

# **City of Lock Haven, Pennsylvania**

Financial Statements and  
Supplementary Information

December 31, 2015



**BAKER TILLY**

Candor. Insight. Results.

# City of Lock Haven, Pennsylvania

---

Table of Contents  
December 31, 2015

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis</b>	4
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund - Budget and Actual	20
Statement of Net Position - Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds	23
Statement of Fiduciary Net Position	24
Statement of Change in Fiduciary Net Position	25
Notes to Financial Statements	26

# City of Lock Haven, Pennsylvania

---

Table of Contents  
December 31, 2015

## **Required Supplementary Information (Unaudited)**

Schedule of Changes in Net Pension Liability and Related Ratios	59
Schedule of Employer Contributions - Police Pension Fund	60
Schedule of Employer Contributions - City Employees Retirement Fund	61
Schedule of Investment Returns - Pension Trust Funds	62
Schedule of Other Post-Employment Benefit Plan Funding Progress	63

## **Supplementary Information**

Schedule of Expenditures of Federal Awards	64
Notes to the Schedule of Expenditures of Federal Awards	65

<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	66
--	----

<b>Independent Auditors' Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance</b>	68
--	----

<b>Schedule of Findings and Questioned Costs</b>	70
--	----

<b>Summary Schedule of Prior Audit Findings</b>	76
---	----

## **Independent Auditors' Report**

Honorable Members of City Council  
City of Lock Haven, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic 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.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Notes 1, 11, and 17 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27* in 2015 to conform to accounting principles generally accepted in the United States of America. The City restated its beginning net position at January 1, 2015 for this adoption. Our opinion was not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 13, schedule of changes in net pension liability and related ratios on page 59, schedule of employer contributions - Police Pension Fund on page 60, schedule of employer contributions - city employees retirement fund on page 61, schedule of investment returns - pension trust funds on page 62, and schedule of other post-employment benefit plan funding progress on page 63 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 audit 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Baker Tilly Viechow Krause, LLP*

Williamsport, Pennsylvania  
September 30, 2016

## City of Lock Haven, Pennsylvania

---

### Management's Discussion and Analysis

December 31, 2015

(Unaudited)

The City of Lock Haven, Pennsylvania, hereafter referred to as the "City", is pleased to present its financial statements developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (hereafter "GASB 34") and related standards. GASB 34 enhances information provided to the users of its financial statements. Management's discussion and analysis is a narrative overview and analysis of the financial activities of the City of Lock Haven for the fiscal year ended December 31, 2015. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the financial section, notes to the financial section, and supplemental information.

### **Financial Highlights** **Government-wide Financial Statements**

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent calendar year by \$24,563,955 (net position).

The City's total net position increased by \$1,212,919.

At December 31, 2015, the City's governmental funds reported combined ending fund balances of \$2,487,753, an increase of \$1,144,123 compared to the prior year. Under GASB Statement 54, a segregation of fund balances is required. The City's General Fund fund balances are segregated as follows:

Non-spendable: \$241,896 prepaid items

Spendable

Restricted: \$138,207 for capital projects, street programs, recreation and economic development and various other grant programs

Unassigned: \$114,500 available for any purpose

At December 31, 2015, the fund balance of the General Fund was \$494,603 or 11.1% of the total General Fund revenues and 11.4% of the General Fund expenditures.

During the year, the City initiated new debt in the amount of \$1,343,246 and retired bonds and notes in the amount of \$2,602,911, for a net decrease of \$1,259,665.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Lock Haven's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The statement of net position provides information on all of the City's assets, liabilities and deferred inflows of resources with the difference between the three reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City of Lock Haven is improving or deteriorating. Other factors to consider are changes in the City's property tax base, changes in the resident base, and the conditions of the City's roads and bridges.

## City of Lock Haven, Pennsylvania

---

### Management's Discussion and Analysis

December 31, 2015

(Unaudited)

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods, such as uncollected taxes, earned but unused vacation leave, accrued payroll, accrued interest on long-term debt and intergovernmental receivables.

The government-wide financial statements distinguish functions of the City of Lock Haven that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or significant portions of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health welfare and sanitation, culture and recreation, and buildings and property. The business-type activities of the City include operation of public utilities of sewer and water, and the William T. Piper Memorial Airport.

The City's government-wide financial statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have been made in regard to internal activity, payables and receivables.

In the statement of net position and the statement of activities, activities are separated as follows:

**Governmental Activities** - Most of the City's basic services are reported in this category, including general government, administration, finance/accounting, tax collection, engineering, buildings/property, police, fire, code enforcement, planning, zoning, health/recycling, streets/storm sewers, on street parking/traffic safety, recreation, parks and levee.

**Business-type Activities** - The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's sewer and water utility activities and airport activities are reported in this category.

### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Unlike government-wide financial statements, the focus of fund financial statements is directed toward specific activities of the City. Except for the general fund, specific funds are established to satisfy managerial control over resources or to satisfy finances-related legal requirements. The City's fund financial statements are divided into three categories: 1) governmental funds, 2) proprietary funds, and 3) fiduciary funds.

### Governmental Funds

Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The differences of results in the governmental fund financial statements from those in the government-wide financial statements are explained in a reconciliation schedule following each governmental fund financial statement.



## **City of Lock Haven, Pennsylvania**

---

### **Management's Discussion and Analysis**

December 31, 2015

(Unaudited)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds to similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City of Lock Haven adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

### **Proprietary Funds**

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. For financial reporting purposes, proprietary funds are grouped into enterprise funds and internal service funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City uses enterprise funds to account for its water, sewer and airport activities. An internal service fund is used to charge the costs of certain activities, such as fleet maintenance, postage and information technology, on a cost-reimbursement basis to individual funds and various City departments and programs that use these items.

### **Fiduciary Funds**

Assets held by the City for other parties, either as a trustee or an agent, and that cannot be used to finance the City's own operating programs are reported in the fiduciary funds. The City is the trustee, or fiduciary, for the City's two defined benefit pension plans. Fiduciary fund financial statements consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for pension trust funds regarding funding, contributions and actuarial assumption. Other supplementary information includes a schedule of expenditures of federal awards.

# City of Lock Haven, Pennsylvania

## Management's Discussion and Analysis

December 31, 2015

(Unaudited)

### Government-Wide Financial Statements

The following schedule is a summary of the statements of net position:

#### Condensed Statement of Net Position December 31, 2015 and 2014 (In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,398	\$ 2,355	\$ 4,092	\$ 5,489	\$ 7,490	\$ 7,844
Capital assets, net	11,280	10,329	39,246	39,654	50,526	49,983
Total assets	14,678	12,684	43,338	45,143	58,016	57,827
Deferred Outflows of Resources Pension	618	-	278	-	896	-
Total Assets and Deferred Outflows of Resources	15,296	12,684	43,616	45,143	58,912	57,827
Other liabilities	579	510	2,167	2,585	2,746	3,095
Long-term liabilities	6,885	5,438	24,629	25,782	31,514	31,220
Total liabilities	7,464	5,948	26,796	28,367	34,260	34,315
Deferred Inflows of Resources- Pension	62	-	26	-	88	-
Net investment in capital assets	8,652	7,681	14,302	13,919	22,954	21,600
Restricted	843	1,113	-	-	843	1,113
Unrestricted	(1,725)	(2,058)	2,492	2,857	767	799
Total	\$ 7,770	\$ 6,736	\$ 16,794	\$ 16,776	\$ 24,564	\$ 23,512

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lock Haven, assets exceeded liabilities and deferred inflows of resources by \$24,563,955 at the close of the most recent fiscal year, up 4.6% from the 2014 fiscal year.

A significant portion of the City's net position (93%) reflects its investment in capital assets (land, buildings, improvements, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to residents; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Resources of \$843-thousand are subject to external restrictions for highway, street and other capital projects. The balance of unrestricted net position (deficit) \$(1,725,549) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position from governmental activities increased by \$1,194,698 or 15.4% from \$6,735,440 to \$7,769,461 primarily due to new GASB reporting requirements which include net pension liability as well as an increase in postemployment benefit obligation liabilities. The City's net position from business-type activities increased \$18,221 or 1% from \$16,776,807 to \$16,794,494.

# City of Lock Haven, Pennsylvania

## Management's Discussion and Analysis

December 31, 2015

(Unaudited)

### Change in Net Position

The following statement of activities represents changes in net position for the years ended December 31, 2015 and 2014. It shows revenues by source and expenses by function for governmental activities, the business-type activity and the government as a whole:

#### Condensed Statement of Activities December 31, 2015 and 2014 (In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program:						
Charges for services	\$ 499	\$ 579	\$ 4,178	\$ 4,153	\$ 4,677	\$ 4,732
Operating grants and contributions	1,499	1,032	-	-	1,499	1,032
Capital grants and contributions	1,203	30	1,095	2,847	2,298	2,877
General:						
Taxes	3,411	3,086	-	-	3,411	3,086
Grants and charges - unrestricted	478	502	-	-	478	502
Unrestricted investment income	2	2	14	12	16	14
Gain/(loss) on disposal of assets	-	-	6	(689)	6	(689)
Miscellaneous	183	176	53	56	236	232
Total revenues	7,275	5,407	5,346	6,379	12,621	11,786
Expenses:						
General government	692	746	-	-	692	746
Public safety	2,085	1,915	-	-	2,085	1,915
Public works – highways and streets	692	987	-	-	692	987
Health, welfare and sanitation	27	26	-	-	27	26
Culture and recreation	160	175	-	-	160	175
Building and property	232	234	-	-	232	234
Interest and fees on long-term debt	58	56	-	-	58	56
Employee benefits and insurance	1,415	1,672	-	-	1,415	1,672
Other	34	6	-	-	34	6
Unallocated depreciation	685	649	-	-	685	649
Public utility service - water	-	-	1,655	1,677	1,655	1,677
Public utility service - sanitary sewer	-	-	3,188	2,723	3,188	2,723
William T. Piper Memorial Airport	-	-	485	489	485	489
Total expenses	6,080	6,466	5,328	4,889	11,408	11,355

# City of Lock Haven, Pennsylvania

## Management's Discussion and Analysis

December 31, 2015

(Unaudited)

### Condensed Statement of Activities December 31, 2015 and 2014 (In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Increase (decrease) in net position before transfers	\$ 1,195	\$ (1,059)	\$ 18	\$ 1,490	\$ 1,213	\$ 431
Transfers	-	-	-	-	-	-
Change in net position	1,195	(1,059)	18	1,490	1,213	431
Net Position, January 1, as restated	6,575	7,795	16,776	15,286	23,351	23,081
Net Position, December 31	<u>\$ 7,770</u>	<u>\$ 6,736</u>	<u>\$ 16,794</u>	<u>\$ 16,776</u>	<u>\$ 24,564</u>	<u>\$ 23,512</u>

The City's governmental activities in 2015 relied heavily upon property tax revenue (51.3%), intergovernmental revenue including pension state aid and Act 13 fees (15.3%), and earned income tax (11.4%). Real estate tax revenue received was 11.7% higher than the previous year due primarily to a millage increase for general government. The tax rate for earned income remained the same as 2014 (.5%), the maximum that can be charged as a third class city that is not home-rule. Earned income tax and local services tax received were both 3% higher than the previous year primarily attributed to an increase in employment within the City.

The cost of governmental activities totaled \$6,080,761 for the year ended December 31, 2015, a 6.0% decrease from the previous year (\$6,465,959) primarily attributed to a decrease in operational costs of both public works (down 33%) and employee benefits and insurance (down 15%).

