

# **City of Lock Haven, Pennsylvania**

Financial Statements and  
Supplementary Information

December 31, 2014



**BAKER TILLY**

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# City of Lock Haven, Pennsylvania

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December 31, 2014

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# City of Lock Haven, Pennsylvania

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## 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, 2014, 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 did not audit the financial statements of the Lock Haven Area Flood Protection Authority (the "Flood Protection Authority"), which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Flood Protection Authority, is based solely on the report of the other auditors. 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, based on our audit and the report of other auditors, 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, 2014, 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 disclosed in Notes 1 and 12 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25* in 2014 to conform to accounting principles generally accepted in the United States of America. The City expanded its note disclosures and required supplementary information related to its pension plans. 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 61, Schedule of Employer Contributions – Police Pension Fund on page 62, Schedule of Employer Contributions – City Employees Retirement Fund on page 63, Schedule of Investment Returns – Pension Trust Funds on page 64, and Schedule of Other Post-Employment Benefit Plan Funding Progress on page 65 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 29, 2015, 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 29, 2015

# City of Lock Haven, Pennsylvania

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Management's Discussion and Analysis

December 31, 2014

(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, 2014. 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 of the City exceeded its liabilities at the close of the most recent fiscal year by \$23,512,247 (net position).

The City's total net position increased by \$433,150.

At December 31, 2014, the City's governmental funds reported combined ending fund balances of \$1,343,630, a minimal increase of \$135,333 compared to the prior year. Under GASB Statement 54, a segregation of fund balances is required. The City's fund balances are segregated as follows:

Non-spendable: \$128,699 prepaid items

Spendable

Restricted: \$1,210,059 for capital projects, street programs, recreation and economic development and various other grant programs

Unassigned: \$4,872 available for any purpose

At December 31, 2014, the fund balance of the General Fund was \$537,939 or 12.5% of the total General Fund revenues and 12.0% of the General Fund expenditures.

During the year, the City initiated new debt in the amount of \$12,831,125 and retired bonds and notes in the amount of \$10,886,220, for a net increase of \$1,944,905.

### 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.

## City of Lock Haven, Pennsylvania

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Management's Discussion and Analysis

December 31, 2014

(Unaudited)

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.

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.

# **City of Lock Haven, Pennsylvania**

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Management's Discussion and Analysis

December 31, 2014

(Unaudited)

## **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.

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.

# City of Lock Haven, Pennsylvania

## Management's Discussion and Analysis

December 31, 2014

(Unaudited)

### 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.

### Government-Wide Financial Statements

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Current and other assets	\$ 2,355	\$ 2,644	\$ 5,489	\$ 6,511	\$ 7,844	\$ 9,155
Capital assets, net	10,329	10,410	39,654	36,039	49,983	46,449
Total assets	12,684	13,054	45,143	42,550	57,827	55,604
Other liabilities	510	580	2,585	3,269	3,095	3,849
Long-term debt outstanding	5,438	4,681	25,782	23,995	31,220	28,676
Total liabilities	5,948	5,261	28,367	27,264	34,315	32,525
Net investment in capital assets	7,681	8,254	13,919	12,787	21,600	21,041
Restricted	1,113	671	-	-	1,113	671
Unrestricted	(2,058)	(1,132)	2,857	2,499	799	1,367
Total	\$ 6,736	\$ 7,793	\$ 16,776	\$ 15,286	\$ 23,512	\$ 23,079

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 \$23,512,247 at the close of the most recent fiscal year.

A significant portion of the City's net position (92%) 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 \$1,112,859 are subject to external restrictions for highway, street and other capital projects. The balance of unrestricted net position (deficit) (\$2,058,319) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position from governmental activities decreased by \$1,058,170 or 13.6% from \$7,793,610 to \$6,735,440 primarily due to expenses exceeding available revenue sources in the current year. The City's net position from business-type activities increased \$1,491,319 or 9.8% from \$15,285,488 to \$16,776,807.

# City of Lock Haven, Pennsylvania

## Management's Discussion and Analysis

December 31, 2014

(Unaudited)

### Change in Net Position

The following statement of activities represents changes in net position for the years ended December 31, 2014 and 2013. 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, 2014 and 2013 (In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program:						
Charges for services	\$ 579	\$ 534	\$ 4,153	\$ 4,151	\$ 4,732	\$ 4,685
Operating grants and contributions	1,032	1,384	-	-	1,032	1,384
Capital grants and contributions	30	226	2,847	3,757	2,877	3,983
General:						
Taxes	3,086	2,996	-	-	3,086	2,996
Grants and charges - unrestricted	502	742	-	-	502	742
Unrestricted investment income	2	2	12	13	14	15
Gain/(loss) on disposal of assets	-	-	(689)	10	(689)	10
Miscellaneous	176	162	56	63	232	225
Total revenues	5,407	6,046	6,379	7,994	11,786	14,040
Expenses:						
General government	746	657	-	-	746	657
Public safety	1,915	1,809	-	-	1,915	1,809
Public works - highways and streets	987	1,111	-	-	987	1,111
Health, welfare and sanitation	26	29	-	-	26	29
Culture and recreation	175	166	-	-	175	166
Building and property	234	228	-	-	234	228
Interest and fees on long-term debt	56	90	-	-	56	90
Employee benefits and insurance	1,672	976	-	-	1,672	976
Other	6	183	-	-	6	183
Unallocated depreciation	649	607	-	-	649	607
Public utility service - water	-	-	1,677	1,364	1,677	1,364
Public utility service - sanitary sewer	-	-	2,723	1,899	2,723	1,899
William T. Piper Memorial Airport	-	-	489	521	489	521
Total expenses	6,466	5,856	4,889	3,784	11,355	9,640

# City of Lock Haven, Pennsylvania

## Management's Discussion and Analysis

December 31, 2014

(Unaudited)

### Condensed Statement of Activities December 31, 2014 and 2013 (In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Increase (decrease) in net position before transfers	\$ (1,058)	\$ 190	\$ 1,491	\$ 4,210	\$ 433	\$ 4,400
Transfers	-	(41)	-	41	-	-
Change in net position	(1,058)	149	1,491	4,251	433	4,400
Net Position, January 1	7,794	7,644	15,286	11,035	23,079	18,679
Net Position, December 31	<u>\$ 6,736</u>	<u>\$ 7,793</u>	<u>\$ 16,777</u>	<u>\$ 15,286</u>	<u>\$ 23,512</u>	<u>\$ 23,079</u>

The City's governmental activities in 2014 relied heavily upon property tax revenue (37.2%) grants and contributions (19.6%), charges for services (10.7%) and earned income tax (9.1%) to fund operations. Real estate tax revenue received was 7.1% higher than the previous year due primarily to a millage increase for general government. The tax rate for earned income remained the same as 2013 (.5%), the maximum that can be charged as a third class city that is not home-rule. Earned income tax received was 2% higher than the previous year primarily attributed to an increase in employment within the City. A 8.4% increase in charges for services was primarily attributed to an increase in building permit revenue received, as well as a worker's compensation refund. Interest rates remained stable in 2014 resulting in a slight increase in investment income.

The cost of governmental activities totaled \$6,465,959 for the year ended December 31, 2014, a 10.4% increase from the previous year primarily attributed to an increase in wages and benefits and operational costs.

