

**City of Lock Haven,
Pennsylvania**

Financial Statements and
Supplementary Information

December 31, 2013

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, 2013, 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, 2013, 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 17 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in 2013 to conform with accounting principles generally accepted in the United States of America. The City restated its beginning net position for this adoption.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress - Pension Trust Funds, Schedule of Employer Contributions - Pension Trust Funds, and Notes to Required Supplementary Information Pension Trust Funds on pages 49 - 51 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 24, 2014 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.

ParenteBeard LLC

Williamsport, Pennsylvania
September 24, 2014

City of Lock Haven, Pennsylvania

Statement of Net Position
December 31, 2013

	Primary Government			Component Unit - Flood Protection Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 702,581	\$ 2,471,974	\$ 3,174,555	\$ 4,723
Restricted cash	-	3,661,030	3,661,030	-
Receivables (net of allowance for uncollectibles):				
Taxes	352,660	-	352,660	-
Loans	471,244	-	471,244	-
Other	5,686	625,098	630,784	-
Internal balances	267,898	(267,898)	-	-
Due from other governments	82,023	15,241	97,264	-
Prepaid expenses and other assets	201,974	5,169	207,143	-
Net pension asset	559,894	-	559,894	-
Capital assets:				
Public utility systems (including equipment)	-	16,190,205	16,190,205	84,590,355
Land and improvements	5,461,892	3,005,919	8,467,811	-
Infrastructure and infrastructure in progress	3,811,547	-	3,811,547	-
Buildings	3,925,614	-	3,925,614	-
Equipment and furniture	3,495,653	829,836	4,325,489	-
Construction in progress	810,885	26,233,352	27,044,237	-
Less: accumulated depreciation	(7,095,256)	(10,220,511)	(17,315,767)	(12,688,547)
Total capital assets	10,410,335	36,038,801	46,449,136	71,901,808
Total assets	13,054,295	42,549,415	55,603,710	71,906,531
Liabilities				
Accounts payable and accrued expenses	105,021	44,282	149,303	636
Construction contracts, including retainage payable	-	2,970,088	2,970,088	-
Due to other governments	-	845	845	-
Unearned revenue	475,038	253,946	728,984	-
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	200,000	7,265,451	7,465,451	-
Due in more than one year:				
Bonds and notes payable	1,956,765	16,677,005	18,633,770	-
Compensated absences	123,128	52,310	175,438	-
Other postemployment benefit obligation	2,400,733	-	2,400,733	-
Total liabilities	5,260,685	27,263,927	32,524,612	636
Net Position				
Net investment in capital assets	8,253,570	12,787,287	21,040,857	71,901,808
Restricted for:				
Capital projects	622,479	-	622,479	-
Program purposes	48,660	-	48,660	-
Unrestricted	(1,131,099)	2,498,201	1,367,102	4,087
Total net position	\$ 7,793,610	\$ 15,285,488	\$ 23,079,098	\$ 71,905,895

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Activities
Year Ended December 31, 2013

Functions/Programs	Net (Expenses) Revenue And Changes In Net Position					
	Expenses	Program Revenues		Primary Government		Component Unit Flood Protection Authority
		Charges for Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-type Activities
Primary Government						
Governmental activities:						
General government	\$ 657,174	\$ 185,597	\$ 494,756	\$ 32,357	\$ 55,536	\$ 55,536
Public safety	1,809,048	133,360	8,767	-	(1,666,921)	(1,666,921)
Public works	1,110,576	55,064	322,772	193,598	(539,142)	(539,142)
Health, welfare and sanitation	28,974	-	2,350	-	(26,624)	(26,624)
Culture and recreation	165,977	-	-	-	(165,977)	(165,977)
Buildings and property	227,739	-	-	-	(227,739)	(227,739)
Interest and fees on long-term debt	89,656	-	-	-	(89,656)	(89,656)
Employee benefits and insurance	975,697	-	555,169	-	(420,528)	(420,528)
Other	183,361	159,917	-	-	(23,444)	(23,444)
Unallocated depreciation	607,096	-	-	-	(607,096)	(607,096)
Total governmental activities	5,855,298	533,938	1,383,814	225,955	(3,711,591)	(3,711,591)
Business-type activities:						
Public utility services - Water	1,364,049	1,522,921	-	198,827	\$ 357,699	357,699
Public utility services - Sanitary sewer	1,899,046	2,300,922	-	3,186,364	3,590,240	3,590,240
William T. Piper Memorial Airport	521,053	326,805	-	363,628	175,380	175,380
Total business-type activities	3,784,148	4,150,648	-	3,756,819	4,123,319	4,123,319
Total primary government	\$ 9,639,446	\$ 4,684,586	\$ 1,383,814	\$ 3,982,774	(3,711,591)	411,728
Component Unit, Lock Haven Area Flood Protection Authority	\$ 854,100	\$ 9,000	\$ -	\$ -		\$ (845,100)
General Revenues:						
Taxes					2,996,028	2,996,028
Grants and contributions not restricted to specific programs					742,450	742,450
Unrestricted investment earnings					1,937	14,470
Miscellaneous					161,929	63,352
Gain on sale of asset					-	9,564
Transfers					(41,506)	-
Total general revenues					3,860,838	3,987,793
Change in Net Position					149,247	4,399,521
Net Position - Beginning					7,675,686	11,256,160
As previously reported					(31,323)	(220,946)
Effect of adoption of GASB Statement No. 65					7,644,363	11,035,214
As adjusted						18,679,577
Net Position, Ending					\$ 7,793,610	\$ 23,079,098