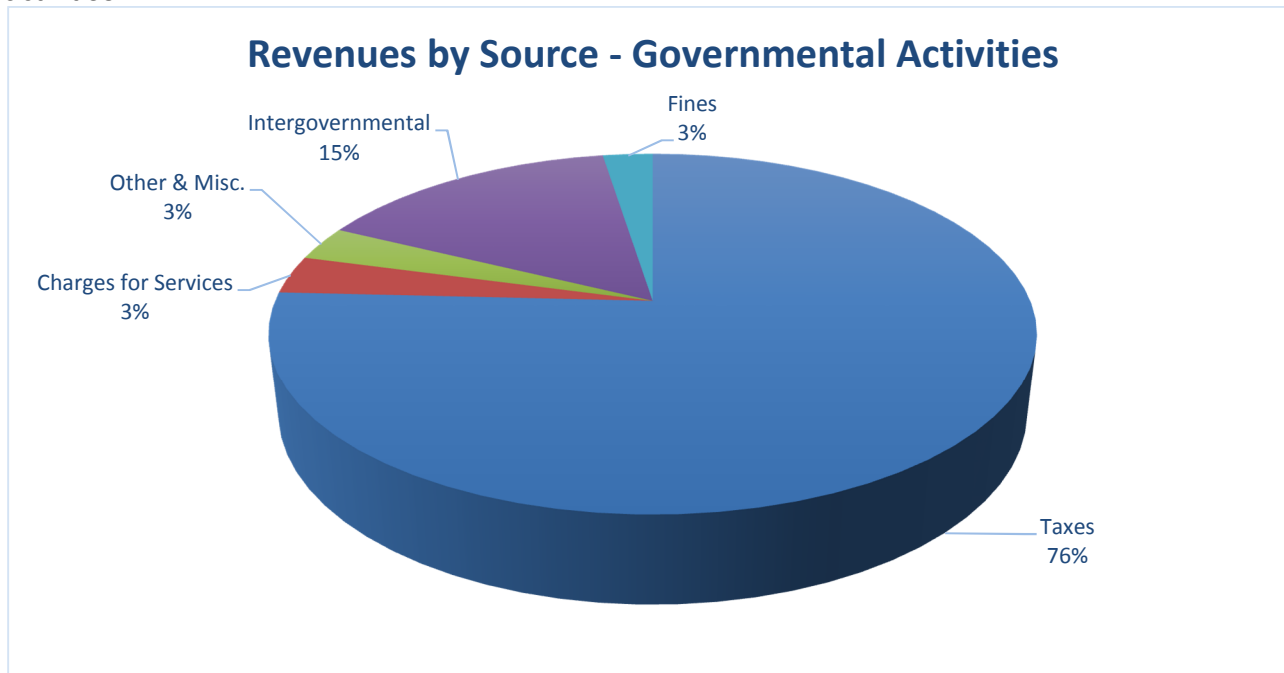
## City of Lock Haven, Pennsylvania

### Management's Discussion and Analysis

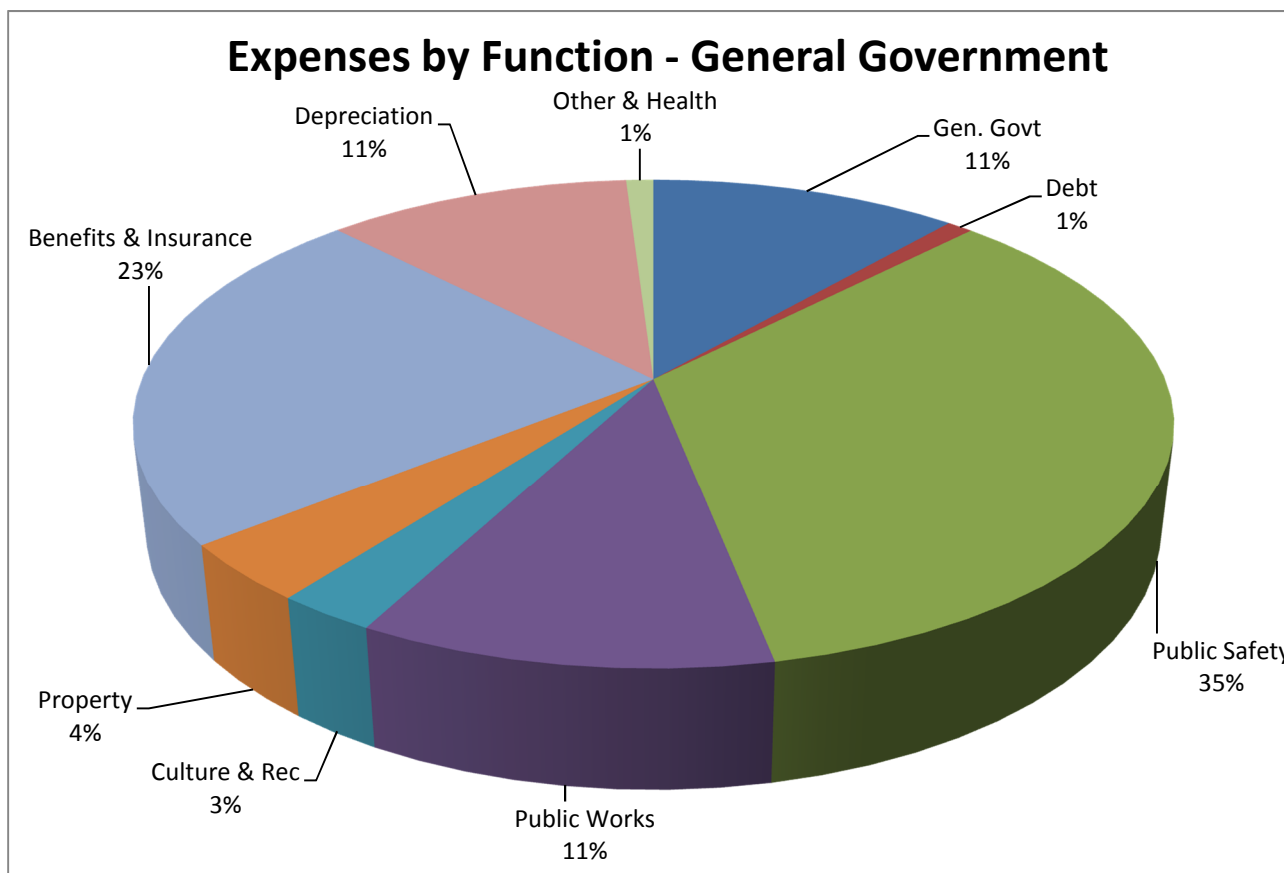
December 31, 2015

(Unaudited)

The following graph shows the composition of revenues by source for the City's governmental activities:



The following graph presents governmental expenses by function for the City's governmental activities:



## **City of Lock Haven, Pennsylvania**

---

### **Management's Discussion and Analysis**

December 31, 2015

(Unaudited)

### **Capital Assets**

The City's investment in capital assets for governmental and business-type activities as of December 31, 2015, amounts to \$50,526,160 (net of accumulated depreciation). This investment in capital assets includes land and buildings, machinery and equipment, vehicles, the sewer and water. Major capital asset events during the 2015 fiscal year included purchases of the following major equipment:

2015 Caterpillar 420F ST Backhoe Loader (Streets/Water)

2015 John Deere MX15 Rotary Mower (Airport)

Federal Surplus Road Grader (Streets)

Further, during 2015, the City began construction on two phases of the East Water Street Streetscape project which will be completed in 2016 at a total project cost of \$1.25 million.

Detailed information about the City's capital assets can be found in Note 6 within the accompanying notes to the financial statements.

### **Debt Administration**

#### **Long-Term Debt and Liabilities**

At December 31, 2015, the City had general obligation bonds and notes that totaled \$2,849,967 for governmental activities and \$24,294,494 for business-type activities; compensated absences totaled \$113,117 for governmental activities and \$51,580 for business type activities; and other postemployment benefits totaled \$3,710,810 for governmental activities. The City's long-term liabilities increased approximately \$1,445,899 during 2015 due primarily to the increase in other postemployment benefits and new GASB reporting requirements for net pension liability.

Detailed information about the City's long-term debt can be found in Note 8 in the accompanying notes to the financial statements.

### **General Fund Budgetary Highlights**

Total General Fund revenues exceed the final amended budgeted by 9.3%. Significant revenue differences between the final budget and actual amounts include a positive variance in taxes due to an increase over budget from the tax claim bureau of approximately \$54-thousand (28.6%). Additionally, there was a positive variance in earned income tax of approximately \$19-thousand (10.4%) over budget due to reduced unemployment through increased employment. The City also had an increase in UCC occupancy/use permits of \$6-thousand (88.3%) over budget. The City also had a positive variance from accident reimbursements of \$44-thousand (83%) over budget.

Total General Fund expenditures were under budget by \$4,169.

## **City of Lock Haven, Pennsylvania**

---

Management's Discussion and Analysis  
December 31, 2015  
(Unaudited)

Significant expenditure variances included:

- Capital projects for streets and storm sewers exceeded the budget by 59.1%, due in part additional improvements approved by council totaling \$(58,295).
- Street lighting was \$13,417 under budget due to the continued upgrading to LED partially offsetting overages in streets capital projects.
- The City budgeted \$314,271 for health insurance for police but expended 26.4% less due to vacancies that were filled in 2016.
- The City budgeted \$25,000 for overtime wages for police, but expended less than half that amount (\$11,167).

### **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate for the City of Lock Haven is 5.7% as of December 2015, up a tenth of a percent from 5.6% in December 2014. This is lower than the unemployment rate in Clinton County of 6% as of December 2015, which is down from 6.3% in December 2014. The Williamsport-Lock Haven Combined Statistical Area has an unemployment rate of 5.5% as of December 2015, up from 5.3% in December 2014.

According to the most recent American Community Survey of the US Census, the current estimated population of the City is 9860, nearly unchanged from last year's estimate of 9,861. City residents under the age of 18 represent 16% of the population while those 65 years old and over represent 10%. The median age of the City is 22.4 years-old compared to the county's median age of 38.4 and the state median age of 40.4. The City has gained population since the 2000 census.

Investment rates on the City's liquid investments with First National Bank of Pennsylvania are paid daily at the rate of 0.25% which results in a slightly higher yield than .25%, and public funds money market account rates are 0.30%.

These factors, as well as factors including infrastructure costs, public safety costs, employee-related costs for healthcare, pensions, wage and cuts in state and federal aid, were considered in preparing the City of Lock Haven's budget for the 2016 fiscal year. The City will balance the operational budget, fund capital items and continue to build a fund balance in 2016.

### **Highlights of the 2016 fiscal budget include:**

Modest increases (1% or less) are expected for real estate tax revenue and earned income tax revenue due to modest increases in land values through development but while holding the real estate and tax millage rates consistent with the previous year.

Employee health benefit costs increased 4.1% for 2016.

The AFSCME union contract was adopted by the local union and enacted providing a 2% raise for all AFSCME employees in 2016 through and including 2018.

A total of \$32,727 was appropriated for street resurfacing for the 2016 summer season from the General Fund; however, the City will be making investments into streets with CDBG funds of approximately \$164-thousand as well as resurfacing funded by state appropriated Liquid Fuels funds of approximately \$61-thousand.

## **City of Lock Haven, Pennsylvania**

---

Management's Discussion and Analysis

December 31, 2015

(Unaudited)

Sewer user charges provide sufficient revenue to fund expenditures and will remain at the same rate as 2015. Water user charges also provide sufficient revenue to fund expenditures in 2016 and will remain at the same rate as 2015 as well.

### **Request for Information**

This financial report is designed to provide a general overview of the City of Lock Haven's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lock Haven, City Manager's Office, 20 E Church Street, Lock Haven, PA 17745.



**City of Lock Haven, Pennsylvania**

Statement of Net Position  
December 31, 2015

	Primary Government			Component Unit - Flood Protection Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,642,144	\$ 2,416,259	\$ 4,058,403	\$ 3,528
Restricted cash	138,207	1,384,354	1,522,561	-
Receivables (net of allowance for uncollectibles):				
Taxes	400,333	-	400,333	-
Loans	313,434	-	313,434	-
Other	13,823	600,309	614,132	-
Internal balances	324,410	(324,410)	-	-
Due from other governments	323,731	10,213	333,944	-
Prepaid expenses and other assets	241,896	4,866	246,762	-
Total current assets	3,397,978	4,091,591	7,489,569	3,528
Capital assets:				
Public utility systems (including equipment)	-	46,293,101	46,293,101	84,590,355
Land and improvements	5,847,701	3,396,506	9,244,207	-
Infrastructure and infrastructure in progress	4,509,208	-	4,509,208	-
Buildings	3,933,041	-	3,933,041	-
Equipment and furniture	4,463,728	990,055	5,453,783	-
Construction in progress	955,524	1,770	957,294	-
Less: accumulated depreciation	(8,429,329)	(11,435,145)	(19,864,474)	(14,380,360)
Total capital assets	11,279,873	39,246,287	50,526,160	70,209,995
<b>Deferred Outflows of Resources - Pension</b>	618,400	277,745	896,145	-
Total assets and deferred outflows of resources	15,296,251	43,615,623	58,911,874	70,213,523
<b>Liabilities</b>				
Accounts payable and accrued expenses	259,154	123,545	382,699	563
Construction contracts, including retainage payable	-	2,033,903	2,033,903	-
Due to other governments	-	898	898	-
Unearned revenue	320,892	7,327	328,219	-
Long-term liabilities:				
Due within one year,				
Bonds and notes payable	161,215	4,668,076	4,829,291	-
Due in more than one year:				
Bonds and notes payable	2,328,752	19,626,418	21,955,170	-
Compensated absences	113,117	51,580	164,697	-
Net pension liability	570,723	283,267	853,990	-
Other postemployment benefit obligation	3,710,810	-	3,710,810	-
Total liabilities	7,464,663	26,795,014	34,259,677	563
<b>Deferred Inflows of Resources - Pension</b>	62,127	26,115	88,242	-
<b>Net Position (Deficit)</b>				
Net investment in capital assets	8,651,699	14,302,244	22,953,943	70,209,995
Restricted for:				
Capital projects	844,445	-	844,445	-
Program purposes	(1,134)	-	(1,134)	-
Unrestricted	(1,725,549)	2,492,250	766,701	2,965
Total net position	\$ 7,769,461	\$ 16,794,494	\$ 24,563,955	\$ 70,212,960

See notes to financial statements

**City of Lock Haven, Pennsylvania**

Statement of Activities

Year Ended December 31, 2015

Net (Expenses) Revenue And Changes In Net Position								
Functions/Programs	Expenses	Charges for Services	Program Revenues		Primary Government			Component Unit
			Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-type Activities	Total	Flood Protection Authority
Primary Government								
Governmental activities:								
General government	\$ 692,438	\$ 338,811	\$ 130,166	\$ 6,196	\$ (217,265)		\$ (217,265)	
Public safety	2,084,484	111,231	-	-	(1,973,253)		(1,973,253)	
Public works	691,868	48,978	1,112,240	1,196,812	1,666,162		1,666,162	
Health, welfare and sanitation	27,359	-	10,076	-	(17,283)		(17,283)	
Culture and recreation	160,214	-	-	-	(160,214)		(160,214)	
Buildings and property	232,277	-	-	-	(232,277)		(232,277)	
Interest and fees on long-term debt	57,894	-	-	-	(57,894)		(57,894)	
Employee benefits and insurance	1,415,023	-	247,013	-	(1,168,010)		(1,168,010)	
Other	34,482	-	-	-	(34,482)		(34,482)	
Unallocated depreciation	684,722	-	-	-	(684,722)		(684,722)	
Total governmental activities	6,080,761	499,020	1,499,495	1,203,008	(2,879,238)		(2,879,238)	
Business-type activities:								
Public utility services - Water	1,655,354	1,689,069	-	228,746		\$ 262,461	262,461	
Public utility services - Sanitary sewer	3,188,367	2,211,952	-	514,920		(461,495)	(461,495)	
William T. Piper Memorial Airport	485,075	277,940	-	351,092		143,957	143,957	
Total business-type activities	5,328,796	4,178,961	-	1,094,758		(55,077)	(55,077)	
Total primary government	\$ 11,409,557	\$ 4,677,981	\$ 1,499,495	\$ 2,297,766	(2,879,238)	(55,077)	(2,934,315)	
Component Unit,								
Lock Haven Area Flood Protection Authority	\$ 854,469	\$ 6,001	\$ -	\$ -				\$ (848,468)
General Revenues:								
Property taxes					2,581,593	-	2,581,593	-
Earned income taxes					506,775	-	506,775	-
Other					322,659	-	322,659	-
Grants and contributions not restricted to specific programs					478,030	-	478,030	-
Unrestricted investment earnings					1,824	14,142	15,966	-
Miscellaneous					183,055	52,812	235,867	-
Gain on sale of equipment					-	6,344	6,344	-
Total general revenues					4,073,936	73,298	4,147,234	-
Change in Net Position					1,194,698	18,221	1,212,919	(848,468)
Net Position - Beginning								
As previously reported					6,735,440	16,776,807	23,512,247	71,061,428
Effect of adoption of GASB Statement No. 68					(160,677)	(534)	(161,211)	-
As restated					6,574,763	16,776,273	23,351,036	71,061,428
Net Position, Ending					\$ 7,769,461	\$ 16,794,494	\$ 24,563,955	\$ 70,212,960