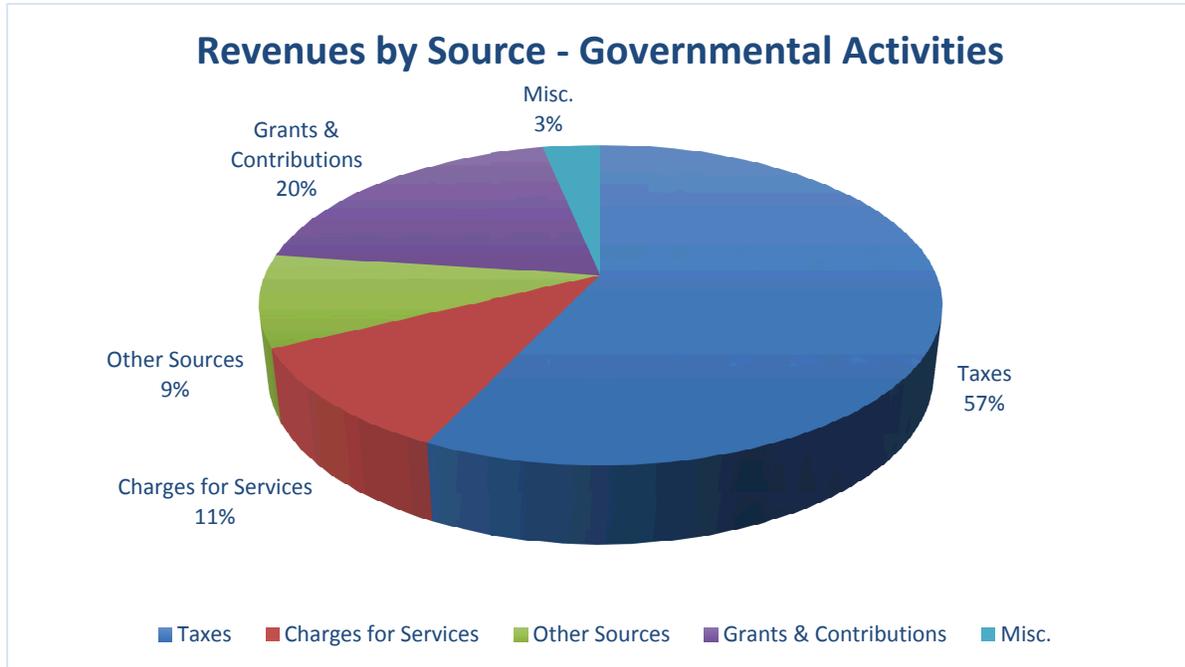
# City of Lock Haven, Pennsylvania

Management's Discussion and Analysis

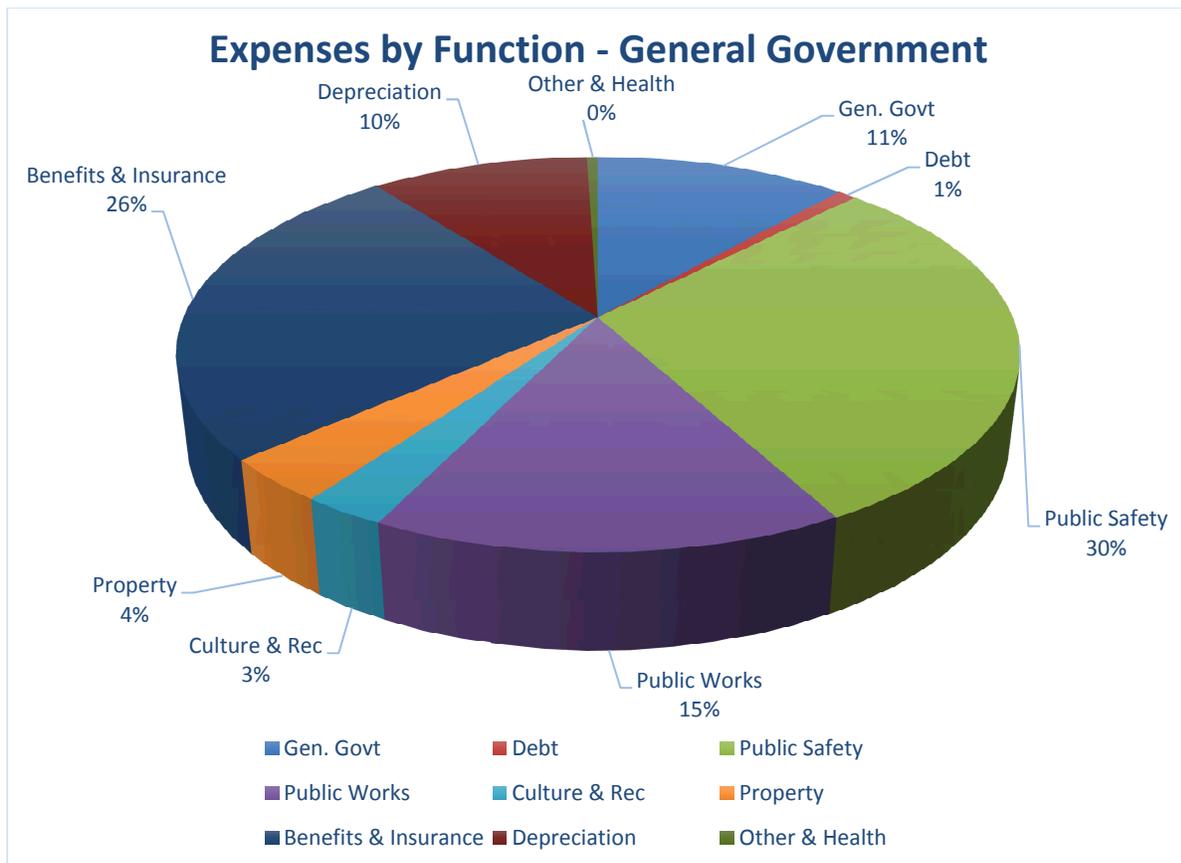
December 31, 2014

(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**

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Management's Discussion and Analysis

December 31, 2014

(Unaudited)

### **Capital Assets**

The City's investment in capital assets for governmental and business-type activities as of December 31, 2014, amounts to \$49,982,850 (net of accumulated depreciation). This investment in capital assets includes land and buildings, machinery and equipment, vehicles, the sewer and water systems, infrastructure and construction in progress.

Major capital asset events during the 2014 fiscal year included purchases of the following major equipment:

- 2014 Ford Taurus Interceptor Sedan (Police)
- 2014 Ford Explorer Interceptor Utility (Police)
- 2013 Ford F550 (Streets/Parks)

Further, during 2014, the City's new Sanitary Sewer System, which has been under construction for the past couple of years, reached substantial completion and became operational during October 2014. The new plant had a completed value of approximately \$31,800,000. The original treatment plant was also taken out of service in October 2014, coinciding with the commencement of operations in the new plant, which resulted in a loss on removal of assets from service of approximately \$705,000.

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, 2014, the City had general obligation bonds and notes that totaled \$28,044,126; compensated absences totaled \$199,636; and other postemployment benefits totaled \$2,976,245. The City's long term liabilities increased approximately \$2,500,000 during 2014.

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 10.00%. 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 \$77,000 (36%). Additionally, there was a positive variance in earned income tax of approximately \$49,000 (10%) over budget due to reduced unemployment through increased employment. The City also received county aid at \$35,000 (81%) over budget due to reimbursement from the county for Cree Drive resurfacing. The City also had a positive variance from a workers compensation refund of \$23,012 (97%) over budget due to a favorable audit of payroll.

Total General Fund expenditures exceed the budget by 4.71%.

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

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Management's Discussion and Analysis

December 31, 2014

(Unaudited)

Significant expenditure variances included:

- Capital projects for streets and storm sewers exceeded the budget by 97.5%, due to luminaire purchases and upgrade (\$219,248), LED lighting for Main Street (\$16,183), and resurfacing of Cree Drive (\$98,626).
- Capital projects for general fund buildings were \$160,000 under budget, partially offsetting overages in streets capital projects.
- The City budgeted \$645,537 for wages for police sergeants, corporals and patrolmen but expended 12% less due to vacancies that were filled in November 2014.
- The City budgeted \$70,000 for wages for streets' fulltime and part-time personnel, and exceeded that amount by 30% due to an increase in capital projects.

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

The unemployment rate for the City of Lock Haven is 5.6% as of December 2014, down from 7.9% in December 2013. This is lower than the unemployment rate in Clinton County of 6.3% as of December 2014, which is also down from 8.3% in December 2013. The Williamsport-Lock Haven Combined Statistical Area has an unemployment rate of 5.3% as of December 2014, down from 7.3% in December 2013.

According to the most recent American Community Survey of the US Census, the current estimated population of the City is 9,861, a 1% increase from last year's estimate of 9,750. City residents under the age of 18 represent 14.2% of the population while those 65 years old and over represent 9.6%. The median age of the City is 22.3 years-old compared to the county's median age of 38.2 and the state median age of 40.3. The City has gained population since the 2000 census.

Investment rates increased to a .05% yield on the City's liquid investments with First National Bank of Pennsylvania compared to .03% at December 2013.

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 2015 fiscal year. The City will balance the operational budget, fund capital items and build a fund balance with the real estate tax increase in 2015.

### **Highlights of the 2015 fiscal budget include:**

Additional real estate tax revenue of \$296-thousand is projected as a result of adopting a 16% tax increase in 2015.

Employee health benefit costs increased 12% for 2015.

The AFSME union contract extension that expires December 31, 2015 includes a \$0.30 per hour raise for all AFSME employees in 2015.

A total of \$65,236 was appropriated for street resurfacing for the 2015 summer season. A portion of the resurfacing will be funded by state appropriated Liquid Fuels funds.

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

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Management's Discussion and Analysis

December 31, 2014

(Unaudited)

Sewer user charges provide sufficient revenue to fund expenditures and will remain at the same rate as 2014. In 2015 the City will complete its new wastewater treatment plant with a total cost of more than \$34-million paid for through state PENNVEST grant and loan proceeds. Water user charges also provide sufficient revenue to fund expenditures in 2015 and will remain at the same rate as 2014 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, 2014

	Primary Government			Component Unit - Flood Protection Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 483,429	\$ 2,752,426	\$ 3,235,855	\$ 6,098
Restricted cash	336,331	2,451,073	2,787,404	-
Receivables (net of allowance for uncollectibles):				
Taxes	347,541	-	347,541	-
Loans	387,400	-	387,400	-
Other	-	597,258	597,258	-
Internal balances	332,231	(332,231)	-	-
Due from other governments	106,352	15,316	121,668	-
Prepaid expenses and other assets	128,699	5,197	133,896	-
Net pension asset	232,558	-	232,558	-
Capital assets:				
Public utility systems (including equipment)	-	45,624,643	45,624,643	84,590,355
Land and improvements	5,461,892	3,012,409	8,474,301	-
Infrastructure and infrastructure in progress	4,186,470	-	4,186,470	-
Buildings	3,933,041	-	3,933,041	-
Equipment and furniture	4,318,060	899,269	5,217,329	-
Construction in progress	174,500	27,101	201,601	-
Less: accumulated depreciation	(7,744,607)	(9,909,928)	(17,654,535)	(13,534,450)
Total capital assets	<u>10,329,356</u>	<u>39,653,494</u>	<u>49,982,850</u>	<u>71,055,905</u>
Total assets	<u>12,683,897</u>	<u>45,142,533</u>	<u>57,826,430</u>	<u>71,062,003</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	119,733	122,708	242,441	575
Construction contracts, including retainage payable	-	2,453,541	2,453,541	-
Due to other governments	-	872	872	-
Unearned revenue	389,995	7,327	397,322	-
Long-term liabilities:				
Due within one year,				
Bonds and notes payable	206,155	998,847	1,205,002	-
Due in more than one year:				
Bonds and notes payable	2,105,970	24,733,154	26,839,124	-
Compensated absences	150,359	49,277	199,636	-
Other postemployment benefit obligation	2,976,245	-	2,976,245	-
Total liabilities	<u>5,948,457</u>	<u>28,365,726</u>	<u>34,314,183</u>	<u>575</u>
<b>Net Position (Deficit)</b>				
Net investment in capital assets	7,680,900	13,919,025	21,599,925	71,055,905
Restricted for:				
Capital projects	1,108,906	-	1,108,906	-
Program purposes	3,953	-	3,953	-
Unrestricted	(2,058,319)	2,857,782	799,463	5,523
Total net position	<u>\$ 6,735,440</u>	<u>\$ 16,776,807</u>	<u>\$ 23,512,247</u>	<u>\$ 71,061,428</u>

