valued based on yields currently available on comparable securities of issues with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued using a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. These investments are classified within Level 2 of the valuation hierarchy.

*Partnership* (Equus Investment Partnership X, L.P.): At December 31, 2016, the Plan has \$1,548,521 invested in Equus Investment Partnership X, L.P (Partnership). The Partnership invests in and acquires, holds, operates, and disposes of operational real estate through equity interests. The valuation of the Partnership is determined in good faith from information provided by the General Partner of the limited partnership. The fair value of the Partnership is based on valuation methods including, but not limited to, the following: (1) forecast of future net cash flows based on the General Partner's analysis of future earnings from the investment plus anticipated net proceeds from the sale, deposition or resolution of the investment, discounted at a risk-adjusted rate; (2) prevailing market capitalization rates or earnings multiples applied to stabilized income or adjusted earnings from the investment; (3) recent sales of comparable investments; (4) independent third-party appraisals; and (5) sale negotiations and bona fide purchase offers received from independent parties. The discounted cash flow technique is the primary method employed by the General Partner supplemented by one or more of the other valuation techniques described above, as applicable. Two significant unobservable inputs used in the discounted cash flow technique are discount rate and terminal capitalization rate. These unobservable inputs are inter-related. A significant increase in the discount or terminal capitalization rate in isolation would result in a significantly lower fair value measurement. The estimated fair values do not necessarily represent the prices at which the

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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real estate investments would sell, since market prices can only be determined by negotiation between a willing buyer and a willing seller. This investment is classified within Level 3 of the valuation hierarchy.

*Custodial Credit Risk.* Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Plan's investment policy does not specifically address custodial credit risk. All of the Plan's investments are held by the broker or dealer, or by its trust department or agent, in the Plan's name. The Plan's certificates of deposit are covered by federal depository insurance.

*Concentration of Credit Risk.* The Plan's investment policy places the following limits on the amount the Plan may invest in any one issuer: 1) Not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation; 2) Not more than 40% of the total stock portfolio valued at market may be held in any one industry sector; 3) Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio; and 4) Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

At December 31, 2016 and 2015, the Plan did not have any investments that exceeded the above concentration policies.

*Credit Risk.* The Plan's investment policy limits the overall rating of the fixed income investments, as calculated by the investment advisor, to investment grade, based on the rating of one nationally recognized statistical rating organization.

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

At December 31, 2016 and 2015, the Plan's investment ratings are as follows:

<u>December 31, 2016</u>	<u>Rating</u>	<u>Fair Value</u>
Money market funds	AAA	\$ 848,233
Certificates of deposit	AA+	601,181
Mutual funds - fixed income	*AA	8,012,837
Mutual funds - fixed income	*A	9,122,408
Mutual funds - fixed income	*BB	2,490,143
U.S. government obligations	AA+	1,872,547
U.S. government agency obligations	AA+	1,562,684
Corporate bonds	AAA	248,265
Corporate bonds	AA+	275,847
Corporate bonds	AA	304,987
Corporate bonds	AA-	384,626
Corporate bonds	A+	324,499
Corporate bonds	A	615,100
Corporate bonds	A-	370,318
Corporate bonds	BBB+	527,705
Corporate bonds	BBB	99,937
Corporate bonds	BBB-	65,617
Corporate bonds	Unrated	320,371
Municipal bonds	AA	57,205
Partnership	Unrated	1,548,521

\*This is a weighted-average quality rating for a mutual fund made up of fixed income securities.

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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<u>December 31, 2015</u>	<u>Rating</u>	<u>Fair Value</u>
Money market funds	AAA	\$ 1,166,026
Certificates of deposit	AA+	1,266,966
Mutual funds - fixed income	*AAA	2,541,741
Mutual funds - fixed income	*AA	12,294,250
Mutual funds - fixed income	*A	7,236,256
U.S. government obligations	AA+	956,089
U.S. government agency obligations	AA+	997,361
Corporate bonds	AAA	209,674
Corporate bonds	AA+	47,049
Corporate bonds	AA	149,776
Corporate bonds	AA-	327,969
Corporate bonds	A+	263,360
Corporate bonds	A	518,153
Corporate bonds	A-	226,270
Corporate bonds	BBB+	350,998
Corporate bonds	BBB	40,327
Corporate bonds	BBB-	41,868
Corporate bonds	Unrated	120,597
Municipal bonds	AA	56,074

\*This is a weighted-average quality rating for a mutual fund made up of fixed income securities.