See notes to financial statements

# City of Lock Haven, Pennsylvania

Balance Sheet

Governmental Funds

December 31, 2015

	General Fund	Capital Projects	Road Turnback	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 151,396	\$ 491,286	\$ 850,759	\$ 148,715	\$ 1,642,156
Restricted cash	138,207	-	-	-	138,207
Receivables:					
Taxes	400,333	-	-	-	400,333
Loans	-	-	-	313,434	313,434
Other governments	96,730	223,260	-	3,739	323,729
Due from other funds	72,728	114,738	-	297,020	484,486
Prepaid expenses	241,896	-	-	-	241,896
<b>Total assets</b>	<b>\$ 1,101,290</b>	<b>\$ 829,284</b>	<b>\$ 850,759</b>	<b>\$ 762,908</b>	<b>\$ 3,544,241</b>
<b>Liabilities, Deferred Inflow of Resources and Fund Balances</b>					
Liabilities:					
Vouchers (accounts) payable	\$ 66,146	\$ 123,046	\$ -	\$ 9,012	\$ 198,204
Accrued liabilities	50,442	-	-	3,952	54,394
Due to other funds	149,670	-	-	356	150,026
Unearned revenue	7,457	-	-	313,435	320,892
<b>Total liabilities</b>	<b>273,715</b>	<b>123,046</b>	<b>-</b>	<b>326,755</b>	<b>723,516</b>
Deferred Inflow of Resources, Deferred tax revenue	332,972	-	-	-	332,972
Fund balances:					
Nonspendable	241,896	-	-	-	241,896
Restricted	138,207	706,238	-	495,679	1,340,124
Assigned	-	-	850,759	-	850,759
Unassigned	114,500	-	-	(59,526)	54,974
<b>Total fund balances</b>	<b>494,603</b>	<b>706,238</b>	<b>850,759</b>	<b>436,153</b>	<b>2,487,753</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,101,290</b>	<b>\$ 829,284</b>	<b>\$ 850,759</b>	<b>\$ 762,908</b>	<b>\$ 3,544,241</b>

See notes to financial statements

## City of Lock Haven, Pennsylvania

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position December 31, 2015

**Total Fund Balance, Governmental Funds** \$ 2,487,753

Amounts reported for governmental activities in the  
statement of net position are different because:

Capital assets used in governmental activities are not current  
financial resources and therefore are not reported in the  
fund financial statements, but are reported in the governmental  
activities of the statement of net position. 11,279,873

Some of the City's taxes will be collected after year-end, but  
are not available soon enough to pay for the current period's  
expenditures, and therefore are reported as a deferred inflow of  
resources in the funds. 332,972

Deferred outflows related to the net pension liability  
are not reported in the governmental funds, however  
are reported in the statement of net position. 618,400

Internal service funds are used by management to charge the  
costs of certain activities to individual funds. The assets  
and liabilities of the internal service fund are included in the  
governmental activities of the statement of net position. (2,783)

Deferred inflows related to the net pension liability  
are not reported in the governmental funds, however  
are reported in the statement of net position. (62,127)

Long-term liabilities applicable to the City's governmental activities  
are not due and payable in the current period and accordingly,  
are not reported as fund liabilities. All liabilities, both current and long-term,  
are reported in the statement of net position. Balances at December  
31, 2015 are:

Bonds and notes payable	(2,489,977)
Other postemployment benefit obligation	(3,710,810)
Net pension Liability	(570,723)
Compensated absences	(113,117)

**Net Position of Governmental Activities  
in the Statement of Net Position**

**\$ 7,769,461**

*See notes to financial statements*

**City of Lock Haven, Pennsylvania****Statement of Revenues, Expenditures and Changes in Fund Balances****Governmental Funds**

Year Ended December 31, 2015

	<b>General Fund</b>	<b>Capital Projects</b>	<b>Road Turnback</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Revenues</b>					
Taxes	\$ 3,363,862	\$ -	\$ -	\$ -	\$ 3,363,862
Licenses and permits	107,254	-	-	-	107,254
Fines and forfeits	111,231	-	-	-	111,231
Interest, rents and royalties	7,548	410	759	667	9,384
Intergovernmental	677,407	874,074	850,000	406,837	2,808,318
Charges for service	150,411	-	-	48,219	198,630
Collections on loans	-	-	-	86,514	86,514
Miscellaneous	21,214	-	-	56,740	77,954
<b>Total revenues</b>	<b>4,438,927</b>	<b>874,484</b>	<b>850,759</b>	<b>598,977</b>	<b>6,763,147</b>
<b>Expenditures</b>					
Current:					
General government	528,242	93,491	-	139,979	761,712
Employee benefits and insurance	1,312,339	-	-	18,305	1,330,644
Community and economic development	-	-	-	-	-
Public works - highways and streets	593,586	-	-	333,318	926,904
Health and sanitation	27,359	-	-	-	27,359
Public safety	1,437,750	-	-	9	1,437,759
Culture and recreation	165,336	-	-	43,373	208,709
Other	3,956	-	-	-	3,956
Capital outlay	-	1,050,360	-	3,981	1,054,341
Debt service	263,396	-	-	1,287	264,683
<b>Total expenditures</b>	<b>4,331,964</b>	<b>1,143,851</b>	<b>-</b>	<b>540,252</b>	<b>6,016,067</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>106,963</b>	<b>(269,367)</b>	<b>850,759</b>	<b>58,725</b>	<b>747,080</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from the sale of capital assets	14,114	-	-	-	14,114
Proceeds from long-term debt, net	-	383,048	-	-	383,048
Transfers in	600	156,313	-	7,981	164,894
Transfers out	(165,013)	-	-	-	(165,013)
<b>Total other financing sources (uses), net</b>	<b>(150,299)</b>	<b>539,361</b>	<b>-</b>	<b>7,981</b>	<b>397,043</b>
<b>Changes in Fund Balances</b>	<b>(43,336)</b>	<b>269,994</b>	<b>850,759</b>	<b>66,706</b>	<b>1,144,123</b>
<b>Fund Balance, Beginning</b>	<b>537,939</b>	<b>436,244</b>	<b>-</b>	<b>369,447</b>	<b>1,343,630</b>
<b>Fund Balance, Ending</b>	<b>\$ 494,603</b>	<b>\$ 706,238</b>	<b>\$ 850,759</b>	<b>\$ 436,153</b>	<b>\$ 2,487,753</b>

See notes to financial statements

## City of Lock Haven, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended December 31, 2015

### Net Change in Fund Balances - Total Governmental Funds

\$ 1,144,123

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays, \$1,635,239 exceeded depreciation expense \$684,722, in the current period.

950,517

Revenues related to real estate taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the change in deferred tax revenues for the year ended December 31, 2015.

47,165

The issuance of long-term debt (e.g. bonds, notes, etc.) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of costs of issuance of debt when the debt is originally issued, whereas these amounts are deferred and amortized in the statement of activities. During 2015, the following transactions factor into this reconciliation:

Issuance of long-term debt

(384,631)

Retirement of principal of long-term debt

206,788

(177,843)

Certain compensated absences payable are considered long-term in nature, and are not reported as liabilities within the funds. Such liabilities are, however, reported within the statement of net position, and changes in these liabilities are reflected within the statement of activities. This amount represents the change in long-term compensated absences payable for the year ended December 31, 2015.

37,233

Net pension liability is considered long-term in nature, and is not reported as a liability within the Funds. Such liability is, however, reported within the statement of net position, and changes in the liability is reflected within the statement of net position. This represents the change in pension liability and the deferred outflows and inflows related to the pension.

(86,331)

Other postemployment benefit ("OPEB") expense reported in the statement of activities is recognized on the accrual basis. The net OPEB obligation is adjusted for any difference between OPEB expense and contributions made in relation to the annual required contribution (ARC).

(734,565)

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported within governmental activities.

14,399

### Change in Net Position of Governmental Activities

\$ 1,194,698

See notes to financial statements

**City of Lock Haven, Pennsylvania**

Statement of Revenues, Expenditures and  
Changes in Fund Balance - General Fund  
Budget and Actual  
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts GAAP Basis	Adjustments Budgetary Basis	Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final				
<b>Revenues</b>						
Taxes	\$ 3,183,352	\$ 3,183,352	\$ 3,363,862	\$ 5,710	\$ 3,369,572	\$ 186,220
Licenses And Permits	97,000	97,800	107,254	-	107,254	9,454
Fines And Forfeits	130,500	130,500	111,231	-	111,231	(19,269)
Interest, Rents And Royalties	8,610	8,610	7,548	-	7,548	(1,062)
Intergovernmental	498,946	485,646	677,407	-	677,407	191,761
Charges For Services	153,587	153,587	150,411	-	150,411	(3,176)
Miscellaneous	7,400	7,400	21,214	-	21,214	13,814
Total revenues	4,079,395	4,066,895	4,438,927	5,710	4,444,637	377,742
<b>Expenditures:</b>						
Current:						
General Government	476,578	476,578	528,242	(1,548)	526,694	(50,116)
Employee Benefits And Insurance	1,448,448	1,448,448	1,312,339	(113,043)	1,199,296	249,152
Public Safety	1,384,189	1,375,442	1,437,750	638	1,438,388	(62,946)
Public Works - Highways And Streets	495,865	495,865	593,586	946	594,532	(98,667)
Health And Sanitation	26,563	26,410	27,359	-	27,359	(949)
Culture And Recreation	136,968	136,968	165,336	(64)	165,272	(28,304)
Other	40,651	40,651	3,956	-	3,956	36,695
Debt Service	260,200	220,200	263,396	-	263,396	(43,196)
Capital Outlay	2,500	2,500	-	-	-	2,500
Total expenditures	4,271,962	4,223,062	4,331,964	(113,071)	4,218,893	4,169
<b>(Deficiency) Excess of Revenues Over Expenditures</b>	<b>(192,567)</b>	<b>(156,167)</b>	<b>106,963</b>	<b>118,781</b>	<b>225,744</b>	<b>381,911</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds From the Sale of Capital Assets	1,000	1,000	14,114	-	14,114	13,114
Proceeds From Long-term Debt, Net	3,843	3,843	-	340,053	340,053	336,210
Transfers In	-	3,600	600	-	600	(3,000)
Transfers Out	(7,600)	(7,600)	(165,013)	(383,048)	(548,061)	(540,461)
Appropriated Fund Balance	195,324	195,324	-	-	-	(195,324)
Total other financing (uses) sources, net	192,567	196,167	(150,299)	(42,995)	(193,294)	(389,461)
<b>Excess (Deficiency) of Revenues Over Expenditures After Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 40,000</b>	<b>\$ (43,336)</b>	<b>\$ 75,786</b>	<b>\$ 32,450</b>	<b>\$ (7,550)</b>

See notes to financial statements

**City of Lock Haven, Pennsylvania**

Statement of Net Position  
Proprietary Funds  
December 31, 2015

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Airport Operating	Total	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 801,814	\$ 1,614,445	\$ -	\$ 2,416,259	\$ -
Other accounts receivable, (net of allowance)	316,402	254,623	29,284	600,309	13,823
Due from other funds	4,072	96,787	40,167	141,026	-
Due from other governments	5,000	2	5,211	10,213	-
Restricted cash	-	1,384,354	-	1,384,354	-
Other current assets	4,866	-	-	4,866	-
Total current assets	1,132,154	3,350,211	74,662	4,557,027	13,823
Capital assets:					
Public utility systems (including related equipment)	7,573,943	38,719,158	-	46,293,101	-
Land and improvements	-	500,000	2,896,506	3,396,506	-
Equipment and vehicles	211,939	24,895	753,221	990,055	-
Construction in progress	-	-	1,770	1,770	-
Less accumulated depreciation	(3,892,654)	(6,193,140)	(1,349,351)	(11,435,145)	-
Total capital assets, net	3,893,228	33,050,913	2,302,146	39,246,287	-
Total assets	5,025,382	36,401,124	2,376,808	43,803,314	13,823
<b>Deferred Outflows of Resources - Pension</b>	86,488	165,899	25,358	277,745	-
Total assets and deferred outflows of resources	\$ 5,111,870	\$ 36,567,023	\$ 2,402,166	\$ 44,081,059	\$ 13,823
<b>Liabilities</b>					
Current liabilities:					
Current portion of bonds payable	\$ 83,459	\$ 103,489	\$ 26,837	\$ 213,785	\$ -
Current portion of notes payable	117,175	4,337,116	-	4,454,291	-
Vouchers (accounts) payable:					
Trade	50,689	39,175	2,068	91,932	6,556
Construction contracts, including retainage	-	2,033,903	-	2,033,903	-
Accrued liabilities	9,606	19,264	2,743	31,613	-
Due to other funds	84,360	6,490	374,586	465,436	10,050
Unearned revenue	-	4,800	2,527	7,327	-
Total current liabilities	345,289	6,544,237	408,761	7,298,287	16,606
Non-current liabilities:					
Compensated absences	8,214	33,696	9,670	51,580	-
Long-term portion of bonds payable	262,970	330,644	119,641	713,255	-
Long-term portion of notes payable	2,824,527	16,088,636	-	18,913,163	-
Net pension liability	88,190	169,209	25,868	283,267	-
Payable to other governments	898	-	-	898	-
Total non-current liabilities	3,184,799	16,622,185	155,179	19,962,163	-
Total liabilities	3,530,088	23,166,422	563,940	27,260,450	16,606
<b>Deferred Inflows of Resources - Pension</b>	8,131	15,600	2,385	26,116	-
<b>Net Position</b>					
Net investment in capital assets	605,097	11,541,479	2,155,668	14,302,244	-
Unrestricted	968,554	1,843,522	(319,827)	2,492,249	(2,783)
Total net position	1,573,651	13,385,001	1,835,841	16,794,493	(2,783)
Total liabilities, deferred inflows of resources, and net position	\$ 5,111,870	\$ 36,567,023	\$ 2,402,166	\$ 44,081,059	\$ 13,823

See notes to financial statements



**City of Lock Haven, Pennsylvania**
**Statement of Revenues, Expenses and Changes in Fund Net Position**
**Proprietary Funds**