See notes to financial statements

**City of Lock Haven, Pennsylvania**

Statement of Activities

Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue And Changes In Net Position			Component Unit Flood Protection Authority
		Charges for Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
<b>Primary Government</b>								
Governmental activities:								
General government	\$ 745,669	\$ 409,680	\$ 244,993	\$ 25,000	\$ (65,996)		\$ (65,996)	
Public safety	1,914,572	118,002	-	-	(1,796,570)		(1,796,570)	
Public works	986,776	51,757	521,259	5,017	(408,743)		(408,743)	
Health, welfare and sanitation	25,519	-	10,065	-	(15,454)		(15,454)	
Culture and recreation	174,626	-	-	-	(174,626)		(174,626)	
Buildings and property	234,327	-	-	-	(234,327)		(234,327)	
Interest and fees on long-term debt	55,812	-	-	-	(55,812)		(55,812)	
Employee benefits and insurance	1,672,402	-	255,597	-	(1,416,805)		(1,416,805)	
Other	6,905	-	-	-	(6,905)		(6,905)	
Unallocated depreciation	649,351	-	-	-	(649,351)		(649,351)	
Total governmental activities	<u>6,465,959</u>	<u>579,439</u>	<u>1,031,914</u>	<u>30,017</u>	<u>(4,824,589)</u>		<u>(4,824,589)</u>	
Business-type activities:								
Public utility services - Water	1,677,045	1,527,973	-	206,952		\$ 57,880	57,880	
Public utility services - Sanitary sewer	2,723,063	2,327,147	-	2,614,375		2,218,459	2,218,459	
William T. Piper Memorial Airport	488,836	298,295	-	26,152		(164,389)	(164,389)	
Total business-type activities	<u>4,888,944</u>	<u>4,153,415</u>	<u>-</u>	<u>2,847,479</u>		<u>2,111,950</u>	<u>2,111,950</u>	
Total primary government	<u>\$ 11,354,903</u>	<u>\$ 4,732,854</u>	<u>\$ 1,031,914</u>	<u>\$ 2,877,496</u>	<u>(4,824,589)</u>	<u>2,111,950</u>	<u>(2,712,639)</u>	
<b>Component Unit,</b>								
Lock Haven Area Flood Protection Authority	<u>\$ 854,593</u>	<u>\$ 10,126</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (844,467)</u>
<b>General Revenues:</b>								
					3,086,644	-	3,086,644	-
					501,691	-	501,691	-
					2,128	12,476	14,604	-
					175,956	55,933	231,889	-
					-	(689,040)	(689,040)	-
					<u>3,766,419</u>	<u>(620,631)</u>	<u>3,145,788</u>	<u>-</u>
					(1,058,170)	1,491,319	433,149	(844,467)
					<u>7,793,610</u>	<u>15,285,488</u>	<u>23,079,098</u>	<u>71,905,895</u>
					<u>\$ 6,735,440</u>	<u>\$ 16,776,807</u>	<u>\$ 23,512,247</u>	<u>\$ 71,061,428</u>

See notes to financial statements

## City of Lock Haven, Pennsylvania

Balance Sheet  
 Governmental Funds  
 December 31, 2014

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 17,209	\$ 466,220	\$ 483,429
Restricted cash	336,331	-	336,331
Receivables:			
Taxes	347,541	-	347,541
Loans	-	387,400	387,400
Other governments	88,501	8,362	96,863
Due from other funds	110,425	357,630	468,055
Prepaid expenses	128,699	-	128,699
	<u>128,699</u>	<u>-</u>	<u>128,699</u>
Total assets	<u>\$ 1,028,706</u>	<u>\$ 1,219,612</u>	<u>\$ 2,248,318</u>
<b>Liabilities, Deferred Inflow of Resources and Fund Balances</b>			
Liabilities:			
Vouchers (accounts) payable	\$ 37,820	\$ 16,233	\$ 54,053
Accrued liabilities	47,809	9,932	57,741
Due to other funds	116,736	356	117,092
Unearned revenue	2,595	387,400	389,995
	<u>2,595</u>	<u>387,400</u>	<u>389,995</u>
Total liabilities	<u>204,960</u>	<u>413,921</u>	<u>618,881</u>
Deferred Inflow of Resources, Deferred tax revenue	<u>285,807</u>	<u>-</u>	<u>285,807</u>
Fund balances:			
Nonspendable	128,699	-	128,699
Restricted	336,331	873,728	1,210,059
Unassigned	72,909	(68,037)	4,872
	<u>72,909</u>	<u>(68,037)</u>	<u>4,872</u>
Total fund balances	<u>537,939</u>	<u>805,691</u>	<u>1,343,630</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,028,706</u>	<u>\$ 1,219,612</u>	<u>\$ 2,248,318</u>

See notes to financial statements

## City of Lock Haven, Pennsylvania

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Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
December 31, 2014

**Total Fund Balance, Governmental Funds** \$ 1,343,630

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. 10,329,356

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. 285,807

Net pension asset resulting from overfunding annual  
required contributions 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. 232,558

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. (17,182)

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, 2014 are:

Bonds and notes payable	(2,312,125)
Other postemployment benefit obligation	(2,976,245)
Compensated absences	(150,359)

**Net Position of Governmental Activities**  
**in the Statement of Net Position** \$ 6,735,440

*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, 2014

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>			
Taxes	\$ 3,122,291	\$ -	\$ 3,122,291
Licenses and permits	123,902	-	123,902
Fines and forfeits	118,002	-	118,002
Interest, rents and royalties	6,753	1,173	7,926
Intergovernmental	741,559	757,929	1,499,488
Charges for service	166,620	51,757	218,377
Collections on loans	-	105,389	105,389
Miscellaneous	9,927	49,009	58,936
	<u>4,289,054</u>	<u>965,257</u>	<u>5,254,311</u>
<b>Expenditures</b>			
Current:			
General government	439,295	169,199	608,494
Employee benefits and insurance	1,328,426	16,494	1,344,920
Community and economic development	-	33,242	33,242
Public works - highways and streets	852,787	659,749	1,512,536
Health and sanitation	25,700	-	25,700
Public safety	1,447,837	-	1,447,837
Culture and recreation	140,590	49,838	190,428
Other	6,902	28,719	35,621
Capital outlay	-	30,974	30,974
Debt service	254,250	-	254,250
	<u>4,495,787</u>	<u>988,215</u>	<u>5,484,002</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(206,733)</u>	<u>(22,958)</u>	<u>(229,691)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from the sale of capital assets	11,418	-	11,418
Proceeds from long-term debt, net	336,943	16,855	353,798
Transfers in	7,969	8,963	16,932
Transfers out	(8,963)	(8,161)	(17,124)
	<u>347,367</u>	<u>17,657</u>	<u>365,024</u>
Total other financing sources (uses), net	<u>347,367</u>	<u>17,657</u>	<u>365,024</u>
<b>Change in Fund Balances</b>	140,634	(5,301)	135,333
<b>Fund Balance, Beginning</b>	<u>397,305</u>	<u>810,992</u>	<u>1,208,297</u>
<b>Fund Balance, Ending</b>	<u>\$ 537,939</u>	<u>\$ 805,691</u>	<u>\$ 1,343,630</u>

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, 2014

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 135,333</b>
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 depreciation expense, \$649,351 exceeded capital outlays, \$568,372, in the current period.	(80,979)
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, 2014.	(35,646)
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 2014, the following transactions factor into this reconciliation:	
Issuance of long-term debt	(353,798)
Retirement of principal of long-term debt	<u>198,438</u>
	(155,360)
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 assets, 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, 2014.	(27,231)
The net pension asset related to the City's pension plans is considered long-term in nature, and is not reported as an asset within the funds. This asset is, however, reported within the statement of net position, and changes in this asset are reflected within the statement of activities.	(327,337)
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).	(575,512)
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.	<u>8,562</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (1,058,170)</u></b>

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, 2014

	Budgeted Amounts		Actual Amounts GAAP Basis	Adjustments Budgetary Basis	Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final				
<b>Revenues</b>						
Taxes	\$ 2,940,677	\$ 2,940,677	\$ 3,122,291	\$ 13,088	\$ 3,135,379	\$ 194,702
Licenses And Permits	94,100	94,100	123,902	-	123,902	29,802
Fines And Forfeits	164,500	164,500	118,002	-	118,002	(46,498)
Interest, Rents And Royalties	8,730	8,730	6,753	-	6,753	(1,977)
Intergovernmental	503,485	503,485	741,559	-	741,559	238,074
Charges For Services	139,148	139,148	166,620	-	166,620	27,472
Miscellaneous	64,145	60,275	9,927	-	9,927	(50,348)
Total revenues	<u>3,914,785</u>	<u>3,910,915</u>	<u>4,289,054</u>	<u>13,088</u>	<u>4,302,142</u>	<u>391,227</u>
<b>Expenditures:</b>						
Current:						
General Government	589,415	602,055	439,295	(635)	438,660	163,395
Employee Benefits And Insurance	1,341,253	1,341,253	1,328,426	(73,275)	1,255,151	86,102
Public Safety	1,347,215	1,347,215	1,447,837	-	1,447,837	(100,622)
Public Works - Highways And Streets	629,455	629,846	852,787	73,831	926,618	(296,772)
Health And Sanitation	26,785	26,785	25,700	-	25,700	1,085
Culture And Recreation	180,073	180,172	140,590	-	140,590	39,582
Other	36,871	36,871	6,902	-	6,902	29,969
Debt Service	218,027	218,027	254,250	-	254,250	(36,223)
Capital Outlay	2,500	2,500	-	-	-	2,500
Total expenditures	<u>4,371,594</u>	<u>4,384,724</u>	<u>4,495,787</u>	<u>(79)</u>	<u>4,495,708</u>	<u>(110,984)</u>
<b>(Deficiency) Excess of Revenues Over Expenditures</b>						
	<u>(456,809)</u>	<u>(473,809)</u>	<u>(206,733)</u>	<u>13,167</u>	<u>(193,566)</u>	<u>280,243</u>
<b>Other Financing Sources (Uses):</b>						
Proceeds From the Sale of Capital Assets	2,123	2,123	11,418	-	11,418	9,295
Proceeds From Long-term Debt, Net	402,500	402,500	336,943	-	336,943	(65,557)
Transfers In	-	-	7,969	(7,969)	-	-
Transfers Out	(2,500)	(2,500)	(8,963)	-	(8,963)	(6,463)
Appropriated Fund Balance	71,686	71,686	-	-	-	(71,686)
Total other financing (uses) sources, net	<u>473,809</u>	<u>473,809</u>	<u>347,367</u>	<u>(7,969)</u>	<u>339,398</u>	<u>(134,411)</u>
<b>Excess of Revenues Over Expenditures After Other Financing Sources (Uses)</b>						
	<u>\$ 17,000</u>	<u>\$ -</u>	<u>\$ 140,634</u>	<u>\$ 5,198</u>	<u>\$ 145,832</u>	<u>\$ 145,832</u>