# CITY OF HARRISBURG POLICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

*Interest Rate Risk.* The Plan's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Plan's money market funds, certificates of deposit, and fixed income investments and their related average maturities:

Investment Type	Fair Value	Investment Maturities			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years
<b>December 31, 2016</b>					
Money market funds	\$ 848,233	\$ 848,233	\$ -	\$ -	\$ -
Certificates of deposit	601,181	-	601,181	-	-
Mutual funds - fixed income	19,625,388	-	-	19,625,388	-
U.S. government obligations	1,872,547	245,988	667,027	613,295	346,237
U.S. government agency obligations	1,562,684	-	168,989	103,819	1,289,876
Corporate bonds	3,537,272	65,953	1,398,876	1,215,459	856,984
Municipal bonds	57,205	-	-	-	57,205
<b>Total</b>	<b>\$ 28,104,510</b>	<b>\$ 1,160,174</b>	<b>\$ 2,836,073</b>	<b>\$ 21,557,961</b>	<b>\$ 2,550,302</b>

Investment Type	Fair Value	Investment Maturities			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years
<b>December 31, 2015</b>					
Money market funds	\$ 1,166,026	\$ 1,166,026	\$ -	\$ -	\$ -
Certificates of deposit	1,266,966	-	1,222,918	44,048	-
Mutual funds - fixed income	22,072,247	-	2,396,691	19,675,556	-
U.S. government obligations	956,089	-	258,442	456,991	240,656
U.S. government agency obligations	997,361	-	154,860	257,042	585,459
Corporate bonds	2,296,041	-	835,271	963,382	497,388
Municipal bonds	56,074	-	-	-	56,074
<b>Total</b>	<b>\$ 28,810,804</b>	<b>\$ 1,166,026</b>	<b>\$ 4,868,182</b>	<b>\$ 21,397,019</b>	<b>\$ 1,379,577</b>

**Required Supplementary  
Information**

**CITY OF HARRISBURG POLICE PENSION FUND**  
**SCHEDULE OF CHANGES IN PLAN NET PENSION LIABILITY AND**  
**RELATED RATIOS**

YEARS ENDED DECEMBER 31, \*

	2016	2015	2014
<b>Total Pension Liability:</b>			
Service cost	\$ 1,564,700	\$ 1,490,190	\$ 1,542,107
Interest	7,106,970	6,895,688	6,403,162
Differences between expected and actual experience	-	(753,653)	-
Changes in assumptions	-	4,507,561	-
Benefit payments, including refunds of member contributions	(6,008,655)	(5,630,072)	(5,351,314)
<b>Net Changes in Total Pension Liability</b>	<b>2,663,015</b>	<b>6,509,714</b>	<b>2,593,955</b>
<b>Total Pension Liability - Beginning</b>	<b>90,276,750</b>	<b>83,767,036</b>	<b>81,173,081</b>
<b>Total Pension Liability - Ending</b>	<b>\$92,939,765</b>	<b>\$90,276,750</b>	<b>\$83,767,036</b>
<b>Plan Fiduciary Net Position:</b>			
Contributions - employer	\$ 2,906,315	2,972,450	\$ 2,424,298
Contributions - plan member	479,598	462,539	478,549
Net investment income	4,175,445	586,944	4,082,703
Benefit payments, including refunds of member contributions	(6,008,655)	(5,630,072)	(5,351,314)
Administrative expense	(53,331)	(48,790)	(58,924)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,499,372</b>	<b>(1,656,929)</b>	<b>1,575,312</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>73,580,318</b>	<b>75,237,247</b>	<b>73,661,935</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>\$75,079,690</b>	<b>\$73,580,318</b>	<b>\$75,237,247</b>
<b>Net Pension Liability - Ending</b>	<b>\$17,860,075</b>	<b>\$16,696,432</b>	<b>\$8,529,789</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>80.78%</b>	<b>81.51%</b>	<b>89.82%</b>
<b>Covered Employee Payroll</b>	<b>\$9,154,952</b>	<b>\$9,923,769</b>	<b>\$9,363,263</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>195.09%</b>	<b>168.25%</b>	<b>91.10%</b>

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

See accompanying note to required supplementary information - pension plan.

**CITY OF HARRISBURG POLICE PENSION FUND**  
**SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS**  
**YEARS ENDED DECEMBER 31, \***

<u>Schedule of City Contributions</u>	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution under Act 205	\$ 2,906,315	\$ 2,972,450	\$ 2,034,070	\$ 2,146,827	\$ 1,517,751	\$ 1,551,579	\$ 314,094	\$ 275,869	\$ 285,274	\$ 523,803
Contributions in relation to the actuarially determined contribution	2,906,315	2,972,450	2,424,298	2,594,752	2,524,734	4,510,723	314,094	275,869	285,274	523,803
Contribution deficiency (excess)	\$ -	\$ -	\$ (390,228)	\$ (447,925)	\$ (1,006,983)	\$ (2,959,144)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 9,154,952	\$ 9,923,769	\$ 9,363,263	\$ 10,240,017	\$ 10,358,429	\$ 10,250,723	\$ 9,650,596	\$ 9,524,752	\$ 9,137,927	\$ 9,453,063
Contributions as a percentage of covered-employee payroll	31.75%	29.95%	25.89%	25.34%	24.37%	44.00%	3.25%	2.90%	3.12%	5.54%
<u>Investment Returns</u>										
Annual money-weighted rate of return, net of investment expense	6.08%	1.01%	6.05%	15.30%						

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

See accompanying note to required supplementary information - pension plan.

# CITY OF HARRISBURG POLICE PENSION FUND

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 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, 2016 and 2015 are as follows:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Amortization period	11 years remaining
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Underlying inflation	3.0%
Post-retirement mortality	UP 1984 Table

#### Change in Actuarial Assumptions

In the January 1, 2015 actuarial valuation, the mortality table was updated from the UP 1984 Table to the RP-2000 Table for Males and Females.