Year Ended December 31, 2015

	<b>Enterprise Funds</b>				<b>Internal Service Funds</b>
	<b>Water</b>	<b>Sewer</b>	<b>Airport Operating</b>	<b>Total</b>	
<b>Revenues</b>					
Charges for services	\$ 1,689,069	\$ 2,211,952	\$ 277,940	\$ 4,178,961	\$ 128,292
<b>Operating Expenses</b>					
Personnel services	437,389	895,640	132,198	1,465,227	-
Utilities (including water filtration costs)	712,318	300,049	23,074	1,035,441	-
Depreciation	312,970	1,030,517	181,730	1,525,217	-
Materials, supplies and maintenance	52,900	189,360	125,198	367,458	114,012
Administrative expense	86,967	277,991	2,098	367,056	-
Sludge disposal	-	58,408	-	58,408	-
Insurance	1,748	59,500	13,854	75,102	-
Nutrient credit purchase	-	51,638	-	51,638	-
Miscellaneous	1,359	45,538	2,497	49,394	-
Total operating expenses	1,605,651	2,908,641	480,649	4,994,941	114,012
Operating income (loss)	83,418	(696,689)	(202,709)	(815,980)	14,280
<b>Non-Operating Revenues (Expenses)</b>					
Subsidies from other governments:					
Federal	-	-	332,667	332,667	-
State	-	514,920	18,307	533,227	-
Local	228,746	-	118	228,864	-
Interest income	6,107	8,035	-	14,142	-
Rental income	9,725	43,087	-	52,812	-
Gain on sale of materials/(Loss) on disposal of assets	6,344	-	-	6,344	-
Interest expense	(49,704)	(279,725)	(4,427)	(333,856)	-
Total non-operating revenues, net	201,218	286,317	346,665	834,200	-
<b>Income (Loss) Before Other Financing Sources</b>	284,636	(410,372)	143,956	18,220	14,280
<b>Other Financing Sources</b>					
Transfers in	-	-	-	-	119
<b>Net Income (Loss)</b>	284,636	(410,372)	143,956	18,220	14,399
<b>Net Position, Beginning</b>					
As previously reported	1,289,164	13,795,704	1,691,939	16,776,807	(17,182)
Effect of adoption of GASB Statement No. 68	(149)	(331)	(54)	(534)	-
As adjusted	1,289,015	13,795,373	1,691,885	16,776,273	(17,182)
<b>Net Position, Ending</b>	\$ 1,573,651	\$ 13,385,001	\$ 1,835,841	\$ 16,794,493	\$ (2,783)

See notes to financial statements

**City of Lock Haven, Pennsylvania**
**Statement Of Cash Flows**
**Proprietary Funds**

Year Ended December 31, 2015

	<b>Business-Type Activities</b>			<b>Governmental Activities</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Airport Fund</b>	<b>Internal Service Inventory Fund</b>
<b>Cash Flows From Operating Activities</b>				
Cash received from users	\$ 1,653,462	\$ 2,202,692	\$ 316,691	\$ 4,172,845
Cash payments to employees for services	(340,845)	(871,210)	(127,772)	(1,339,827)
Cash paid to suppliers for goods and services	(936,908)	(990,010)	(168,405)	(2,095,323)
Net cash provided by (used in) operating activities	375,709	341,472	20,514	737,695
<b>Cash Flows From Non-Capital Financing Activities</b>				
Operating subsidies and transfers from (to) other funds	-	-	-	118
<b>Cash Flows Provided by Investing Activities:</b>				
Rental income	9,725	43,087	-	52,812
Earnings on investments	6,107	8,035	-	14,142
Net cash provided by investing activities	15,832	51,122	-	66,954
<b>Cash Flows From Capital and Related Financing Activities</b>				
Payments for capital acquisitions	(113,088)	(1,054,220)	(370,347)	(1,537,655)
Capital subsidies from other governments	228,746	515,294	351,092	1,095,132
Principal payments on long-term debt	(196,621)	(2,174,719)	3,168	(2,368,172)
Proceeds from long term debt	-	930,672	-	930,672
Interest paid	(49,704)	(279,725)	(4,427)	(333,856)
Debt issuance costs	-	-	-	-
Proceeds from sale of assets	6,344	-	-	6,344
Net cash used in capital and related financing activities	(124,323)	(2,062,698)	(20,514)	(2,207,535)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	267,218	(1,670,104)	-	(1,402,886)
<b>Cash and Cash Equivalents, Beginning</b>	534,596	4,668,903		5,203,499
<b>Cash and Cash Equivalents, Ending</b>	\$ 801,814	\$ 2,998,799	\$ -	\$ 3,800,613
<b>Displayed as:</b>				
Cash and cash equivalents	\$ 801,814	\$ 1,614,445	\$ -	\$ 2,416,259
Restricted cash	-	1,384,354	-	1,384,354
<b>Total</b>	\$ 801,814	\$ 2,998,799	\$ -	\$ 3,800,613
<b>Reconciliation of Operating (Loss) Income to Net Cash Provided By (Used In) Operating Activities:</b>				
Operating (loss) income	\$ 83,418	\$ (696,689)	\$ (202,709)	\$ (815,980)
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:				
Depreciation	312,970	1,030,517	181,730	1,525,217
Changes in assets and liabilities:				
Accounts receivable, other	(21,482)	9,330	8,727	(3,425)
Due from/to other governments and funds	-	(18,590)	30,024	11,434
Other current assets	331	-	-	331
Deferred outflow of resources - pension	(86,488)	(165,899)	(25,358)	(277,745)
Vouchers payable	4,872	(7,526)	(1,684)	(4,338)
Deferred revenue	-	-	-	-
Net pension liability	88,041	168,878	25,814	282,733
Accrued and other liabilities	(14,084)	5,851	1,585	(6,648)
Deferred inflow of resources - pension	8,131	15,600	2,385	26,116
<b>Net Cash Provided by (Used In) Operating Activities</b>	\$ 375,709	\$ 341,472	\$ 20,514	\$ 737,695

**Supplemental Disclosure of Non-Cash Capital and**

See notes to financial statements

## City of Lock Haven, Pennsylvania

### Statement of Fiduciary Net Position December 31, 2015

	<b>Pension and OPEB Trust Funds</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 214,340
Contributions receivable	<u>30,919</u>
Total	<u>245,259</u>
Investments:	
Fixed income securities	4,438,237
Equity securities	5,790,189
Mutual funds	<u>1,082,148</u>
Total investments	<u>11,310,574</u>
Total assets	<u><u>\$ 11,555,833</u></u>
<b>Liabilities</b>	
Benefits payable	\$ 7,718
<b>Net Position</b>	
Held in trust for benefits and other purposes	<u>11,548,115</u>
Total liabilities and net position	<u><u>\$ 11,555,833</u></u>

See notes to financial statements

## City of Lock Haven, Pennsylvania

### Statement of Changes in Fiduciary Net Position Year Ended December 31, 2015

	<b>Pension and OPEB Trust Funds</b>
<b>Additions</b>	
Contributions:	
Commonwealth of Pennsylvania	\$ 281,924
Employees	155,309
City	5,062
Other	9,886
	<hr/>
Total contributions	452,181
	<hr/>
Investment earnings:	
Net increase in fair value of investments	(243,797)
Interest and dividends	233,671
	<hr/>
Total investment earnings	(10,126)
	<hr/>
Total additions	442,055
	<hr/>
<b>Deductions</b>	
Benefits	601,881
Other	100,028
	<hr/>
Total deductions	701,909
	<hr/>
<b>Change In Net Position</b>	(259,854)
	<hr/>
<b>Net Position, Beginning</b>	11,807,969
	<hr/>
<b>Net Position, Ending</b>	<u><u>\$ 11,548,115</u></u>

See notes to financial statements

### 1. Summary of Significant Accounting Policies

The accounting methods and procedures adopted by the City of Lock Haven, Pennsylvania (the "City") conform to accounting principles generally accepted in the United States of America as applied to state and local governmental entities. The following notes to the basic financial statements are an integral part of the City's financial statements.

#### Reporting Entity

Incorporated as a City of the Third Class in 1870, the City of Lock Haven is the county seat of Clinton County and is located in north central Pennsylvania. The City lies between the banks of the West Branch of the Susquehanna River and the Bald Eagle Creek. The City is the largest municipality in Clinton County, encompassing 2.3 square miles with a population of approximately 9,000 people.

The City operates under a Council-Manager form of government. City Council consists of six council members and a mayor, each elected to serve a four-year term.

The financial reporting entity includes all of the services provided by the City to residents and businesses within its boundaries. Municipal services provided include public safety (police, fire, emergency management and protective inspection), community development, street construction and maintenance, recreation, public works, library and general administration. In evaluating the City as a primary government in accordance with Governmental Accounting Standards Board ("GASB") Statement Nos. 14, 39 and 61, management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the City to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship.

The City is financially accountable for:

- 1) Organizations that make up the legal municipal entity;
- 2) Legally separate organizations if the City Council appoints a voting majority of the organizations' governing bodies and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burden on, the City.
  - a. **Imposition of Will** - Exists if the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization.
  - b. **Financial Benefit or Burden** - Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
- 3) Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the City.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

The financial statements of the City include the accounts of the City's primary government and two component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). City Council appoints a voting majority to the Board of Directors of both component units. The Lock Haven City Authority issues separately audited financial statements, which can be obtained from the City Authority Office at 20 East Church Street, Lock Haven, Pennsylvania, 17745. The Lock Haven Area Flood Protection Authority also issues separately audited financial statements, which can be obtained from the Authority Office at 20 East Church Street, Lock Haven, Pennsylvania, 17745.

<b>Blended Component Unit</b>	<b>Brief Description of Activities and Relationship to the City</b>
Lock Haven City Authority (the "City Authority") functions as a financing medium for capital activity of City water and sewer systems.	The City Authority's board members are appointed by City Council. A continuing financial relationship exists between these parties in that the City is leasing the water and sewer systems from the City Authority.
<b>Discretely Presented Component Unit</b>	<b>Brief Description of Activities and Relationship to the City</b>
The Lock Haven Area Flood Protection Authority (the "Flood Protection Authority") was created for the purpose of implementing the Lock Haven Flood Protection Project and accomplishing the related duties of the "local sponsor."	The Flood Protection Authority's board, consisting of seven members, is appointed by City Council (five appointments) and the Woodward Township Board of Supervisors (two appointments).

### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate discretely presented component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 365 days of the end of the current fiscal period with the exception of property taxes, which must be received within 60 days of year-end to be deemed available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues, charges for services and interest associated with the current fiscal period are all generally considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

# City of Lock Haven, Pennsylvania

---

## Notes to Financial Statements

December 31, 2015

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 revenues of the enterprise funds are charges for utility services (water and sewer). Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

### **Governmental Funds**

#### **General Fund**

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for within this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid by other funds are paid from the General Fund. The General Fund is always considered a major fund.

#### **Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to specified purposes. The major special revenue fund reported by the City is the Road Turn-back Fund, which accounts for proceeds from the Commonwealth for future maintenance and improvements to certain roads received from the Commonwealth. This fund does not adopt an annual operating budget.

Special Revenue Funds reported as nonmajor funds by the City include:

- The Rural Business Enterprise Grant Fund accounts for revenues used to provide support to various projects and programs benefiting local businesses.
- The Off Street Parking Fund accounts for revenues and expenditures related to operation, maintenance, fines and enforcement as related to off-street parking lots.
- The Recreation Fund accounts for the public contributions and event revenues used to provide recreational activities for City residents.
- The Interchange Fund accounts for revenues and expenditures for maintenance and electricity related to street lighting for the U.S. Route 220 Interchange.
- The Triangle Park and Hoberman Project Funds account for public contributions used for equipment purchases and improvements for those two parks.
- The Highway Aid Fund accounts for liquid fuel tax revenues used for building, improving and maintaining City streets.



## **City of Lock Haven, Pennsylvania**

---

### **Notes to Financial Statements**

December 31, 2015

- The Rehabilitation/Sidewalk Fund accounts for the operations of the City's Housing Rehabilitation Program, which is funded in part by federal funds whose use is restricted for the provision of specified home rehabilitation services to eligible City residents.
- The CDBG Funds account for the operations of the City's Community Development Block Grant program, which are funded with federal funds passed through the Commonwealth of Pennsylvania and whose use is restricted for the provision of community services under four specific federal criteria.
- The Hoberman Park Fund accounts for certain recreational activities conducted at the Hoberman Park Playground.
- The Housing Home Program Fund accounts for federal HOME revenues used to provide assistance to low to moderate income homeowners for housing repairs to meet minimum building code requirements.
- The Owner Occupied Housing Fund accounts for housing assistance to low income families.
- The New Communities Main Street Fund accounts for certain City revitalization projects.

#### **Capital Projects Fund**

The Capital Projects Fund, a major fund, is used to account for financial resources to be used for the acquisition or construction of capital facilities or assets (other than those financed by proprietary funds).

#### **Proprietary Funds**

##### **Enterprise Funds - Water, Sewer, and Airport Operating Funds**

Enterprise funds are used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that determination of net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City's major enterprise funds account for the operations of its Water, Sewer and Airport operations.

##### **Internal Service Fund - Inventory Fund**

This fund is used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. The Inventory Fund comprises this fund type. The Inventory Fund is used to allocate the cost of fuel and postage among the various City departments and programs that use these items.

## **Fiduciary Funds**

### **Pension and OPEB Trust Funds**

Pension and Other Post-Employment Benefit ("OPEB") trust funds are used to report the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension or OPEB plans. The City maintains two, single-employer defined benefit pension trust funds, the Police Pension Fund and the City Employees Retirement Fund. In addition, the City maintains a single-employer defined benefit OPEB trust fund, the Police Death Benefit Fund.

## **New Accounting Principles**

The City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. This statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of *Statement No. 27, Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The City implemented the accounting and reporting requirements of GASB No. 68 as of January 1, 2015. The effect of this adoption decreased the City's net position at January 1, 2015 by \$161,211 for the recording of the City's net pension liability, and expanded note disclosures and required supplementary information.

The City adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement addresses an issue regarding amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City implemented the accounting and reporting requirements of GASB No. 71 as of January 1, 2015. This implementation did not materially change the City's accounting and reporting policies.

## **Cash Equivalents**

The City considers highly liquid short-term instruments purchased with a maturity of three months or less (excluding certain short-term instruments which are classified as investments) to be cash equivalents.

## **Investments**

Investments of the City Employee Retirement, Police Retirement, and Police Death pension plans are stated at fair value for both reporting and actuarial purposes. Investment purchases are recorded as of the trade date. 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 generally reported at cost, which is not expected to be materially different from fair value.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

### Receivables and Payables

#### Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". All receivables are shown net of an allowance for doubtful accounts, if applicable.

#### Trade and Property Tax Receivables

All receivables are reported at net realizable value. Amounts are written off when they are determined to be uncollectible based upon management's assessment of individual amounts. The allowance for doubtful accounts is estimated based upon a combination of the City's historical losses and a percentage of aged receivables. The allowance for uncollectible real estate and debt service taxes as of December 31, 2015 amounted to \$120,609. The allowance for doubtful accounts related to the Water, Sewer, and Airport proprietary funds amounted to \$23,032, \$18,996, and \$1,338, respectively, as of December 31, 2015.

### Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Capital assets with initial, individual costs that equal or exceed \$1,000 and estimated useful lives in excess of one year are recorded as capital assets. Major outlays for capital assets and improvements are capitalized as projects are completed.

Beginning on January 1, 2004, the City began to prospectively capitalize its investment in infrastructure assets pursuant to GASB Statement No. 34. Infrastructure assets include long-lived, immovable capital assets such as road systems, bridges, curbs and gutters, sidewalks, drainage systems, and lighting systems. Prior to 2004, infrastructure was not capitalized.