See notes to financial statements

**City of Lock Haven, Pennsylvania**

 Statement of Net Position  
 Proprietary Funds  
 December 31, 2014

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Airport Operating	Total	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 534,596	\$ 2,217,830	\$ -	\$ 2,752,426	\$ -
Other accounts receivable, (net of allowance)	294,920	264,327	38,011	597,258	9,489
Due from other funds	4,072	94,529	40,167	138,768	-
Due from other governments	5,000	5,105	5,211	15,316	-
Restricted cash	-	2,451,073	-	2,451,073	-
Other current assets	5,197	-	-	5,197	-
Total current assets	843,785	5,032,864	83,389	5,960,038	9,489
Capital assets:					
Public utility systems (including related equipment)	7,538,410	38,086,233	-	45,624,643	-
Land and improvements	-	500,000	2,512,409	3,012,409	-
Equipment and vehicles	134,385	23,245	741,639	899,269	-
Construction in progress	-	-	27,101	27,101	-
Less accumulated depreciation	(3,579,685)	(5,162,623)	(1,167,620)	(9,909,928)	-
Total capital assets, net	4,093,110	33,446,855	2,113,529	39,653,494	-
Total assets	\$ 4,936,895	\$ 38,479,719	\$ 2,196,918	\$ 45,613,532	\$ 9,489
<b>Liabilities</b>					
Current liabilities:					
Current portion of bonds payable	\$ 81,846	\$ 100,818	\$ 24,181	\$ 206,845	\$ -
Current portion of notes payable	116,010	675,992	-	792,002	-
Vouchers (accounts) payable:					
Trade	45,816	46,701	3,752	96,269	7,939
Construction contracts, including retainage	-	2,453,541	-	2,453,541	-
Accrued liabilities	8,427	15,618	2,394	26,439	-
Due to other funds	98,512	27,925	344,562	470,999	18,732
Unearned revenue	-	4,800	2,527	7,327	-
Total current liabilities	350,611	3,325,395	377,416	4,053,422	26,671
Non-current liabilities:					
Compensated absences	9,352	31,491	8,434	49,277	-
Long-term portion of bonds payable	345,194	434,132	119,129	898,455	-
Long-term portion of notes payable	2,941,702	20,892,997	-	23,834,699	-
Payable to other governments	872	-	-	872	-
Total non-current liabilities	3,297,120	21,358,620	127,563	24,783,303	-
Total liabilities	3,647,731	24,684,015	504,979	28,836,725	26,671
<b>Net Position</b>					
Net investment in capital assets	608,358	11,340,448	1,970,219	13,919,025	-
Unrestricted	680,806	2,455,256	(278,280)	2,857,782	(17,182)
Total net position	1,289,164	13,795,704	1,691,939	16,776,807	(17,182)
Total liabilities and net position	\$ 4,936,895	\$ 38,479,719	\$ 2,196,918	\$ 45,613,532	\$ 9,489

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, 2014

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Airport Operating	Total	
<b>Revenues</b>					
Charges for services	\$ 1,527,973	\$ 2,327,147	\$ 298,295	\$ 4,153,415	\$ 177,705
<b>Operating Expenses</b>					
Personnel services	352,880	829,930	126,009	1,308,819	-
Utilities (including water filtration costs)	677,043	174,526	25,513	877,082	-
Depreciation	285,789	1,076,181	161,776	1,523,746	-
Materials, supplies and maintenance	5,785	151,642	148,768	306,195	169,336
Administrative expense	298,865	116,349	1,729	416,943	-
Sludge disposal	-	61,329	-	61,329	-
Insurance	5,760	40,976	16,866	63,602	-
Nutrient credit purchase	-	173,617	-	173,617	-
Miscellaneous	1,369	12,435	3,254	17,058	-
Total operating expenses	1,627,491	2,636,985	483,915	4,748,391	169,336
Operating income (loss)	(99,518)	(309,838)	(185,620)	(594,976)	8,369
<b>Non-Operating Revenues (Expenses)</b>					
Subsidies from other governments:					
State	-	2,614,375	26,152	2,640,527	-
Local	206,952	-	-	206,952	-
Interest income	6,058	6,418	-	12,476	-
Rental income	9,000	46,933	-	55,933	-
Gain on sale of materials/(Loss) on disposal of assets	15,940	(704,980)	-	(689,040)	-
Interest expense	(49,554)	(36,078)	(4,921)	(90,553)	-
Debt issuance costs	-	(50,000)	-	(50,000)	-
Total non-operating revenues, net	188,396	1,876,668	21,231	2,086,295	-
<b>Income (Loss) Before Other Financing Sources</b>	88,878	1,566,830	(164,389)	1,491,319	8,369
<b>Other Financing Sources</b>					
Transfers in	-	-	-	-	193
<b>Net Income (Loss)</b>	88,878	1,566,830	(164,389)	1,491,319	8,562
<b>Net Position, Beginning</b>	1,200,286	12,228,874	1,856,328	15,285,488	(25,744)
As previously reported					
<b>Net Position, Ending</b>	\$ 1,289,164	\$ 13,795,704	\$ 1,691,939	\$ 16,776,807	\$ (17,182)

See notes to financial statements

**City of Lock Haven, Pennsylvania**

## Statement Of Cash Flows

## Proprietary Funds

Year Ended December 31, 2014

	Business-Type Activities			Totals	Governmental Activities Internal Service Inventory Fund
	Water Fund	Sewer Fund	Airport Fund		
<b>Cash Flows From Operating Activities</b>					
Cash received from users	\$ 1,558,900	\$ 2,334,567	\$ 352,073	\$ 4,245,540	\$ 178,454
Cash payments to employees for services	(356,007)	(832,510)	(118,683)	(1,307,200)	-
Cash paid to suppliers for goods and services	(944,890)	(698,509)	(198,681)	(1,842,080)	(178,647)
Net cash provided by (used in) operating activities	258,003	803,548	34,709	1,096,260	(193)
<b>Cash Flows From Non-Capital Financing Activities</b>					
Operating subsidies and transfers from (to) other funds	-	-	-	-	193
<b>Cash Flows Provided by Investing Activities:</b>					
Rental income	9,000	46,933	-	55,933	-
Earnings on investments	6,058	6,418	-	12,476	-
Net cash provided by investing activities	15,058	53,351	-	68,409	-
<b>Cash Flows From Capital and Related Financing Activities</b>					
Payments for capital acquisitions	(150,169)	(5,952,053)	(32,365)	(6,134,587)	-
Capital subsidies from other governments	206,952	2,367,756	26,152	2,600,860	-
Principal payments on long-term debt	(197,083)	(10,467,124)	(23,575)	(10,687,782)	-
Proceeds from long term debt	-	12,477,327	-	12,477,327	-
Interest paid	(49,554)	(261,457)	(4,921)	(315,932)	-
Debt issuance costs	-	(50,000)	-	(50,000)	-
Proceeds from sale of assets	15,940	-	-	15,940	-
Net cash (used in) provided by capital and related financing activities	(173,914)	(1,885,551)	(34,709)	(2,094,174)	-
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	99,147	(1,028,652)	-	(929,505)	-
<b>Cash and Cash Equivalents, Beginning</b>	435,449	5,697,555	-	6,133,004	-
<b>Cash and Cash Equivalents, Ending</b>	\$ 534,596	\$ 4,668,903	\$ -	\$ 5,203,499	\$ -
<b>Displayed as:</b>					
Cash and cash equivalents	\$ 534,596	\$ 2,217,830	\$ -	\$ 2,752,426	\$ -
Restricted cash	-	2,451,073	-	2,451,073	-
Total	\$ 534,596	\$ 4,668,903	\$ -	\$ 5,203,499	\$ -
<b>Reconciliation of Operating (Loss) Income to Net Cash (Used In) Provided by Operating Activities:</b>					
Operating (loss) income	\$ (99,518)	\$ (309,838)	\$ (185,620)	\$ (594,976)	\$ 8,369
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:					
Depreciation	285,789	1,076,181	161,776	1,523,746	-
Changes in assets and liabilities:					
Accounts receivable, other	29,569	8,848	(10,577)	27,840	(3,803)
Due from/to other governments and funds	1,358	(1,428)	64,355	64,285	4,552
Other current assets	(28)	-	-	(28)	-
Vouchers payable	43,932	32,365	(2,551)	73,746	-
Deferred revenue	-	-	-	-	(9,311)
Accrued and other liabilities	(3,099)	(2,580)	7,326	1,647	-
<b>Net Cash Provided by (Used In) Operating Activities</b>	\$ 258,003	\$ 803,548	\$ 34,709	\$ 1,096,260	\$ (193)
<b>Supplemental Disclosure of Non-Cash Capital and Related Financing Activities</b>					
Construction in process in contracts and retainage payable	\$ -	\$ 2,453,541	\$ -	\$ 2,453,541	\$ -
Interest capitalized as construction in process	\$ -	\$ 225,379	\$ -	\$ 225,379	\$ -