Normal maintenance and repairs are charged to expense as incurred; major renewals or betterments which extend the life or increase the value of assets are capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Component Unit</b>
Buildings and improvements	40 years	40 years	-
Machinery and equipment	5-30 years	5-30 years	-
Vehicles	8 years	8 years	-
Infrastructure	10-65 years	-	100 years

### Liabilities for Compensated Absences

Pursuant to various union contracts, City employees are awarded sick time each year based primarily upon the number of years served through December 31st of the preceding year. The City's policy generally provides that employees will be compensated for some portion of earned but unused sick time at retirement or termination.

### Unearned Revenues

Unearned revenues consists of receivables not collected within 60 days subsequent to the City's year-end (fund-perspective financial statements), and loans receivable (principal and interest on these loans are recognized as program income as received) and grant proceeds for which the related expenditures had yet to be incurred. It is expected that these items will be included in revenues of future fiscal years.

At December 31, 2015, the General, Non-major Governmental, Sewer and Airport Operating Funds had unearned revenues of \$7,457, \$313,435, \$4,800, and \$2,527, respectively.

### Deferred Outflows/Inflows of Resources

In additions to assets, the City will sometimes report a separate section for deferred outflows (inflows) of resources. This separate financial statement element represents a consumption (acquisition) of net position that applies to a future period and so will not be recognized as an outflow (inflow) of resources until that time.

### Governmental Fund Balance Classifications/Policies and Procedures

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the City's "highest level of decision-making authority" which do not lapse at year-end
  - City Council is its highest level of decision-making authority, and
  - City Council commits funds through adoption of a formal ordinance.
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City, but not through formal action of City Council. The City Manager is authorized to make assignments.
- *Unassigned* - includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted resources and then to unrestricted resources.

When an expenditure is incurred that can be paid using either committed, assigned, or unassigned amounts, the City's policy is generally to apply the expenditure to committed resources, then to assigned resources, and then to unassigned resources.

### **Pension Plans**

The City provides separate defined benefit pension plans for general employees and police department personnel. It is the City's policy to fund its annual required contribution.

### **OPEB Plan**

The City provides a \$4,000 death benefit for all police officers who retired from the police force after age 55 or who served at least 20 years. It is the City's policy to fund this benefit as officers are hired.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **2. Budgetary Procedures and Budgetary Accounting**

The City utilizes the Executive Budget approach to budgetary control. This approach requires the City Manager, together with the City's Department Heads, to prepare and submit a governing financial plan to the legislative body on an annual basis.

The City Manager is authorized to transfer the lesser of 5% or \$5,000 between departments within any fund. All other transfers or supplemental appropriations must be enacted by City Council. Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the department level.

The City prepares its budgets for each fund type on the cash basis of accounting. Adjustments between the cash basis of accounting and the modified accrual basis of accounting consist of short-term cash receivable that occur shortly after year-end for which the services were rendered or the obligating event occurred prior to year-end.

## City of Lock Haven, Pennsylvania

---

### Notes to Financial Statements

December 31, 2015

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which annual budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is presented on page 20 of the accompanying financial statements. During 2015, the City had no major special revenue funds that adopted an annual budget.

### 3. Cash, Cash Equivalents, and Investments

Under Section 1804.1 of the Third Class City Code of the Commonwealth of Pennsylvania, the City is authorized to invest in the following:

- A. United States Treasury bills.
- B. Short-term obligations of the United States government or its agencies or instrumentalities.
- C. Savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC").
- D. Obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States, the Commonwealth, or of any agencies or instrumentalities backed by the full faith and credit of the Commonwealth or of any political subdivision of the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. The City may also invest in shares of a registered investment company under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.
- E. Certificates of deposit purchased from institutions which are insured by federal agencies. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets pursuant to Act No. 72 of the General Assembly.
- F. Pension or retirement funds may be invested by the City according to the "Prudent Man Rule" as defined by the Decedents, Estates, and Fiduciaries Act, 20 PAC.S.CH.73, which is referred to in the City Code.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures related to the following deposit and investment risks; credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following is a description of the City's deposit and investment risks.

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

#### Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2015, the aggregate bank balance of bank deposits was \$5,906,693, of which \$638,207 was covered by federal depository insurance and \$214,339 was covered by SIPC insurance. The uninsured remaining bank deposits of \$5,054,146 were covered by pledged pools of assets maintained in accordance with Act 72 of the General Assembly that requires the institution pool collateral for all governmental deposits. The carrying amount of these bank deposits was \$5,795,303 at December 31, 2015.

#### Investments - Pension Trust Funds

As of December 31, 2015, the City had the following investments:

Investment	Maturities	Fair Value
Equity securities	N/A	\$ 5,790,188
Corporate bonds	Average of 5 years	1,220,689
Government bonds	Average of 4 years	1,159,882
Mutual funds	N/A	1,082,148
U.S. Treasury securities	Average of 8 years	833,263
Government mortgage pools	Average of 21 years	705,211
Corp. mortgage/asset backed securities	Average of 13 years	498,749
Government asset backed securities	Average of 3 years	20,444
Total		<u>\$ 11,310,574</u>

#### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2015, all of the City's Pension and OPEB Trust Fund investments were held by Charles Schwab and were insured by SIPC up to \$500,000 per account.

#### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a credit rating by a nationally recognized organization.

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

As of December 31, 2015, the City's credit quality distribution of securities as a percentage of total fixed income investments is as follows:

Corporate bonds	BBB+ to AAA	27.50 %
Government bonds	AA+	26.13
U.S. Treasury securities	AA+	18.77
Government mortgage pools	AA+	15.90
Corp. mortgage/asset backed securities	BBB+ to AAA	11.24
Government asset backed securities	AA- to AA+	0.46 %
Total fixed income		<u>100.00 %</u>

The City's investment policy limits investments as follows:

- At least 50% of its total assets are invested in securities issued by the U.S. Treasury and Government Agencies;
- Bonds must be rated as "investment grade" by Moody's and/or Standard & Poor's.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. As a means of limiting its exposure to fair-value losses arising from interest rates, the City's investment policy outlines an asset mix the investment manager must adhere to in order to achieve desired investment returns.

### Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair-value losses arising from interest rates, the City's investment policy outlines an asset mix the investment manager must adhere to in order to achieve desired investment returns.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely affect the fair value of an investment. There are currently no investments in securities exchanged in foreign denominations. As a means of limiting its exposure to fair-value losses arising from foreign currency exchange rates, the City's investment policy outlines an asset mix the investment manager must adhere to in order to achieve desired investment returns.

### Restricted Cash

The City's Sewer Fund reports the unspent bond proceeds for future capital activity as restricted cash. At December 31, 2015, the unspent bond proceeds amounted to \$1,384,354.



## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

#### 4. Property Taxes

The City Treasurer is responsible for the collection of property taxes for the City. The City's property tax is levied on the taxable real property within the City each January 1 and is payable in one installment on the following terms: 2% discount March 1 through April 30; face amount May 1 through June 30; and 10% penalty after June 30 following the levy date. Taxes not paid or exonerated become delinquent on December 31. The City collects taxes up to December 31 of the same year (payments post-marked by December 31 but received shortly after year-end are considered as having been collected for accounting purposes). Subsequent to year-end, all unpaid property taxes are certified to the Clinton County Delinquent Tax Office for further collection and possible tax sales over an additional 36-month period.

The assessed value at January 1, 2015, upon which the 2015 levy was based, was \$281,047,800 of taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2015 were 90% of the tax levy.

The City is permitted by the Third Class City Code to levy taxes up to 30 mills (\$30 per \$1,000 of assessed valuation) for general governmental services. The City imposes a split rate tax on real estate, with the millage on land being different from that on improvements. The millage on land as levied is 26.32 mills and the millage on improvements as levied is 5.42 mills. Since this is a split rate the two amounts cannot be simply added to determine the total millage. An equivalent single tax rate can be calculated by dividing the total tax revenue by the total assessed value.

The City's equivalent single tax rates at December 31, 2015 were:

General Governmental Services	8.57 mills
Levee System Operations	0.44 mills

The City has a tax margin of 20.99 mills (30.00 mills limit less 8.57 mills for general government, less 0.44 mills for levee maintenance = 20.99 mills).

#### 5. Due from Other Governments

The amount reported in the City's various governmental and proprietary funds at December 31, 2015 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 96,730	\$ 96,730
Capital Project Fund	223,260	-	-	223,260
Other Nonmajor Governmental Funds	-	-	3,740	3,740
Water Fund	-	-	5,000	5,000
Sewer Fund	-	2	-	2
Airport Fund	5,212	-	-	5,212
Total	<u>\$ 228,472</u>	<u>\$ 2</u>	<u>\$ 105,470</u>	<u>\$ 333,944</u>

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

Amounts due from the federal government are primarily grants receivable related to the City's various federal grant programs. Amounts due from local governments are primarily reimbursements for intergovernmental services performed during 2015.

### 6. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2015 is as follows:

	Balance January 1, 2015	Acquisitions	Disposals	Transfers	Balance December 31, 2015
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,564,307	\$ -	\$ -	\$ -	\$ 3,564,307
Construction in progress	174,500	781,024	-	-	955,524
Total capital assets, not being depreciated	3,738,807	781,024	-	-	4,519,831
Capital assets, being depreciated:					
Land improvements	1,897,585	385,809	-	-	2,283,394
Buildings and improvements	3,933,041	-	-	-	3,933,041
Furniture and equipment	3,022,885	101,488	-	-	3,124,373
Vehicles	1,295,175	44,180	-	-	1,339,355
Infrastructure	4,186,470	322,738	-	-	4,509,208
Total capital assets, being depreciated	14,335,156	854,215	-	-	15,189,371
Less accumulated depreciation:					
Land improvements	(1,403,838)	(68,102)	-	-	(1,471,940)
Buildings and improvements	(2,463,700)	(109,629)	-	-	(2,573,329)
Furniture and equipment	(1,807,482)	(129,012)	-	-	(1,936,494)
Vehicles	(804,586)	(98,532)	-	-	(903,118)
Infrastructure	(1,265,001)	(279,447)	-	-	(1,544,448)
Total accumulated depreciation	(7,744,607)	(684,722)	-	-	(8,429,329)
Total capital assets, being depreciated	6,590,549	169,493	-	-	6,760,042
Governmental activities, net	\$ 10,329,356	\$ 950,517	\$ -	\$ -	\$ 11,279,873

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

	Balance January 1, 2015	Acquisitions	Disposals	Transfers	Balance December 31, 2015
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 669,000	\$ -	\$ -	\$ -	\$ 669,000
Construction in process	33,591	358,766	-	(390,587)	1,770
Total capital assets, not being depreciated	702,591	358,766	-	(390,587)	670,770
Capital assets, being depreciated:					
Utility system	45,624,643	668,458	-	-	46,293,101
Land improvements	2,336,919	-	-	390,587	2,727,506
Equipment and vehicles	899,269	90,786	-	-	990,055
Total capital assets, being depreciated	48,860,831	759,244	-	390,587	50,010,662
Less accumulated depreciation:					
Utility system	(8,699,574)	(1,308,223)	-	-	(10,007,797)
Land improvements	(687,033)	(136,375)	-	-	(823,408)
Equipment and vehicles	(523,321)	(80,619)	-	-	(603,940)
Total accumulated depreciation	(9,909,928)	(1,525,217)	-	-	(11,435,145)
Business-type activities capital assets, net	\$ 39,653,494	\$ (407,207)	\$ -	\$ -	\$ 39,246,287

Governmental activity depreciation expense, which amounted to \$684,722 for the year ended December 31, 2015, was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$312,970, \$1,030,517, and \$181,730 for the year ended December 31, 2015, was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

	Balance January 1, 2015	Additions	Disposals	Balance December 31, 2015
Component - Unit Flood Protection Authority:				
Land improvements	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(13,534,450)	(845,910)	-	(14,380,360)
Component unit - capital asset, net	\$ 71,055,905	\$ (845,910)	\$ -	\$ 70,209,995

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

#### 7. Interfund Balances and Activity

##### Balances Due To/From Other Funds

Balances due to/from other funds are primarily the result of inter-fund borrowings necessitated by cash flow needs, or, in certain situations, a particular City program may involve a number of operating funds, wherein a periodic "settling up" has yet to take place and is reflected by a due to/from other funds.

Individual fund receivable and payable amounts at December 31, 2015 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 72,728	\$ 149,670
Capital Projects Fund	114,738	-
Non-major Governmental Funds	297,020	356
Enterprise Funds:		
Water Fund	4,072	84,360
Sewer Fund	96,787	6,490
Airport Fund	40,167	374,586
Internal Service Fund	-	10,050
	<u>-</u>	<u>10,050</u>
Total	<u>\$ 625,512</u>	<u>\$ 625,512</u>

##### Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2015 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 600	\$ 165,013
Capital Projects Fund	156,313	-
Non-major Governmental Funds	7,981	-
Internal Service Fund	119	-
	<u>119</u>	<u>-</u>
Total	<u>\$ 165,013</u>	<u>\$ 165,013</u>

During the year ended December 31, 2015, the City made a transfer from its General Fund for the purposes of funding an annual allocation to its Interchange Fund \$4,000. In addition, the General Fund made transfers to its Capital Projects Fund (a major governmental fund) in the amount of \$156,313 to fund streetscape renovation projects, to its Off Street Parking Fund in the amount of \$3,981 to fund improvements, and its Internal Service Fund in the amount of \$119 to fund the cost of operations.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2015

## 8. Long-Term Debt

As of December 31, 2015, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at January 1, 2015	Additions	Retirements	Balance at December 31, 2015	Current Portion
PennVEST Note Payable - Sewer Fund	1.156 %	\$ 2,638,730	\$ 1,333,245	\$ -	\$ 127,625	\$ 1,205,620	\$ 129,109
PennVEST Note Payable - Water Fund	1.00 %	6,122,000	3,057,712	-	116,010	2,941,702	117,176
2009 General Obligation Bond, Series A	2.65 - 3.50 %	3,715,000	1,715,000	-	410,000	1,305,000	365,000
PennVEST Note Payable - Sewer Fund	1.00 %	18,074,732	15,176,726	930,671	546,276	15,561,121	548,988
2013 General Obligation Bond	2.46 - 5.50 %	2,118,000	1,702,425	412,575	3,000	2,112,000	10,000
2014 General Obligation Note - Sewer Fund	1.97 %	6,000,000	5,059,018	-	1,400,000	3,659,018	3,659,018
Total, net			<u>\$ 28,044,126</u>	<u>\$ 1,343,246</u>	<u>\$ 2,602,911</u>	<u>\$ 26,784,461</u>	<u>\$ 4,829,291</u>

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental Activities Bonds and Notes Payable	\$ 161,215	\$ 2,328,752	\$ 2,489,967
Business-Type Activities Bonds and Notes Payable	<u>4,668,076</u>	<u>19,626,418</u>	<u>24,294,494</u>
Total	<u>\$ 4,829,291</u>	<u>\$ 21,955,170</u>	<u>\$ 26,784,461</u>

### PennVEST - Note Payable - Sewer Fund

In 2004, the City entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority ("PennVEST") with an original balance of \$2,638,730, due in monthly installments of \$11,864 including principal and interest at 1.156% per annum through maturity during November 2024. The proceeds of the note were used to finance a portion of the cost of renovations to the City's sewage treatment facility. The note is secured by the City's pledge of all gross receipts and revenues of the system and a lien position thereto.