See notes to financial statements

## City of Lock Haven, Pennsylvania

Statement of Fiduciary Net Position  
December 31, 2014

	<b>Pension and OPEB Trust Funds</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 75,094
Contributions receivable	42,081
	<hr/>
Total	117,175
	<hr/>
Investments:	
Fixed income securities	4,228,195
Equity securities	6,375,220
Mutual funds	1,100,746
	<hr/>
Total investments	11,704,161
	<hr/>
Total assets	\$ 11,821,336
	<hr/> <hr/>
<b>Liabilities</b>	
Benefits payable	\$ 13,367
<b>Net Position</b>	
Held in trust for benefits and other purposes	11,807,969
	<hr/>
Total liabilities and net position	\$ 11,821,336
	<hr/> <hr/>

See notes to financial statements

## City of Lock Haven, Pennsylvania

Statement of Changes in Fiduciary Net Position  
Year Ended December 31, 2014

	<b>Pension and OPEB Trust Funds</b>
<b>Additions</b>	
Contributions:	
Commonwealth of Pennsylvania	\$ 255,597
Employees	105,625
City	2,632
Other	1,291
	<hr/>
Total contributions	365,145
	<hr/>
Investment earnings:	
Net increase in fair value of investments	529,641
Interest and dividends	222,990
	<hr/>
Total investment earnings	752,631
	<hr/>
Total additions	1,117,776
	<hr/>
<b>Deductions</b>	
Benefits	601,300
Other	97,273
	<hr/>
Total deductions	698,573
	<hr/>
<b>Change In Net Position</b>	419,203
	<hr/>
<b>Net Position, Beginning</b>	11,388,766
	<hr/>
<b>Net Position, Ending</b>	\$ 11,807,969
	<hr/> <hr/>

See notes to financial statements

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements

December 31, 2014

## 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. In determining financial accountability in a given situation, the City reviews the applicability of the following criteria:

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, 2014

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.

# City of Lock Haven, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

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

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## Notes to Financial Statements

December 31, 2014

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.

#### **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. 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

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## Notes to Financial Statements

December 31, 2014

- 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 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.

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements

December 31, 2014

## 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

In June 2012, the GASB issued Statement No 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. This statement establishes accounting and financial reporting standards for the activities of pension plans that are administered through trusts and meet certain criteria. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain requirements. The effect of this adoption expanded pension fund note disclosures and the related required supplementary information tables.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The City implemented the accounting and financial reporting requirements of GASB 69 effective January 1, 2014. The adoption did not have a material impact on the City's financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more-likely-than-not that the government will be required to make a payment on the guarantee. The City implemented the accounting and financial reporting requirements of GASB 70 effective January 1, 2014. The effect of this adoption was to expand note disclosures related to long-term debt guarantees.

### 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, 2014

### 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, 2014 amounted to \$117,517. 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, 2014.

### 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:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
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

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements  
December 31, 2014

## 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, 2014, the General, Non-major Governmental, Sewer and Airport Operating Funds had unearned revenues of \$2,595, \$387,400, \$4,800, and \$2,527, respectively.

## 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.

# City of Lock Haven, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

### **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.

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 21 of the accompanying financial statements. During 2014, the City had no major special revenue funds that adopted an annual budget.

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements  
December 31, 2014

### 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.

#### 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, 2014, the aggregate bank balance of bank deposits was \$6,640,016, of which \$500,000 was covered by federal depository insurance and \$384,221 was covered by SIPC insurance. The uninsured remaining bank deposits of \$5,755,795 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 \$6,098,353 at December 31, 2014.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2014

## Investments - Pension Trust Funds

As of December 31, 2014, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Equity securities	N/A	\$ 6,375,220
Corporate bonds	Average of 6 years	1,235,220
Mutual funds	N/A	1,100,746
Corp. mortgage/asset backed securities	Average of 18 years	981,302
Government bonds	Average of 3 years	823,042
Government mortgage pools	Average of 21 years	575,996
U.S. Treasury securities	Average of 7 years	377,211
Government asset backed securities	Average of 5 years	235,424
Total		<u>\$ 11,704,161</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, 2014, 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.

As of December 31, 2014, the City's credit quality distribution of securities as a percentage of total investments is as follows:

Corporate bonds	BBB+ to AAA	29.21 %
Corp. mortgage/asset backed securities	BBB+ to AAA	23.21
Government bonds	AA+	19.47
Government mortgage pools	AA+	13.62
U.S. Treasury securities	AA+	8.92 %
Government asset backed securities	AA- to AA+	5.57 %
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.

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements

December 31, 2014

## **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, 2014, the unspent bond proceeds amounted to \$2,451,073.

## **Component Unit - Flood Protection Authority**

### **Cash**

At December 31, 2014 the carrying amount and bank balance of the Flood Protection Authority's deposits were \$6,098 of which was covered by federal depository insurance.

## **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, 2014, upon which the 2014 levy was based, was \$281,183,200 of taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2014 were 92.03% of the tax levy.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

The City is permitted by the Third Class City Code to levy taxes up to 25 mills (\$25 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 22.68 mills and the millage on improvements as levied is 4.66 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, 2014 were:

General Governmental Services	7.32 mills
Levee System Operations	0.44 mills

The City has a tax margin of 18.09 mills (25.00 mills limit less 7.32 mills for general government, less 0.44 mills for levee maintenance = 17.24 mills).

### 5. Due from Other Governments

The amount reported in the City's various governmental and proprietary funds at December 31, 2014 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 88,501	\$ 88,501
Other Nonmajor Governmental Funds	-	-	8,362	8,362
Water Fund	-	-	5,000	5,000
Sewer Fund	-	5,105	-	5,105
Airport Fund	3,743	-	1,468	5,211
Total	<u>\$ 3,743</u>	<u>\$ 5,105</u>	<u>\$ 103,331</u>	<u>\$ 112,179</u>

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 2014.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

### 6. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2014 is as follows:

	Balance January 1, 2014	Acquisitions	Disposals	Transfers	Balance December 31, 2014
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,564,307	\$ -	\$ -	\$ -	\$ 3,564,307
Construction in progress	810,885	-	-	(636,385)	174,500
Total capital assets, not being depreciated	4,375,192	-	-	(636,385)	3,738,807
Capital assets, being depreciated:					
Land improvements	1,897,585	-	-	-	1,897,585
Buildings and improvements	3,925,614	7,427	-	-	3,933,041
Furniture and equipment	2,382,853	3,647	-	636,385	3,022,885
Transportation	1,112,800	182,375	-	-	1,295,175
Infrastructure	3,811,547	374,923	-	-	4,186,470
Total capital assets, being depreciated	13,130,399	568,372	-	636,385	14,335,156
Less accumulated depreciation:					
Land improvements	(1,342,528)	(61,310)	-	-	(1,403,838)
Buildings and improvements	(2,354,071)	(109,629)	-	-	(2,463,700)
Furniture and equipment	(1,682,184)	(125,298)	-	-	(1,807,482)
Transportation	(714,782)	(89,804)	-	-	(804,586)
Infrastructure	(1,001,691)	(263,310)	-	-	(1,265,001)
Total accumulated depreciation	(7,095,256)	(649,351)	-	-	(7,744,607)
Total capital assets, being depreciated	6,035,143	(80,979)	-	636,385	6,590,549
Governmental activities, net	\$ 10,410,335	\$ (80,979)	\$ -	\$ -	\$ 10,329,356

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

	<u>Balance January 1, 2014</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance December 31, 2014</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 669,000	\$ -	\$ -	\$ -	\$ 669,000
Construction in process	26,233,352	5,685,951	-	(31,885,712)	33,591
Total capital assets, not being depreciated	<u>26,902,352</u>	<u>5,685,951</u>	<u>-</u>	<u>(31,885,712)</u>	<u>702,591</u>
Capital assets, being depreciated:					
Utility system	16,190,205	156,924	(2,539,309)	31,816,823	45,624,643
Land improvements	2,336,919	-	-	-	2,336,919
Equipment and vehicles	829,836	544	-	68,889	899,269
Total capital assets, being depreciated	<u>19,356,960</u>	<u>157,468</u>	<u>(2,539,309)</u>	<u>31,885,712</u>	<u>48,860,831</u>
Less accumulated depreciation:					
Utility system	(9,191,356)	(1,342,547)	1,834,329	-	(8,699,574)
Land improvements	(569,862)	(117,171)	-	-	(687,033)
Equipment and vehicles	(459,293)	(64,028)	-	-	(523,321)
Total accumulated depreciation	<u>(10,220,511)</u>	<u>(1,523,746)</u>	<u>1,834,329</u>	<u>-</u>	<u>(9,909,928)</u>
Business-type activities capital assets, net	<u>\$ 36,038,801</u>	<u>\$ 4,319,673</u>	<u>\$ (704,980)</u>	<u>\$ -</u>	<u>\$ 39,653,494</u>

Governmental activity depreciation expense, which amounted to \$649,351 for the year ended December 31, 2014, was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$285,789, \$1,076,181, and \$161,776 for the year ended December 31, 2014, was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

During October 2014, the City completed construction on its new sanitary sewage treatment plant and removed the original treatment plant from service, resulting in a loss on removal of assets from service of approximately \$705,000.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2014

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance December 31, 2014</u>
Component - Unit Flood Protection Authority:				
Land improvements	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	<u>(12,688,547)</u>	<u>(845,903)</u>	<u>-</u>	<u>(13,534,450)</u>
Component unit - capital asset, net	<u>\$ 71,901,808</u>	<u>\$ (845,903)</u>	<u>\$ -</u>	<u>\$ 71,055,905</u>

## 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, 2014 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 110,425	\$ 116,736
Non-major Funds	357,630	356
Enterprise Funds	138,768	470,999
Internal Service Fund	<u>-</u>	<u>18,732</u>
Total	<u>\$ 606,823</u>	<u>\$ 606,823</u>

### Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2014 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 7,969	\$ 8,963
Non-major Funds	8,963	8,162
Internal Service Fund	<u>193</u>	<u>-</u>
Total	<u>\$ 17,125</u>	<u>\$ 17,125</u>

During the year ended December 31, 2014, the City made a transfer from its General Fund for the purposes of funding an annual allocation to its Interchange Fund \$2,500. In addition, the General Fund made transfers to its rehab/sidewalk fund (a nonmajor governmental fund) \$6,463 to fund loans for rehabilitation of city sidewalks. The City's non-major funds transferred \$7,969 to the General Fund as reimbursements for costs paid by the General Fund.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2014