### **PennVEST - Note Payable - Water Fund**

In 2008, the City entered into a loan agreement with PennVEST with a maximum balance of \$6,122,000 (only \$4,140,427 was drawn as of 12/31/15), due in monthly installments of \$12,171, including principal and interest at 1% per annum through maturity in July 2027. The proceeds drawn on the note to date were used to finance the City's Ohi Dam Grouting Project. The note is secured by the City's pledge of all gross receipts and revenues of the water system and a lien position thereto.

### **General Obligation Bond, Series A of 2009**

In 2009, the City issued a \$3,715,000 General Obligation Bond, Series A of 2009, bearing interest at rates ranging from 2.65% to 3.50% per annum, maturing on dates ranging from November 1, 2013 to November 1, 2019. The proceeds from the bonds were used to (1) currently refund the City's General Obligation Bonds, Series of 2002, the City's General Obligation Note, Series B of 2007 and a portion of the City's General Obligation Note, Series A of 2007; (2) to finance various capital projects of the City; and (3) to pay the costs of issuing the bonds. Of the \$3,715,000, \$1,475,632 was allocated to governmental activities and \$2,239,368 was allocated to proprietary funds. At December 31, 2015, the City had \$899,577 and \$405,423 outstanding within its governmental activities and proprietary funds, respectively.

### **PennVEST - Note Payable - Sewer Fund**

In 2012, the City entered into a loan agreement with PennVEST with a maximum balance of \$18,074,732 (only \$16,388,698 was drawn as of 12/31/15), due in monthly installments of \$58,135, including principal and interest at 1% per annum through maturity in July 2044. (If the City does not draw any further funds on this loan, final maturity would be during 2022.) The proceeds drawn on the note to date were used to finance the City's sewer system capital improvement project. The note is secured by the City's pledge of all gross receipts and revenues of the sewer system and a lien position thereto.

### **General Obligation Bond, Series of 2013**

In 2013, the City issued a \$2,118,000 General Obligation Bond, Series of 2013, bearing interest at a fixed rate of 2.46% per annum through November 1, 2028, then at a monthly variable rate equal to the 30 day London Interbank Offering Rate (LIBOR) plus 2.24%, not to exceed 5.50% per annum, maturing on dates ranging from May 1, 2013 to November 1, 2033. The proceeds from this bond were used to provide funds toward a certain project consisting of, but not limited to (1) the purchase and acquisition of a certain building referred to as the "PennDOT buildings", and the furnishing of capital renovations and improvements thereto; (2) additional capital projects, including (a) main street lighting upgrades, (b) street repair and parking lot improvements, (c) airport projects and equipment, and (d) the purchase of fire-fighting equipment, various parks and streets department equipment and police department equipment and vehicle; (3) the current refunding of all of the outstanding principal amount of the City's General Obligation Note, Series of 2010, (4) payment of capitalized interest on the Bond; and, (5) to pay the costs of issuing the bonds. Of the \$2,118,000, \$2,068,000 was allocated to governmental activities and \$50,000 was allocated to proprietary funds. At December 31, 2015, the City had \$2,063,282 outstanding within its governmental activities and \$48,718 within its proprietary funds.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

### General Obligation Note, Series of 2014 - Sewer Fund

In 2014, the City issued a \$6,000,000 General Obligation Note, Series of 2014, bearing interest at 1.97% per annum, maturing December 1, 2016. The proceeds from the issuance of the note were used to (1) currently refund the outstanding principal amount of the City's Series of 2011 General Obligation Bond; and (2) provide interim funding for and toward the sewer system capital improvement project. The City intends to refinance this borrowing at maturity.

The City's PennVEST Notes Payable are all guaranteed in full by the Lock Haven City Authority. Since inception, the City has met each of its monthly debt service payment requirements pertaining to these obligations.

Interest paid on these bonds and notes during the year ended December 31, 2015 amounted to \$384,493.

The following is a schedule, by year, of the future minimum principal and interest payments required under the bond and note payable obligations as of December 31, 2015:

Years Ending December 31	Principal	Interest	Total
2016	\$ 4,829,291	\$ 346,201	\$ 5,175,492
2017	1,139,983	269,201	1,409,184
2018	1,158,214	250,934	1,409,148
2019	1,174,531	231,652	1,406,183
2020	962,935	211,088	1,174,023
2021-2025	4,787,678	956,950	5,744,628
2026-2030	4,435,654	730,086	5,165,740
2031-2035	4,374,846	345,238	4,720,084
2036-2040	3,753,250	100,020	3,853,270
2041	168,079	275	168,354
Total	<u>\$ 26,784,461</u>	<u>\$ 3,441,645</u>	<u>\$ 30,226,106</u>

### 9. Compensated Absences

The changes in the City's compensated absences in 2015 are summarized as follows:

#### Governmental Activities

Balance, January 1, 2015	\$ 150,359
Increase	23,103
Decrease	<u>(60,345)</u>
Balance, December 31, 2015	<u>\$ 113,117</u>

#### Business Type Activities

Balance, January 1, 2015	\$ 49,277
Increase	8,903
Decrease	<u>(6,600)</u>
Balance, December 31, 2015	<u>\$ 51,580</u>

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

### 10. Water and Sewer Fund Leases

On January 1, 1995, the City of Lock Haven and the Lock Haven City Authority entered into operating lease agreements wherein the Authority agreed to lease its sewer and water systems to the City.

Under the terms of these agreements, the City is required to transfer to the Authority on an annual basis, amounts equal to five (5) percent of the respective operating costs of these systems for the purpose of establishing capital reserve accounts. These transfers are required until each respective capital reserve account reaches an amount sufficient to pay operating expenses for a six-month period, as estimated by the consulting engineer, plus the next succeeding semi-annual total amount of debt service on the respective system.

During the year ended December 31, 2015, the City transferred \$48,490 to the Authority pursuant to the water system lease. In doing so, the City substantially met the funding requirement of this agreement. No such transfer was made to the Authority pursuant to the sewer system lease, because the sewer capital reserve account had reached the required amount during 2002.

### 11. Employee Pension Funds

#### Plan Descriptions

The Lock Haven City Employees Retirement Pension Fund ("CERF"), and the Lock Haven Police Pension Fund ("Police") (collectively, the "Plans"), are single-employer defined benefit pension plans administered by the City. The CERF Plan was established effective February 1, 1966 and the Police Plan was established effective March 26, 1963. The City is the only participating employer in the plans. Stand-alone financial statements are not issued for the Plans, nor are the Plans included in the report of any public employee retirement system or other entity.

Employer contributions to the Plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

As of December 31, 2015, the City reported the following amounts in the accompanying financial statements related to the CERF and Police Plans:

	<b>CERF</b>	<b>Police</b>	<b>Total</b>
Deferred Outflows of Resources	\$ 557,592	\$ 338,553	\$ 896,145
Net Pension Liability	568,740	285,250	853,990
Deferred Inflows of Resources	52,434	35,808	88,242

As of December 31, 2015, the City reported the following amounts in the accompanying financial statements related to its participation in the above Plans:

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
Deferred Outflows of Resources	\$ 618,400	\$ 277,745	\$ 896,145
Net Pension Liability	570,723	283,267	853,990
Deferred Inflows of Resources	62,127	26,115	88,242



## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

At December 31, 2015, the date of the latest valuation, employees covered by the Plans consisted of the following:

	<b>CERF</b>	<b>Police</b>
Retirees and beneficiaries receiving benefits	30	18
Terminated employees entitled to benefits but not yet receiving them	1	-
Active plan participants	42	12
Total	73	30
Number of participating employers	1	1

As of December 31, 2015, the City reported the following amounts in the accompanying financial statements related to the CERF and Police Plans:

### Benefits Provided

The pension plans provide retirement, disability and death benefits as outlined in the following table:

	<b>CERF</b>	<b>Police</b>
Employee groups covered	All non-uniformed employees, also, elected officials and City police officers hired prior to 1/1/1978	All City police officers
Legislative body governing plan and responsible for management of plan assets	Council of the City of Lock Haven	Council of the City of Lock Haven
Normal retirement age	65	50
Years of service requirement prior to retirement	10	20 (Vested at 12 years)
Monthly retirement benefits	Will receive monthly benefit based on the following: (1) Elected officials received \$7 times years of service as an elected official; (2) City employees receive 1.8% of average monthly earnings in the highest 5 consecutive years of the 10 years immediately preceding retirement or termination times years of service; and (3) Police officers hired prior to 1/1/1978, will receive monthly benefit equal to \$3 times years of service	Will receive annual benefit equal to 50% of the highest one years' W-2 earnings during the last 3 years of service preceding retirement

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

	<b>CERF</b>	<b>Police</b>
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100
Disability benefits, Eligibility	None	Service related injury or illness
Monthly disability benefits	None	2.5% of final monthly compensation times years of completed service, not to exceed 50%
Death benefits - Spouse: Before retirement	Refund of employee contributions without interest	Monthly benefit equal to years of service times 1.25%, up to a maximum of 25% times last salary prior to death, if death was duty related. The surviving spouse of an officer who is at or past normal retirement age and who dies shall receive 50% of the benefit the officer would have been eligible for if he had retired on date of death.
After retirement	In accordance with option selected	Monthly benefit equal to 50% of the pension participant was receiving on the day of participant's death is payable to legal spouse or minor children under age 18 if no eligible spouse of retired member.

### Funding Policy and Contributions

The contribution requirements of the Authority are determined in accordance with the Commonwealth of Pennsylvania's Municipal Pension Plan Funding and Recovery Act (Act 205 of 1984) (the "Act"). The Act requires that annual contributions be made based on a minimum municipal obligation ("MMO"), as determined in connection with the Pension Plan's biennial actuarial obligation. The MMO includes the normal cost, estimated administrative expenses and an amortization of the actuarial accrued liability (if any), less member contributions (if any) and a credit equal to 10% of the actuarial present value of assets over the actuarial accrued liability. The Authority must fund any financial requirement established by the MMO that exceeds state/member contributions. The annual required contribution was determined based on the most recent annual actuarial valuation dated January 1, 2015. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 6.5% per year compounded annually; (b) no projected salary increases; and (c) no postretirement benefit increases. The rate of return includes an inflation component of 3%. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

### Deposits and Investments

The Plans allow funds to be invested pursuant to a strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of asset classes, as approved by the Authority Board, and established the following target allocation across asset categories:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	40 %	2.5 %
Equities	40	7.0
Cash and cash equivalent	20	0.0

The long-term expected rate of return on the Plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce 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. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation for the 2015 measurement period are listed in the table above.

### Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return (loss) on pension plan investments, net of Plan investment expense, was (0.46)% for the CERF plan and (0.60)% for the Police Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net Pension Liability

The City's net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. The components of the net pension liability of the Plan as of December 31, 2015 were as follows:

	CERF	Police
Total pension liability	\$ 6,619,848	\$ 5,634,997
Plan fiduciary net position	6,051,108	5,349,747
Plan net position liability (asset)	\$ 568,740	\$ 285,250
Plan fiduciary net position as a percentage of total pension liability	91.4%	95.0%

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

### Changes in the Net Pension Liability

The changes in the City's CERF Plan net pension liability during the year ended December 31, 2015 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2015	\$ 6,086,426	\$ 6,085,292	\$ 1,134
Changes for the year:			
Service cost	149,426	-	149,426
Interest cost	397,860	-	397,860
Differences between expected and actual experience	(62,327)	-	(62,327)
Changes of benefit terms	-	-	-
Changes of assumptions	260,629	-	260,629
Contributions - employer	-	138,657	(138,657)
Contributions - members	-	81,381	(81,381)
Net investment income	-	(28,143)	28,143
Benefit payments, including refunds	(212,166)	(212,166)	-
Administrative expense	-	(13,913)	13,913
Net changes	533,422	(34,184)	567,606
Balance at December 31, 2015	<u>\$ 6,619,848</u>	<u>\$ 6,051,108</u>	<u>\$ 568,740</u>

The changes in the City's Police Plan net pension liability during the year ended December 31, 2015 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2014	\$ 5,489,406	\$ 5,561,887	\$ (72,481)
Changes for the year:			
Service cost	167,226	-	167,226
Interest cost	354,712	-	354,712
Differences between expected and actual experience	(40,423)	-	(40,423)
Changes of benefit terms	-	-	-
Changes of assumptions	32,433	-	32,433
Contributions - employer	-	191,163	(191,163)
Contributions - members	-	13,949	(13,949)
Net investment income	-	(32,582)	32,582
Benefit payments, including refunds	(368,357)	(368,357)	-
Administrative expense	-	(16,313)	16,313
Net changes	145,591	(212,140)	357,731
Balance at December 31, 2015	<u>\$ 5,634,997</u>	<u>\$ 5,349,747</u>	<u>\$ 285,250</u>

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

The schedule of changes in the employer's net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information related to the funded status of the Plans.

#### Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of January 1, 2015 using the following actuarial methods and assumptions:

	<b>CERF</b>	<b>Police</b>
Actuarial valuation date	January 1, 2015	January 1, 2015
Actuarial cost method	Entry-age normal	Entry-age normal
Actuarial assumptions:		
Projected salary increases	4.00%	4.00 - 10.12%
Inflation	2.75%	2.75%
Interest rate	7.00%	7.00%
Asset valuation method	Market	Market

Mortality rates were based on the RP-2000 Mortality Table. The actuarial assumptions used in the January 1, 2015 valuation were based upon a study of plan experience, provisions in the current collective bargaining agreement, and future expectations.