## 8. Long-Term Debt

As of December 31, 2014, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at January 1, 2014	Additions	Retirements	Balance at December 31, 2014	Current Portion
PennVEST Note Payable - Sewer Fund	1.156 %	\$ 2,638,730	\$ 1,459,404	\$ -	\$ 126,159	\$ 1,333,245	\$ 127,625
PennVEST Note Payable - Water Fund	1.00 %	6,122,000	3,172,568	-	114,856	3,057,712	116,010
2009 General Obligation Bond, Series A	2.25 - 3.50 %	3,715,000	2,115,000	-	400,000	1,715,000	410,000
2011 General Obligation Bond - Sewer Fund	1.97 %	8,600,000	6,821,426	3,139,478	9,960,904	-	-
PennVEST Note Payable - Sewer Fund	1.00 %	18,074,732	11,179,196	4,278,831	281,301	15,176,726	548,367
2013 General Obligation Bond	2.46 - 5.50 %	2,118,000	1,351,627	353,798	3,000	1,702,425	3,000
2014 General Obligation Note - Sewer Fund	1.97 %	6,000,000	-	5,059,018	-	5,059,018	-
Total, net			<u>\$ 26,099,221</u>	<u>\$ 12,831,125</u>	<u>\$ 10,886,220</u>	<u>\$ 28,044,126</u>	<u>\$ 1,205,002</u>

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental Activities Bonds and Notes Payable	\$ 206,155	\$ 2,105,970	\$ 2,312,125
Business-Type Activities Bonds and Notes Payable	998,847	24,733,154	25,732,001
Total	<u>\$ 1,205,002</u>	<u>\$ 26,839,124</u>	<u>\$ 28,044,126</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.

# City of Lock Haven, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

### **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 12/31/14), 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 1.00% 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, 2014, the City had \$609,700 and \$1,105,300 outstanding within its governmental activities and proprietary funds, respectively.

### **General Obligation Bond, Series of 2011 - Sewer Fund**

In 2011, the City issued, as interim financing, an \$8,600,000 General Obligation Bond, Series of 2011, bearing interest at 1.97% per annum, maturing December 15, 2014. The proceeds from the issuance of the bond were used to (1) currently refund all of the City's General Obligation Note, Series A of 2010; (2) to finance the sewer system capital improvement project; and (3) to pay the costs of issuing the bond. The outstanding balance for this bond was satisfied in the current year by the City's issuance of its General Obligation Note, Series of 2014. The change in total debt service payments and net economic gain (loss) resulting from this refunding were not material.

### **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 \$15,458,027 was drawn as of 12/31/14), 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.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

### General Obligation Bond, Series of 2013

In 2013, the City issued a \$2,118,000 General Obligation Bond, Series of 2013, bearing interest at rates ranging from 2.46% to 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, \$1,886,000 was allocated to governmental activities and \$50,000 was allocated to proprietary funds. At December 31, 2014, the City had \$1,702,425 outstanding within its governmental activities.

### 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 change in total debt service payments and net economic gain (loss) resulting from this refunding were not material.

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, 2014 amounted to \$364,744. Of the interest paid, \$225,379 was capitalized for the year ended December 31, 2014 within the City's Sewer Fund.

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, 2014:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,205,002	\$ 376,716	\$ 1,581,718
2016	6,234,179 *	367,457	6,601,636
2017	1,149,403	249,632	1,399,035
2018	1,167,728	231,271	1,398,999
2019	1,184,141	211,893	1,396,034
2020-2024	4,946,114	864,726	5,810,840
2025-2029	4,431,603	639,408	5,071,011
2030-2034	4,126,986	292,378	4,419,364
2035-2039	3,598,970	79,678	3,678,648
Total	<u>\$ 28,044,126</u>	<u>\$ 3,313,159</u>	<u>\$ 31,357,285</u>

\* - includes \$6,000,000 General Obligation Note Series of 2014, which the City intends to refinance upon maturity

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2014

## 9. Compensated Absences

The changes in the City's compensated absences in 2014 are summarized as follows:

Governmental Activities	
Balance, January 1, 2014	\$ 123,128
Increase	34,236
Decrease	<u>(7,005)</u>
Balance, December 31, 2014	<u>\$ 150,359</u>
Business Type Activities	
Balance, January 1, 2014	\$ 52,310
Increase	13,646
Decrease	<u>(16,679)</u>
Balance, December 31, 2014	<u>\$ 49,277</u>

## 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, 2014, the City transferred \$42,182 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.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

	<b>Combining Statement of Fiduciary Net Position</b>				
	<b>Police Pension</b>	<b>City Employees Retirement Fund</b>	<b>Total Pension</b>	<b>OPEB Police Death Benefit *</b>	<b>Total Pension/OPEB</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 23,372	\$ 50,675	\$ 74,047	\$ 1,047	\$ 75,094
Contributions receivable	17,699	22,572	40,271	1,810	42,081
<b>Total</b>	<b>41,071</b>	<b>73,247</b>	<b>114,318</b>	<b>2,857</b>	<b>117,175</b>
<b>Investments:</b>					
Fixed income securities	2,003,674	2,159,125	4,162,799	65,396	4,228,195
Equity securities	3,011,213	3,265,935	6,277,148	98,072	6,375,220
Mutual funds	494,328	590,745	1,085,073	15,673	1,100,746
<b>Total investments</b>	<b>5,509,215</b>	<b>6,015,805</b>	<b>11,525,020</b>	<b>179,141</b>	<b>11,704,161</b>
<b>Total assets</b>	<b>\$ 5,550,286</b>	<b>\$ 6,089,052</b>	<b>\$ 11,639,338</b>	<b>\$ 181,998</b>	<b>\$ 11,821,336</b>
<b>Liabilities,</b>					
Benefits payable	\$ 5,619	\$ 7,748	\$ 13,367	\$ -	\$ 13,367
<b>Net position,</b>					
Held in trust for benefits	5,544,667	6,081,304	11,625,971	181,998	11,807,969
<b>Total liabilities and net position</b>	<b>\$ 5,550,286</b>	<b>\$ 6,089,052</b>	<b>\$ 11,639,338</b>	<b>\$ 181,998</b>	<b>\$ 11,821,336</b>

\* - See Note 12

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

### Combining Statement of Changes in Fiduciary Net Position

	Police Pension	City Employees Retirement Fund	Total Pension	OPEB Police Death Benefit *	Total Pension/OPEB
Additions:					
Contributions:					
Commonwealth of Pennsylvania	\$ 152,210	\$ 103,387	\$ 255,597	\$ -	\$ 255,597
Employees	30,912	74,713	105,625	-	105,625
City	-	1,432	1,432	1,200	2,632
Other	-	1,291	1,291	-	1,291
Total contributions	<u>183,122</u>	<u>180,823</u>	<u>363,945</u>	<u>1,200</u>	<u>365,145</u>
Investment earnings:					
Net increase in fair value of investments	262,329	266,443	528,772	869	529,641
Interest and dividends	<u>104,512</u>	<u>110,803</u>	<u>215,315</u>	<u>7,675</u>	<u>222,990</u>
Total investment earnings	<u>366,841</u>	<u>377,246</u>	<u>744,087</u>	<u>8,544</u>	<u>752,631</u>
Total additions	<u>549,963</u>	<u>558,069</u>	<u>1,108,032</u>	<u>9,744</u>	<u>1,117,776</u>
Deductions:					
Benefits	362,140	239,160	601,300	-	601,300
Other	<u>50,372</u>	<u>45,679</u>	<u>96,051</u>	<u>1,222</u>	<u>97,273</u>
Total deductions	<u>412,512</u>	<u>284,839</u>	<u>697,351</u>	<u>1,222</u>	<u>698,573</u>
Change in net position	137,451	273,230	410,681	8,522	419,203
Net position, beginning	<u>5,407,216</u>	<u>5,808,074</u>	<u>11,215,290</u>	<u>173,476</u>	<u>11,388,766</u>
Net position, beginning	<u>\$ 5,544,667</u>	<u>\$ 6,081,304</u>	<u>\$ 11,625,971</u>	<u>\$ 181,998</u>	<u>\$ 11,807,969</u>

\* - See Note 12

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

### Benefits Provided

At December 31, 2014, the measurement date, members of the plan was as follows:

	<u>CERF</u>	<u>Police</u>
Inactive plan members currently receiving benefits	32	17
Inactive plan members entitled to benefits but not yet receiving them	2	-
Current employees	<u>38</u>	<u>14</u>
Total membership	<u><u>72</u></u>	<u><u>31</u></u>
Number of participating employers	<u><u>1</u></u>	<u><u>1</u></u>

Additional information related to each of the pension plans, as of January 1, 2013 (the date of the most recent actuarial valuation), is as follows:

	<u>CERF</u>	<u>Police</u>
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, 2014

	<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 plan members are established and may be amended by the respective legislative bodies governing each of the plans (see Plan Descriptions). Employees are required to make the following contributions:

<b>Employee Groups Covered</b>	<b>CERF</b>	<b>Police</b>
Elected officials	\$8 times years of service per month	n/a
City employees	6% of compensation	n/a
Police officers	\$3 per month (for officers hired before 1/1/1978)	0.5% of compensation plus an additional \$12 per year for service increment. Effective January 1, 2012, each officer will contribute an additional 1% of total W-2 salary.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

The contribution requirements of the City 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 based on a Minimum Municipal Obligation ("MMO"), as determined in connection with the Plans' biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions and a credit equal to ten percent of the excess (if any) of the actuarial present value of assets over the actuarial accrued liability.

The Commonwealth of Pennsylvania provides an allocation of funds that must be used for pension funding. The City must fund any financial requirement established by the MMO that exceeds state/member contributions.

	CERF	Police
Annual required contribution	\$ 91,331	\$ 145,654
Interest on net pension asset	(12,323)	(3,708)
Adjustment to annual required contribution	<u>20,715</u>	<u>10,385</u>
Annual pension cost	99,723	152,331
Contributions made	<u>103,387</u>	<u>152,210</u>
Increase in net pension asset	3,664	(121)
Net pension asset, beginning of year	<u>176,049</u>	<u>52,966</u>
Net pension asset, end of year	<u>\$ 179,713</u>	<u>\$ 52,845</u>

The City's annual required contribution for 2014 was determined as part of the January 1, 2013 actuarial valuation. The City's annual pension costs, annual required contributions and net pension benefit obligation to the Plans are as follows for 2014, 2013 and 2012:

### Annual Pension Cost - Three Year Trend Information

Years Ended December 31:	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Asset
City Employees Retirement Pension Fund			
12/31/14	\$ 99,723	>100 %	\$ (179,713)
12/31/13	59,202	>100	(176,049)
12/31/12	59,846	>100	(396,502)
Police Pension Fund			
12/31/14	\$ 152,331	100 %	\$ (52,845)
12/31/13	146,368	>100	(52,966)
12/31/12	148,284	>100	(130,496)

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

### Schedule of Contributions from the Employer Three-Year Trend Contributions

Years Ended December 31:	Annual Required Contribution	Percentage of Annual Required Contribution Contributed
City Employees Retirement Pension Fund		
12/31/14	\$ 91,331	109.23 %
12/31/13	86,957	98.35
12/31/12	90,931	100.00
Police Pension Fund		
12/31/14	\$ 145,654	101.76 %
12/31/13	155,503	98.35
12/31/12	156,821	100.00

The funded status of the plan as of January 1, 2013, the most recent actuarial valuation date, was as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (Asset) (c)	Funded Ratio (a)/(b)		Annual Covered Payroll (d)	Ratio of Unfunded Liability to Annual Covered Payroll ((b-a)/d)
Police Pension Fund	\$ 4,526,703	\$ 4,762,090	\$ 235,387	95.1	%	\$ 604,470	38.9 %
City Employees Retirement Pension Fund	4,752,868	5,133,350	380,482	92.6	%	1,398,475	27.2 %

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits.

### Deposits and Investments

The Plans allow funds to be invested in domestic equities, international equities, fixed income equities, and cash and established the following target allocation across asset categories:

Asset Class	Target	Long- Term Expected Real Rate of Return
Equities (Large Cap Domestic)	60 %	6.00 %
Fixed income securities	40	1.50
International Developed Equity	0	6.50

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

The long-term expected rate of return on the Plan's investments was determined by the plan sponsor based on expectation of the fund manager for both the current portfolio and investment policy as of the measurement date, net of investment expenses. Best estimates or arithmetic real rates of return for each major asset classes included in the Plan's target asset allocation as of December 31, 2014 are listed in the table above.

### Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension fund investment expense, was 6.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Pension Liability of the Plan

#### Net Pension Liability

The components of the net pension liability of the Plan as of December 31, 2014 were as follows:

	CERF	Police
Total pension liability	\$ 6,086,426	\$ 5,489,406
Plan fiduciary net position	<u>6,085,292</u>	<u>5,561,887</u>
Plan net pension liability	<u>\$ 1,134</u>	<u>\$ (72,481)</u>
Plan fiduciary net position as a percentage of total pension liability	<u>99.9 %</u>	<u>101.0%</u>

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 Pension Fund.

#### Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of January 1, 2013 using the following actuarial methods and assumptions:

	CERF	Police
Actuarial valuation date	January 1, 2013	January 1, 2013
Actuarial cost method	Entry-age normal	Entry-age normal
Actuarial assumptions:		
Projected salary increases	4.0%	5.00 – 9.00%
Inflation	2.5%	2.5%
Interest rate	6.5%	6.5%
Asset valuation method	Market	Market

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

Mortality rates were based on the RP-2000 Mortality Table. The actuarial assumptions used in the January 1, 2013 valuation were based upon a study of plan experience, provisions in the current collective bargaining agreement, and future expectations. Subsequent to the preparation of the actuarial report, new mortality tables were released, which may increase participants life expectancy and the related liability.

### 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. Based on those assumptions, the Pension Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### 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:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (7.50%)</u>
Net pension liability (asset) – CERF	\$ 697,020	\$ 1,134	\$ (596,700)
Net pension liability (asset) – Police	573,578	(72,481)	(610,558)

## Summary of Significant Accounting Policies

### Basis of Accounting

The Plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are made. Employer contributions to each Plan are recognized when made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

### Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

### Contributions

Employee contributions are governed by the Plans' respective governing ordinances and collective bargaining. (See "Funding Policy" above).

# City of Lock Haven, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

Employer contributions are determined pursuant to the Commonwealth of Pennsylvania's Municipal Pension Funding and Recovery Act (Act 205 of 1984, [see "Funding Policy" above]).

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plans and funded through the MMO and/or Plan earnings.

### **Concentrations**

At December 31, 2014 the individual Plans held no investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents five percent or more of individual Plan net position.

## **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 contribution \$40/month towards the cost of coverage.

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 \$161,000 for the year ended December 31, 2014.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

### 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	\$ 848,209
Interest on net OPEB obligation	96,029
Adjustment to annual required contribution	<u>(207,620)</u>
Annual OPEB cost (expense)	736,618
Contributions made	<u>161,106</u>
Increase in net OPEB obligation	575,512
Net OPEB obligation at January 1, 2014	<u>2,400,733</u>
Net OPEB obligation at December 31, 2014	<u>\$ 2,976,245</u>

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

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, 2014, 2013, and 2012 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2014	\$ 736,618	21.9 %	\$ 2,976,245
December 31, 2013	733,159	21.3 %	2,400,733
December 31, 2012	761,300	20.5 %	1,823,746

### Funded Status and Funding Progress

The funded status of the plan as of December 31, 2013, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 7,163,832
Actuarial value of plan assets	<u>173,476</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,990,356</u>
Funded ratio (actuarial value of plan assets/UAAL)	2.4%
Estimated annual covered payroll	\$ 700,000
UAAL as a percentage of covered payroll	998.6%

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2014

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.

In the December 31, 2013, 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 2014, with the rate decreasing by decrements to an ultimate rate of 4% in 2084 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. Eleven years remain at December 31, 2013.

### 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>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable for, Prepaid expenses	\$ 128,699	\$ -	\$ 128,699
Restricted for:			
Capital Projects	\$ 336,331	\$ 436,244	\$ 772,575
Street Programs	-	25,790	25,790
Recreation	-	51,958	51,958
Economic Development	-	359,736	359,736
Total	<u>\$ 336,331</u>	<u>\$ 873,728</u>	<u>\$ 1,210,059</u>

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements

December 31, 2014

## 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, 2014, the City purchased \$509,860 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, 2014, 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 \$74,087 at December 31, 2014. The City has a surplus deposit related to the plan in the amount of \$202,786 at December 31, 2014. The cost of medical coverage for employees was approximately \$810,000 in 2014.

## 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. New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions by providing information about financial support for pensions. The City is required to adopt Statement No. 68 for its calendar year 2015 financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 71 is intended to address an issue regarding application of Statement No. 68 related to contributions made after the measurement date of the government's beginning net pension liability. The City is required to adopt Statement No. 71 simultaneously with Statement No. 68 for its calendar year 2015 financial statements.

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. The City is required to adopt Statement No. 73 for its calendar 2016 financial statements.

## City of Lock Haven, Pennsylvania

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### Notes to Financial Statements

December 31, 2014

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 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**

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Notes to Financial Statements

December 31, 2014

## **18. Subsequent Event**

In February 2015, the City received ownership of certain roads within the City's geographic boundaries from the Pennsylvania Department of Transportation. Further, in April 2015, the City received \$850,000 from the Commonwealth to maintain and rebuild such roads as needed.

## City of Lock Haven, Pennsylvania

Required Supplementary Information  
 Schedule of Changes in Net Pension Liability and Related Ratios  
 Year Ended December 31, 2014  
 (Unaudited)

	<b>Police Pension Fund</b>	<b>City Employees Retirement Fund</b>
	<b>2014</b>	<b>2014</b>
<b>Total pension liability</b>		
Service cost	\$ 118,381	\$ 162,495
Interest changes of benefit terms	345,026	378,253
Differences between expected and actual experience	-	-
Changes in assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(357,183)</u>	<u>(242,392)</u>
<b>Net change in total pension liability</b>	<u>106,224</u>	<u>298,356</u>
<b>Total pension liability - beginning</b>	<u>5,383,182</u>	<u>5,788,070</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 5,489,406</u>	<u>\$ 6,086,426</u>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 152,210	\$ 103,387
Employee contributions	10,323	84,254
Other contributions	-	-
Net investment income	350,170	347,838
Benefits payments, including refunds of member contributions	(357,183)	(242,392)
Administration	(19,552)	(9,903)
Other	-	-
<b>Net change in plan fiduciary net position</b>	<u>135,968</u>	<u>283,184</u>
<b>Plan fiduciary net position - beginning</b>	<u>5,425,919</u>	<u>5,802,108</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 5,561,887</u>	<u>\$ 6,085,292</u>
<b>Net pension liability - ending (a) - (b)</b>	<u>\$ (72,481)</u>	<u>\$ 1,134</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<u>101%</u>	<u>99.98%</u>

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 Employer Contributions - Police Pension Fund  
 Year Ended December 31, 2014  
 (Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actuarially determined contribution <sup>(1)</sup>	\$ 122,539	\$ 56,187	\$ 64,540	\$ 40,011	\$ 37,722	\$ 50,572	\$ 140,351	\$ 156,821	\$ 155,503	\$ 145,654
Contributions in relation to the actuarially determined contribution	122,539	56,187	64,540	41,280	37,722	84,106	147,379	156,821	155,503	152,210
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (1,269)	\$ -	\$ (33,534)	\$ (7,028)	\$ -	\$ -	\$ (6,556)
Covered-employee payroll <sup>(2)</sup>	\$ 594,398	\$ 596,368	\$ 616,735	\$ 620,136	\$ 587,311	\$ 678,000	\$ 653,400	\$ 728,150	\$ 686,000	\$ 660,022
Contributions as a percentage of covered-employee payroll	20.62%	9.42%	10.46%	6.66%	6.42%	12.41%	22.56%	21.54%	22.67%	23.06%