#### Discount Rate

The discount rate used to measure the total pension liability for the Plans was 6.50%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

#### Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City Employees Retirement Plan calculated using the discount rate of 6.50% as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1 percentage point lower (5.50%) or 1 percentage point higher (7.50%) than the current rate:

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate</b>	<b>1% Increase (7.50%)</b>
Net pension liability (asset) - CERF	\$ 1,351,107	\$ 568,740	\$ (93,361)
Net pension liability (asset) - Police	969,668	285,250	(208,645)

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

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

For the year ended December 31, 2015, the City recognized pension expense of \$378,194. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience CERF Plan	\$ -	\$ 52,434
Differences between expected and actual experience Police Plan		35,808
Changes in assumptions - CERF Plan	219,259	-
Changes in assumptions - Police Plan	28,705	-
Difference between projected and actual earnings on investments - CERF Plan	338,333	-
Difference between projected and actual earnings on investments - Police Plan	309,848	-
Total	\$ 896,145	\$ 88,242

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	CERF	Police	Total
Years ending December 31:			
2016	\$ 116,060	\$ 76,536	\$ 192,596
2017	116,060	76,536	192,596
2018	116,060	76,536	192,596
2019	116,061	76,537	192,598
2020	31,477	(918)	30,559
Thereafter	9,440	(2,482)	6,958

## 12. Postemployment Benefits

### Plan Description

The City provides and administers other postretirement benefits, consisting of health-care benefits for retired employees who are participants in the City's police pension plan. Currently, 10 retirees meet those eligibility requirements. Such benefits are provided in accordance with the police union contract. City Ordinance No. 926 amended the City's police pension plan to add a one-time early retirement window for the period from December 1, 2013 through December 31, 2015. During this window, eligible retirees are also provided with health-care benefits beginning no sooner than normal retirement without the early retirement window. The costs of such insurance coverage for retirees are primarily funded through annual appropriations from the City's General Fund, except for officers retiring after December 31, 2013, who are required to contribute \$40/month towards the cost of coverage.

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired employees who are ineligible under the above requirements and choose to participate in the medical plan must pay 100% of the composite rate cost of such coverage. While no formal plan document currently exists, GASB No. 45 requires the valuation to consider the “substantive plan,” meaning the plan terms as understood by the City and plan members, as described in various current and historical employment and union contracts, including any plan changes that have been made and communicated to employees. The plan is an unfunded single employer plan and no financial report is prepared. Stand-alone financial statements are not issued for the plan.

### Funding Policy

The contribution requirements of plan members and the City are established and may be amended through negotiations between the City and the respective unions. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retirees are currently not required to contribute to the plan. The City paid premiums of approximately \$144,000 for the year ended December 31, 2015.

### Annual OPEB Cost and Net OPEB Obligation

The City’s annual other postemployment benefit (“OPEB”) cost (expense) is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following show the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 1,016,487
Interest on net OPEB obligation	119,050
Adjustment to annual required contribution	<u>(257,391)</u>
Annual OPEB cost (expense)	878,146
Contributions made	<u>143,581</u>
Increase in net OPEB obligation	734,565
Net OPEB obligation at January 1, 2015	<u>2,976,245</u>
Net OPEB obligation at December 31, 2015	<u>\$ 3,710,810</u>

The net OPEB obligation is recorded as a benefit expense within the accompanying schedule of activities, within the Public Safety function.

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2015

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2015, 2014, and 2013 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 878,146	16.4 %	\$ 3,710,810
December 31, 2014	736,618	21.9	2,976,245
December 31, 2013	733,159	21.3	2,400,733

### Funded Status and Funding Progress

The funded status of the plan as of December 31, 2015, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 8,072,367
Actuarial value of plan assets	<u>173,476</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,898,891</u>
Funded ratio (actuarial value of plan assets/UAAL)	2.1%
Estimated annual covered payroll	\$ 792,288
UAAL as a percentage of covered payroll	997%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

### Actuarial Methods and Assumptions

The calculations are based on the types of benefits provided at the time of the valuation based upon the substantive plan (the plan as understood by the employer and the plan members). The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.



## City of Lock Haven, Pennsylvania

### Notes to Financial Statements December 31, 2015

In the December 31, 2015, actuarial valuation, the Entry Age Normal Method was used. Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

The actuarial assumptions included a 4% investment rate of return, which is the expected rate to be earned on the City's deposits and investments, an annual healthcare cost trend rate of 8% for 2015, with the rate decreasing by decrements to an ultimate rate of 4% in 2058 and later, and a constant 5% increase per year for Medicare Part B and 4% increase in dental premiums. The UAAL is being amortized as a level dollar over a fifteen year open period. Nine years remain at December 31, 2015.

### 13. Fund Balance Classification

The City presents its governmental fund balances by Level of constraint in the aggregate on its balance sheet - governmental funds. The individual specific purposes of each constraint are presented below:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Road Turn-back Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable for, Prepaid expenses	<u>\$ 241,896</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 241,896</u>
Restricted for:					
Capital Projects	\$ 138,207	\$ 706,238	\$ -	\$ -	\$ 844,445
Street Programs	-	-	-	5,410	5,410
Recreation	-	-	-	65,891	65,891
Economic Development	-	-	-	424,378	424,378
Total	<u>\$ 138,207</u>	<u>\$ 706,238</u>	<u>\$ -</u>	<u>\$ 495,679</u>	<u>\$ 1,340,124</u>
Assigned for, Road maintenance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 850,759</u>	<u>\$ -</u>	<u>\$ 850,759</u>

### 14. Jointly Governed Organization

The City is a participant in a jointly governed organization, the Central Clinton County Water Filtration Authority (the "Water Filtration Authority"). The Water Filtration Authority was formed by the City, which appoints five members to the Water Filtration Authority's board of directors, and the Borough of Flemington, the Borough of Mill Hall, and Woodward Township, each of which appoints two members to the Water Filtration Authority's board.

During the year ended December 31, 2015, the City purchased \$580,172 in water filtration services from the Water Filtration Authority.

### **15. Related Organizations**

The Redevelopment Authority of the City of Lock Haven, PA (the "Redevelopment Authority") was established by the City pursuant to the provisions of the Pennsylvania Urban Redevelopment Law, Act of 1945. The City's accountability for the Redevelopment Authority does not extend beyond making appointments to the board and as such the Redevelopment Authority is not considered a component unit of the City.

### **16. Commitments and Contingent Liabilities**

#### **Grant Programs**

The City participates in federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs.

#### **Environmental**

The City maintains sewer and water treatment and fuel storage facilities. The City is potentially liable for any expenditure associated with compliance to mandated regulations and any assessments by regulatory authorities related to this facility or other similarly situated facilities.

#### **Contingencies**

In the normal course of business, the City may be subject to pending and threatened lawsuits in which claims for monetary damage could be asserted. In management's opinion, the City's financial position and results of operations would not be materially affected by the outcome of such legal proceedings. At December 31, 2015, the City was involved in certain outstanding litigation related to the construction and completion of its new sanitary sewage treatment plant. In the opinion of management and legal counsel, the matter is currently in litigation and its outcome cannot be ascertained; however, the City does not expect the ultimate outcome to have a material effect on its financial position.

The City has elected to self-insure its employee medical insurance plan. The City has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the City for any medical costs over \$35,000 per covered individual per year. The City believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The City's liability for all asserted and estimated unasserted claims was \$67,032 at December 31, 2015. The City has a surplus deposit related to the plan in the amount of \$308,928 at December 31, 2015, resulting in a net prepaid expense of \$241,896. The cost of medical coverage for employees was approximately \$680,000 in 2015.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2015

### Lock Haven City Authority

In October 2013, the Lock Haven City Authority (the "Authority") entered into a conservation easement with the Nature Conservancy, for purposes of ensuring that the Authority's watershed property (the "protected property") will be retained predominantly in its natural, scenic, forested and open space condition, free of additional forest fragmentation or additional development. The protected property may be used in connection with and in furtherance of programs related to carbon emissions and/or sequestration credits, nutrient and/or water quality credits, or habitat mitigation banks, or other similar offset, banking, mitigation or compensation programs (collectively, the "Forest Management Plan").

During the fiscal year ended October 31, 2014, the Authority incurred \$256,684 in costs associated with the Forest Management Plan, including forestry consulting fees \$(74,934) and herbicide application costs covering 727 acres of the watershed property \$(181,750).

### 17. Effect of Adoption of GASB No. 68

The City adopted GASB Statement No. 68 for its calendar year ended December 31, 2015, which requires that the effects be applied to the earliest period practical. The changes within the City's January 1, 2015 net position are as follows:

	Governmental Activities	Business-Type Activities
Net position, as previously reported, at January 1, 2015	\$ 6,735,440	\$ 16,776,807
Net pension asset recorded at December 31, 2014	(232,558)	-
Net pension asset (liability) – GASB 68	71,881	(534)
Restated net position, at January 1, 2015	\$ 6,574,763	\$ 16,776,273

### 18. New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements and to provide guidance for applying fair value of certain investments and disclosures related to all fair value measurements. The City is required to adopt Statement No. 72 for its calendar 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard completes the suite of pension standards. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. To the extent applicable, the City is required to adopt Statement No. 73 for its calendar 2016 financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The City is required to adopt Statement No. 74 for its calendar 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide: Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability-the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information ("RSI") about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The City is required to adopt Statement No. 75 for its calendar 2018 financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The primary objective of this statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles ("GAAP"). This statement reduces the GAAP hierarchy to two categories of authoritative literature and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The City is required to adopt Statement No. 76 for its calendar 2016 financial statements.

## City of Lock Haven, Pennsylvania

---

### Notes to Financial Statements

December 31, 2015

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to present detailed note disclosures pertaining to the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients. Additional items to be disclosed include the gross dollar amount of taxes abated during the period and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The City is required to adopt Statement No. 77 for its calendar 2016 financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79, permits qualifying external investment pools to measure pool investments, which function similarly to private sector money market funds, at amortized cost. The statement also establishes additional disclosure requirements, which includes information about any limitations or restrictions on participant withdrawals, for both the pool and its participants. To the extent applicable, the City is required to adopt Statement No. 79 for its calendar 2016 financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The City is required to adopt Statement No. 77 for its calendar 2017 financial statements.

In December 2015, the GASB issued Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. To the extent applicable, the City is required to adopt Statement No. 82 for its calendar 2018 financial statements.

City management is in the process of analyzing this pending change in accounting principles and the impact it will have on the financial reporting process.

# City of Lock Haven, Pennsylvania

Required Supplementary Information  
Schedule of Changes in Net Pension Liability and Related Ratios  
Year Ended December 31, 2015  
(Unaudited)

	Police Pension Fund 2015	City Employees Retirement Fund 2015
<b>Total pension liability</b>		
Service cost	\$ 167,226	\$ 149,426
Interest changes of benefit terms	354,712	397,860
Differences between expected and actual experience	(40,423)	(62,327)
Changes in assumptions	32,433	260,629
Benefit payments, including refunds of member contributions	(368,357)	(212,166)
<b>Net change in total pension liability</b>	<b>145,591</b>	<b>533,422</b>
<b>Total pension liability - beginning</b>	<b>5,489,406</b>	<b>6,086,426</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 5,634,997</b>	<b>\$ 6,619,848</b>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 191,163	\$ 81,381
Employee contributions	13,949	138,657
Other contributions	-	-
Net investment income	(32,582)	(28,143)
Benefits payments, including refunds of member contributions	(368,357)	(212,166)
Administration	(16,313)	(13,913)
Other	-	-
<b>Net change in plan fiduciary net position</b>	<b>(212,140)</b>	<b>(34,184)</b>
<b>Plan fiduciary net position - beginning</b>	<b>5,561,887</b>	<b>6,085,292</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 5,349,747</b>	<b>\$ 6,051,108</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 285,250</b>	<b>\$ 568,740</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>94.94%</b>	<b>91.41%</b>
<b>Covered-employee payroll</b>	<b>\$ 792,288</b>	<b>\$ 1,550,266</b>
<b>Net pension liability as a percentage of covered-employee payroll</b>	<b>36.0%</b>	<b>36.7%</b>

The City implemented GASB Statement No. 68 during its calendar year ended December 31, 2015. Information prior to fiscal year 2015 is not available.

## City of Lock Haven, Pennsylvania

Required Supplementary Information  
Schedule of Employer Contributions - Police Pension Fund  
Year Ended December 31, 2015  
(Unaudited)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarially determined contribution <sup>(1)</sup>	\$ 56,187	\$ 64,540	\$ 40,011	\$ 37,722	\$ 50,572	\$ 140,351	\$ 156,821	\$ 155,503	\$ 145,654	\$ 191,163
Contributions in relation to the actuarially determined contribution	56,187	64,540	41,280	37,722	84,106	147,379	156,821	155,503	152,210	191,163
Contribution deficiency (excess)	\$ -	\$ -	\$ (1,269)	\$ -	\$ (33,534)	\$ (7,028)	\$ -	\$ -	\$ (6,556)	\$ -
Covered-employee payroll <sup>(2)</sup>	\$ 596,368	\$ 616,735	\$ 620,136	\$ 587,311	\$ 678,000	\$ 653,400	\$ 728,150	\$ 686,000	\$ 660,022	\$ 792,288
Contributions as a percentage of covered-employee payroll	9.42%	10.46%	6.66%	6.42%	12.41%	22.56%	21.54%	22.67%	23.06%	24.13%

### Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	2.75%
Salary increases	4.00%
Investment rate of return	7.00%
Retirement age	Individual entry age
Mortality	IRS 2015 Static Combined Table for small plans

<sup>(1)</sup> - Equal to the Minimum Municipal Obligation (MMO) under Act 205 of 1984

<sup>(2)</sup> - Estimate of projected W-2 payroll for the preceding year as shown on the MMO worksheet.

# City of Lock Haven, Pennsylvania

Required Supplementary Information  
Schedule of Employer Contributions - City Employees Retirement Fund  
Year Ended December 31, 2015  
(Unaudited)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarially determined contribution <sup>(1)</sup>	\$ 37,529	\$ 42,987	\$ 10,313	\$ 7,926	\$ 12,320	\$ 87,184	\$ 90,931	\$ 86,957	\$ 91,331	\$ 138,657
Contributions in relation to the actuarially determined contribution	37,529	42,987	10,645	7,926	139,098	91,485	90,931	86,957	103,387	138,657
Contribution deficiency (excess)	\$ -	\$ -	\$ (332)	\$ -	\$ (126,778)	\$ (4,301)	\$ -	\$ -	\$ (12,056)	\$ -
Covered-employee payroll <sup>(2)</sup>	\$ 1,380,224	\$ 1,347,241	\$ 1,464,870	\$ 1,460,194	\$ 1,429,000	\$ 1,521,800	\$ 1,526,250	\$ 1,374,000	\$ 1,520,906	\$ 1,550,266
Contributions as a percentage of covered-employee payroll	2.72%	3.19%	0.73%	0.54%	9.73%	6.01%	5.96%	6.33%	6.80%	8.94%

## Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	2.75%
Salary increases	4.00%
Investment rate of return	7.00%
Retirement age	Individual entry age
Mortality	IRS 2015 Static Combined Table for small plans

<sup>(1)</sup> - Equal to the Minimum Municipal Obligation (MMO) under Act 205 of 1984

<sup>(2)</sup> - Estimate of projected W-2 payroll for the preceding year as shown on the MMO worksheet.



## City of Lock Haven, Pennsylvania

---

Required Supplementary Information

Schedule of Investment Returns - Pension Trust Funds

Year Ended December 31, 2015

(Unaudited)

	<u>2015</u>	<u>2014</u>
<b>Annual money-weighted rate of return (loss) , net of investment expense</b>		
Police Pension Fund	-0.46%	6.50%
City Employees Retirement Fund	-0.60%	6.50%

The City implemented GASB Statement No. 67 during its calendar year ended December 31, 2014. Information prior to fiscal year 2014 is not available.

## City of Lock Haven, Pennsylvania

Required Supplementary Information

Schedule of Other Post-Employment Benefit Plan Funding Progress

Year Ended December 31, 2015

(Unaudited)

### Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Total Unfunded Actuarial Liability (Asset)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Annual Covered Payroll</b>	<b>Ratio of Unfunded Liability to Annual Covered Payroll</b>
December 31, 2015	\$ 173,476	\$ 8,027,367	\$ 7,898,891	2.1%	\$ 792,288	997.0%
December 31, 2012	146,916	6,564,915	6,417,999	2.2%	730,000	879.2%

**City of Lock Haven, Pennsylvania**

Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identification Number	Federal CFDA Number	Program Amount	Total Received for the Year	Accrued (Deferred) Revenue January 1, 2015	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue December 31, 2015	Amounts Passed-through to Sub-Recipients
<b>U.S. Department of Housing and Urban Development,</b>									
Passed through Pennsylvania Department of Community and Economic Development:									
Community Development Block Grant State's Program (2011 Allotment)	C000052228	14.228	\$ 316,864	\$ 19,282	\$ -	\$ 19,282	\$ 19,282	\$ -	\$ -
Community Development Block Grant State's Program (2012 Allotment)	C000052831	14.228	300,000	24,588	-	24,588	24,588	-	-
Community Development Block Grant State's Program (2013 Allotment)	C000056983	14.228	300,000	24,400	12,247	14,256	14,256	2,103	-
Community Development Block Grant State's Program (2014 Allotment)	C000058713	14.228	288,311	12,376	-	12,806	12,806	430	-
Total CDBG - State Administered Small Cities Program				80,646	12,247	70,932	70,932	2,533	-
HOME Program - Home Investment Partnerships Program	C000051595	14.239	500,000	41,594	11,754	29,842	29,842	2	-
HOME Program - Home Investment Partnerships Program	C000058713	14.239	500,000	65,446	893	72,071	72,071	7,518	-
Total Home Program				107,040	12,647	101,913	101,913	7,520	-
Total U.S. Department of Housing and Urban Development				187,686	24,894	172,845	172,845	10,053	-
<b>U.S. Department of Transportation,</b>									
Passed through Pennsylvania Department of Transportation:									
Airport Improvement, Phase I Design	7880131131	20.106	82,440	59,506	7,974	53,156	53,156	1,624	-
Airport Improvement, Phase II Construction	7880131134	20.106	313,670	271,042	-	271,042	271,042	-	-
Airport Improvement, Phase I Design	7880131110	20.106	80,684	-	-	-	-	-	-
Airport Improvement, Phase II Construction	7880131121	20.106	913,500	2,119	1,152	-	-	(967)	-
Total Airport Improvement Program				332,667	9,126	324,198	324,198	657	-
Highway Planning and Construction	02D967	20.205	492,117	487,562	-	487,562	487,562	-	-
Total U.S. Department of Transportation				820,229	9,126	811,760	811,760	657	-
<b>U.S. General Services Administration,</b>									
Passed through Pennsylvania Department of General Services, Federal Surplus Program	(N/A)	39.003	(N/A)	27,557	-	27,557	27,557	-	-
<b>Total Federal Financial Assistance</b>				<b>\$ 1,035,472</b>	<b>\$ 34,020</b>	<b>\$ 1,012,162</b>	<b>\$ 1,012,162</b>	<b>\$ 10,710</b>	<b>\$ -</b>

See notes to schedule of expenditures of federal awards

# City of Lock Haven, Pennsylvania

---

Notes to Schedule of Expenditures of Federal Awards  
December 31, 2015

## 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Lock Haven, Pennsylvania (the "City") under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

## 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

## 3. Indirect Cost Rate

The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance, even though it does not have a federally negotiated indirect cost rate.

**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
with *Government Auditing Standards***

Honorable Members of City Council  
City of Lock Haven, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 30, 2016. Our report also included an emphasis-of-matter paragraph, as more fully described in Notes 1, 11 and 17, to address the City's adoption of the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* in 2015. Our report was not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-002 through 2015-005 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied on the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Viechow Krause, LLP*

Williamsport, Pennsylvania  
September 30, 2016

## **Independent Auditors' Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

Honorable Members of City Council  
City of Lock Haven, Pennsylvania

### **Report on Compliance for the Major Federal Program**

We have audited the City of Lock Haven, Pennsylvania's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2015. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

## Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly Viechow Krause, LLP*

Williamsport, Pennsylvania  
September 30, 2016



# City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

## Section I - Summary of Auditors' Results

### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   yes        no
- Significant deficiency(ies) identified?   X   yes        none reported

Noncompliance material to financial statements noted?        yes   X   no

### Federal Awards

Internal control over the major federal program:

- Material weakness(es) identified?        yes   X   no
- Significant deficiency(ies) identified?        yes   X   none reported

Type of auditors' report issued on compliance for the major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?        yes   X   no

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?        yes   X   no

## City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

---

### Section II - Financial Statement Findings

#### Finding No.

#### Finding/Noncompliance

2015-001

#### **Internal Control over Financial Reporting - City Cash Sweep Account - Material Weakness**

**Criteria:** Internal control is a process which captures and records transactions, safeguards your assets and assures compliance with laws and regulations. A critical component of this internal control process includes periodic (monthly) reconciliations of accounts to supporting documentation to prevent, or detect and correct errors or fraud.

**Condition/Context:** The City's cash sweep account balances within its general ledger system were not adequately reconciled to monthly issued bank statements during 2015. Further, the reconciliations were not performed on a timely, monthly basis, with most of the reconciliations being performed in the spring of 2016.

**Effect:** General Fund cash account balances within the general ledger system, during 2015, did not reflect accurate reconciled balances.

**Cause:** Lack of understanding of the pooled cash account reconciliation process within the MUNIS accounting system; moreover, this process has not been prioritized by those involved.

**Recommendation:** City management should establish effective monthly procedures whereby the general ledger cash sweep account is reconciled to the bank statement in a timely manner.

**Views of  
Responsible  
Officials and  
Planned Corrective**

**Actions:** See corrective action plan.

## City of Lock Haven, Pennsylvania

---

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

### Finding No.

### Finding/Noncompliance

**2015-002**                      **Internal Control Over Financial Reporting -  
Segregation Of Duties Over Cash Receipts - Significant Deficiency**

**Criteria:** Adequate segregation of duties between accounting functions is essential to good internal control.

**Condition/Context:** The responsibility for the performance of accounting duties related to the cash receipts cycle is vested in a limited number of employees. In certain instances one individual has the ability to collect payments, post the payments to the general ledger, reconcile the payments to system generated reports, count and reconcile the cash drawer, and make the deposit at the bank.

**Effect:** Without proper segregation of accounting functions, errors or fraud could occur and go undetected.

**Cause:** The City employs a limited number of accounting personnel.

**Recommendation:** While it is advisable to have adequate segregation of duties among employees, the cost of such implementation must be weighed against the benefits to be derived. The cost which would result from increasing the number of employees to more fully segregate duties in your organization may exceed any internal control benefits to be derived. We feel that this internal control weakness is somewhat mitigated by the active involvement of the City Manager, Assistant City Manager, and City Council in the City's operational activities. You must, however, be aware of the possible impact of the internal control weaknesses which exist and continue to involve these individuals in financial accounting matters.

**Views of  
Responsible  
Officials and  
Planned Corrective**

**Actions:** See corrective action plan.

# City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

---

## Finding No.

## Finding/Noncompliance

**2015-003**

### **Internal Control over Financial Reporting - Non-attest Services - Significant Deficiency**

**Criteria:** In connection with our audit of your financial statements, you have also engaged us to perform certain non-attest services, subject to City review and approval, which included technical assistance with adjusting:

- Various receivable/payable accounts;
- Proprietary Fund capital assets and related financing activity; and,
- Conversion of financial statements from fund basis to government wide basis and from cash to accrual basis

All such assistance was provided by an individual not otherwise involved with the audit process and was subject to City management supervision and approval.

**Condition/Context:** Internal control is a process which captures and records transactions, safeguards your assets and assures compliance with laws and regulations. As part of the audit, there were certain adjustments required, which might not have been fully made had the audit not been performed.

**Effect:** The fact that you have requested our technical assistance with the above-mentioned tasks, which are a normal and required component of internal control over financial reporting, constitutes a significant deficiency in internal control over financial reporting.

**Cause:** You have asked us to provide these accounting services because, like many smaller local governments, you have determined that your internal accounting personnel may not have sufficient capacity to handle these areas, and you have determined it is cost beneficial for you to utilize a member of our team not involved with the audit process to supplement your internal resources.

**Recommendation:** We recommend that management give consideration to performing the above tasks internally.

### **Views of Responsible Officials and Planned Corrective**

**Actions:** See corrective action plan.

# City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

---

## Finding No.

## Finding/Noncompliance

**2015-004**

### **Internal Control Over Financial Reporting - Treasurer's Office Cash Receipts - Significant Deficiency**

**Criteria:** Internal control is a process which captures and records transactions, safeguards your assets and assures compliance with laws and regulations.

**Condition/Context:** The City collects fees, taxes and other payments within its Treasurer's office and maintains each form of payment in a separate, non-secured, cash drawer near the front of its office. In addition, the City's Treasurer's office has limited staff personnel, thereby creating opportunity for the drawer to be accessed by unauthorized individuals.

**Effect:** The City cannot be assured that the cash within the individual drawers are secure from theft.

**Cause:** Lack of oversight.

**Recommendation:** We recommend that the City equip the cash drawers within the Treasurer's office with a locking mechanism and establish a policy authorizing access to the drawers.

### **Views of Responsible Officials and Planned Corrective**

**Actions:** See corrective action plan.

## City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

---

### Finding No.

### Finding/Noncompliance

2015-005

#### **Internal Control over Financial Reporting - Settlement of Due to/from Accounts - Significant Deficiency**

**Criteria:** Internal control is a process which captures and records transactions, safeguards assets and assures compliance with laws and regulations. A critical component of this internal control process includes periodic reconciliations of accounts to supporting documentation to prevent, or detect and correct errors or fraud.

**Condition/Context:** The City reports various amounts of interfund receivables (due from) and payables (due to) within its governmental fund financial statements. Such balances have accumulated over time and not been liquidated (settled).

**Effect:** As time goes by, the composition and original purpose of the interfund borrowing becomes more difficult to identify.

**Cause:** The City employs a limited number of accounting personnel who have not prioritized a periodic settling up of these balances.

**Recommendation:** We recommend that management evaluate these outstanding balances for collectability and liquidate (settle) the outstanding balances.

**Views of  
Responsible  
Officials and  
Planned Corrective**

**Actions:** See corrective action plan.

### **Section III - Federal Award Findings and Questioned Costs**

None.

# City of Lock Haven, Pennsylvania

---

Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2015

## Section IV - Summary Schedule of Prior Year Audit Findings

### Finding No.

### Finding/Noncompliance

2014-001

#### **Internal Control over Financial Reporting - City Cash Sweep Account - Material Weakness**

**Condition/Context:** The City's cash sweep account balances within its general ledger system were not adequately reconciled to monthly issued bank statements during 2014. An unreconciled balance of approximately \$5,500 carried throughout the year in the City's Sweep Account. Further, the reconciliations were not performed on a timely, monthly, basis, with most of the reconciliations being performed in the fall of 2014 and spring of 2015.

**Recommendation:** City management should establish effective monthly procedures whereby the general ledger cash sweep account is reconciled to the bank statement in a timely manner.

**Resolution:** See current year finding 2015-001.

2014-002

#### **Internal Control Over Financial Reporting - Segregation Of Duties Over Cash Receipts - Significant Deficiency**

**Condition/Context:** The responsibility for the performance of accounting duties related to the cash receipts cycle is vested in a limited number of employees. In certain instances one individual has the ability to collect payments, post the payments to the general ledger, reconcile the payments to system generated reports, count and reconcile the cash drawer, and make the deposit at the bank.

**Recommendation:** While it is advisable to have adequate segregation of duties among employees, the cost of such implementation must be weighed against the benefits to be derived. The cost which would result from increasing the number of employees to more fully segregate duties in your organization may exceed any internal control benefits to be derived. We feel that this internal control weakness is somewhat mitigated by the active involvement of the City Manager, Assistant City Manager, and City Council in the City's operational activities. You must, however, be aware of the possible impact of the internal control weaknesses which exist and continue to involve these individuals in financial accounting matters.

**Resolution:** See current year finding 2015-002.

## City of Lock Haven, Pennsylvania

---

### Schedule of Findings and Questioned Costs Year Ended December 31, 2015

#### **Finding No.**

#### **Finding/Noncompliance**

**2014-003**

#### **Internal Control over Financial Reporting - Non-attest Services - Significant Deficiency**

**Condition/Context:** Internal control is a process which captures and records transactions, safeguards your assets and assures compliance with laws and regulations. As part of the audit, there were certain adjustments required, which might not have been undertaken had the audit not been performed.

**Recommendation:** We recommend that management give consideration to performing the above tasks internally.

**Resolution:** See current year finding 2015-003.

**2014-004**

#### **Internal Control Over Financial Reporting - Treasurer's Office Cash Receipts - Significant Deficiency**

**Condition/Context:** The City collects fees, taxes and other payments within its Treasurer's office and maintains each form of payment in a separate, non-secured, cash drawer near the front of its office. In addition, the City's Treasurer's office has limited staff personnel, thereby creating opportunity for the drawer to be accessed by unauthorized individuals.

**Recommendation:** We recommend that the City equip the cash drawers within the Treasurer's office with a locking mechanism and establish a policy authorizing access to the drawers.

**Resolution:** See current year finding 2015-004.

**2014-005**

#### **Internal Control over Financial Reporting - Settlement of Due to/from Accounts - Significant Deficiency**

**Condition/Context:** The City reports various amounts of interfund receivables (due from) and payables (due to) within its governmental fund financial statements. Such balances have accumulated over time and not been liquidated (settled).

**Recommendation:** We recommend that management evaluate these outstanding balances for collectability and liquidate (settle) the outstanding balances.

**Resolution:** See current year finding 2015-005