### 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 percentage of payroll, closed
Remaining amortization period	N/A
Asset valuation method	4-year
Inflation	2.5%
Salary increases	0-1 year of service - 9.00%; 1-2 years of service - 8.75%; 2-3 years of service - 8.50%; 3+ years of service - 5.00%
Investment rate of return	6.50%, net of pension plan investment expense, including inflation
Retirement age	later of age 52 and 20 years of service or January 1, 2014
Mortality	Mortality rates were based on the 1983 Group Annuity Mortality Table through 1/1/2007; the RP-2000 Mortality Table was used beginning in 2008

<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, 2014  
 (Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actuarially determined contribution <sup>(1)</sup>	\$ 98,512	\$ 37,529	\$ 42,987	\$ 10,313	\$ 7,926	\$ 12,320	\$ 87,184	\$ 85,437	\$ 86,957	\$ 91,331
Contributions in relation to the actuarially determined contribution	95,812	37,529	42,987	10,622	7,926	139,093	91,543	89,709	86,957	103,387
Contribution deficiency (excess)	\$ 2,700	\$ -	\$ -	\$ (309)	\$ -	\$ (126,773)	\$ (4,359)	\$ (4,272)	\$ -	\$ (12,056)
Covered-employee payroll <sup>(2)</sup>	\$ 1,377,786	\$ 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
Contributions as a percentage of covered-employee payroll	6.95%	2.72%	3.19%	0.73%	0.54%	9.73%	6.02%	5.88%	6.33%	6.80%

**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 percentage of payroll, closed
Remaining amortization period	N/A
Asset valuation method	4-year
Inflation	2.50%
Salary increases	4.00%, average, including inflation
Investment rate of return	6.50%, net of pension plan investment expense, including inflation
Retirement age	Normal - Age 65 with 10 years of continuous service; Early - 50 with 10 years of continuous service
Mortality	Mortality rates were based on the 1983 Group Annuity Mortality Table through 1/1/2007; the RP-2000 Mortality Table was used beginning in 2008

<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

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Required Supplementary Information  
Schedule of Investment Returns - Pension Trust Funds  
Year Ended December 31, 2014  
(Unaudited)

	<b>Police Pension Fund</b>	<b>City Employees Retirement Fund</b>
<b>Annual money-weighted rate of return, net of investment expense</b>	<u>6.50%</u>	<u>6.50%</u>

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, 2014

### 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, 2014	\$ 173,476	\$ 7,163,832	\$ 6,990,356	2.4%	\$ 700,000	998.6%
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, 2014

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, 2014	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue December 31, 2014
<b>U.S. Department of Housing and Urban Development,</b>								
Passed through Pennsylvania Department of Community and Economic Development:								
CDBG - State - Administered Small Cities Program Cluster								
Community Development Block Grant State's Program (2010 Allotment)	C000049976	14.228	\$ 370,457	\$ -	\$ - a	\$ -	\$ -	\$ -
Community Development Block Grant State's Program (2011 Allotment)	C000052228	14.228	316,864	31,447	3,586 a	27,861	27,861	-
Community Development Block Grant State's Program (2012 Allotment)	C000052831	14.228	300,000	141,355	9,102 a	132,253	132,253	-
Community Development Block Grant State's Program (2013 Allotment)	C000056983	14.228	300,000	195,428	-	207,675	207,675	12,247
Community Development Block Grant Program Income	(N/A)	14.228		2,076	-	2,076	2,076	-
Community Development Block Grant Revolving Loan Program Income	(N/A)	14.228	(N/A)	<u>3,555</u>	<u>(29,657)</u> a	<u>33,212</u>	<u>33,212</u>	<u>-</u>
Total CDBG - State Administered Small Cities Program Cluster				373,861	(16,969)	403,077	403,077	12,247
HOME Program - Home Investment Partnerships Program	C000051595	14.239	500,000	134,189	1,630	144,313	144,313	11,754
HOME Program - Home Investment Partnerships Program	C000058713	14.239	500,000	<u>3,989</u>	<u>-</u>	<u>4,882</u>	<u>4,882</u>	<u>893</u>
Total U.S. Department of Housing and Urban Development				<u>512,039</u>	<u>(15,339)</u>	<u>552,272</u>	<u>552,272</u>	<u>24,894</u>
<b>U.S. Department of Transportation,</b>								
JAG Program Cluster								
ARRA/Byrne Justice Assistance Program - Police Hiring	2009-AJ-01-20862	16.803	100,000	<u>-</u>	<u>-</u> a	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of Transportation,</b>								
Passed through Pennsylvania Department of Transportation:								
Taxiway Rehab, Phase I Design	7880131131	20.106	82,440	21,418	4,213	25,179	25,179	7,974
Rehab RW 9/27, Phase I Design	7880131110	20.106	80,684	-	- a	-	-	-
Rehab RW 9/27, Phase II Construction	7880131121	20.106	913,500	<u>3,975</u>	<u>(946)</u>	<u>6,073</u>	<u>6,073</u>	<u>1,152</u>
Total U.S. Department of Transportation				<u>25,393</u>	<u>3,267</u>	<u>31,252</u>	<u>31,252</u>	<u>9,126</u>
<b>U.S. General Services Administration,</b>								
Passed through Pennsylvania Department of General Services,								
Federal Surplus Program	(N/A)	39.003	(N/A)	<u>17,008</u>	<u>-</u>	<u>17,008</u>	<u>17,008</u>	<u>-</u>
<b>Total Federal Financial Assistance</b>				<b>\$ 554,440</b>	<b>\$ (12,072)</b>	<b>\$ 600,532</b>	<b>\$ 600,532</b>	<b>\$ 34,020</b>

**Notes:**

This schedule includes the federal award activity of the City of Lock Haven, Pennsylvania, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

a - Includes amount adjusted during the year due to missed programs, payments, remittances or board action. (see attached schedule.)

## City of Lock Haven, Pennsylvania

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

Schedule of Adjustments to 12/31/13 Accrued/Deferred Revenue Balances

Footnote a

<u>FEDERAL GRANTOR/PROJECT TITLE</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identification Number</u>	<u>Accrued (Deferred) @ 12/31/2013</u>	<u>Adjustments * To Accrued (Deferred) @ 12/31/2013</u>	<u>Adjusted Accrued (Deferred) @ 12/31/2013</u>
2010 Community Development Block Grant	14.228	C000049976	\$ 79	\$ (79)	\$ -
2011 Community Development Block Grant	14.228	C000052228	3,598	(12)	3,586
2012 Community Development Block Grant	14.228	C000052831	9,101	1	9,102
Revolving Loan Program CDBG	14.228	N/A	44,170	(73,827)	(29,657)
Airport Improvement Grant	20.106	7880131110	476	(476)	-
JAG Program Cluster	16.803	2009-AJ-01-20862	(15)	15	-
			<u>\$ 57,409</u>	<u>\$ (74,378)</u>	<u>\$ (16,969)</u>

\*Adjustments due to over accrued expenditures, disallowed costs, or programs missed on/included in error on prior year SEFA.

**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, 2014, 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 29, 2015. Our report includes a reference to other auditors who audited the financial statements of the Lock Haven Area Flood Protection Authority (the "Flood Protection Authority"), as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors. Our report also included an emphasis-of-matter paragraph, as more fully described in Notes 1 and 12, to address the City's adoption of the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB No. 25 in 2014. 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 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 2014-001 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 2014-002 through 2014-005 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 Response to Findings**

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

### **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 29, 2015

**Independent Auditors' Report on Compliance  
for the Major Federal Program and on  
Internal Control Over Compliance  
Required by with OMB Circular A-133**

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

## 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly Viechow Krause, LLP*

Williamsport, Pennsylvania  
September 29, 2015

# City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2014

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## 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 auditor's report issued on compliance for the major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   yes  X  no

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   yes  X  no

# City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2014

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## Section II - Financial Statement Findings

### Finding No.

### Finding/Noncompliance

2014-001

#### **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 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.

**Effect:** General Fund cash account balances within the general ledger system, during 2014, 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, 2014

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## Finding No.

## Finding/Noncompliance

**2014-002**                      **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, 2014

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## Finding No.

## Finding/Noncompliance

2014-003

### **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 be sufficiently experienced 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 capabilities.

**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, 2014

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## Finding No.

## Finding/Noncompliance

**2014-004**

### **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, 2014

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## Finding No.

## Finding/Noncompliance

2014-005

### **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

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Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2014

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

### Finding No.

### Finding/Noncompliance

2013-001

#### **Internal Control over Financial Reporting – City Cash Sweep Account**

**Condition/Context:** The City's cash sweep account balances within its general ledger system were not adequately reconciled to monthly issued bank statements during 2013.

**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 2014-001.

2013-002

#### **Internal Control over Financial Reporting – Segregation of Duties Over Cash Receipts**

**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 2014-002.

## City of Lock Haven, Pennsylvania

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Schedule of Findings and Questioned Costs  
Year Ended December 31, 2014

### Finding No.

### Finding/Noncompliance

2013-003

#### **Internal Control over Financial Reporting – Non-attest Services**

**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 made had the audit not been performed

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

**Resolution:** See current year finding 2014-003.

2013-004

#### **Internal Control Over Financial Reporting - City Pension Funds - Significant Deficiency**

**Condition/Context:** The City does not maintain the activity relating to its cash and investment of Pension Funds within its general ledger system, nor is the activity within these funds reconciled on a monthly basis by an appropriate individual within the City. As such, existing internal control is limited with regard to these funds.

**Recommendation:** City management should establish monthly reconciliation procedures whereby investment activity is tracked, recorded and reconciled by an appropriate individual.

**Resolution:** During 2014, the City hired an Assistant City Manager who began reconciling the City's Pension Funds on a monthly basis.

2013-005

#### **Internal Control over Financial Reporting – Treasurer's Office Cash Receipts**

**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 2014-004.