See notes to financial statements

City of Lock Haven, Pennsylvania

Balance Sheet
Governmental Funds
December 31, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 180,568	\$ 522,013	\$ 702,581
Receivables:			
Taxes	352,660	-	352,660
Loans	-	471,244	471,244
Other governments	67,615	14,408	82,023
Due from other funds	110,542	289,219	399,761
Prepaid expenses	201,974	-	201,974
Total assets	\$ 913,359	\$ 1,296,884	\$ 2,210,243
Liabilities, Deferred Inflow of Resources and Fund Balances			
Liabilities:			
Vouchers (accounts) payable	\$ 29,673	\$ 11,411	\$ 41,084
Accrued liabilities	44,397	2,290	46,687
Due to other funds	116,736	947	117,683
Unearned revenue	3,794	471,244	475,038
Total liabilities	194,600	485,892	680,492
Deferred Inflow of Resources, Deferred tax revenue	321,454	-	321,454
Fund balances:			
Nonspendable	201,974	-	201,974
Restricted	197,598	833,652	1,031,250
Unassigned	(2,267)	(22,660)	(24,927)
Total fund balances	397,305	810,992	1,208,297
Total liabilities, deferred inflows of resources and fund balances	\$ 913,359	\$ 1,296,884	\$ 2,210,243

See notes to financial statements

City of Lock Haven, Pennsylvania

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position December 31, 2013

Total Fund Balance, Governmental Funds \$ 1,208,297

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. 10,410,335

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. 321,454

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. 559,894

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. (25,744)

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, 2013 are:

Bonds and notes payable	(2,156,765)
Other postemployment benefit obligation	(2,400,733)
Compensated absences	<u>(123,128)</u>

Net Position of Governmental Activities
in the Statement of Net Position \$ 7,793,610

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, 2013

	General Fund	Nonmajor Governmental Funds	Total
Revenues			
Taxes	\$ 2,950,361	\$ -	\$ 2,950,361
Licenses and permits	111,212	-	111,212
Fines and forfeits	133,360	-	133,360
Interest, rents and royalties	1,357	578	1,935
Intergovernmental	1,091,047	865,458	1,956,505
Charges for service	139,160	55,064	194,224
Collections on loans	-	55,634	55,634
Miscellaneous	71,799	47,199	118,998
Total revenues	4,498,296	1,023,933	5,522,229
Expenditures			
Current:			
General government	380,237	247,273	627,510
Employee benefits and insurance	1,201,910	16,664	1,218,574
Buildings and property	557,669	-	557,669
Community and economic development	-	150,000	150,000
Public works - highways and streets	711,273	598,485	1,309,758
Health and sanitation	223,431	-	223,431
Public safety	1,898,355	8,767	1,907,122
Culture and recreation	170,585	41,384	211,969
Other	4,325	28,136	32,461
Capital outlay	-	97,308	97,308
Debt service	370,035	57,357	427,392
Total expenditures	5,517,820	1,245,374	6,763,194
Deficiency of Revenues Over Expenditures	(1,019,524)	(221,441)	(1,240,965)
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets	1,285	-	1,285
Proceeds from long-term debt, net	1,323,691	32,537	1,356,228
Transfers in	73,927	13,971	87,898
Transfers out	(22,560)	(106,843)	(129,403)
Total other financing sources (uses), net	1,376,343	(60,335)	1,316,008
Change in Fund Balances	356,819	(281,776)	75,043
Fund Balance, Beginning	40,486	1,092,768	1,133,254
Fund Balance, Ending	\$ 397,305	\$ 810,992	\$ 1,208,297

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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 75,043

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays, \$1,652,647 exceeded depreciation expense, \$607,096, in the current period. 1,045,551

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, 2013. 45,668

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 2013, the following transactions factor into this reconciliation:

Issuance of long-term debt	(1,356,228)	
Retirement of principal of long-term debt	<u>337,736</u>	(1,018,492)

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, 2013 36,175

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. 559,894

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). (576,987)

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. (17,605)

Change in Net Position of Governmental Activities \$ 149,247

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, 2013

	Budgeted Amounts		Actual Amounts GAAP Basis	Adjustments Budgetary Basis	Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final				
Revenues						
Taxes	\$ 2,856,596	\$ 2,856,596	\$ 2,950,361	\$ (37,471)	\$ 2,912,890	\$ 56,294
Licenses And Permits	111,200	111,200	111,212	-	111,212	12
Fines And Forfeits	166,500	166,500	133,360	-	133,360	(33,140)
Interest, Rents And Royalties	1,330	3,330	1,357	1,201	2,558	(772)
Intergovernmental	373,565	569,834	1,091,047	-	1,091,047	521,213
Charges For Services	120,171	120,171	139,160	-	139,160	18,989
Miscellaneous	145,100	140,740	71,799	-	71,799	(68,941)
Total revenues	3,774,462	3,968,371	4,498,296	(36,270)	4,462,026	493,655
Expenditures:						
Current:						
General Government	377,125	389,765	380,237	(4,174)	376,063	13,702
Employee Benefits And Insurance	1,368,888	1,368,888	1,201,910	202,244	1,404,154	(35,266)
Public Safety	1,296,744	1,642,744	1,898,355	6,367	1,904,722	(261,978)
Public Works - Highways And Streets	390,528	1,160,528	711,273	147	711,420	449,108
Building And Property	238,246	738,246	557,669	(16)	557,653	180,593
Health And Sanitation	27,175	237,444	223,431	-	223,431	14,013
Culture And Recreation	110,980	210,980	170,585	605	171,190	39,790
Other	39,915	39,915	4,325	-	4,325	35,590
Debt Service	220,072	220,072	370,035	-	370,035	(149,963)
Capital Outlay	2,500	2,500	-	4,152	4,152	(1,652)
Total expenditures	4,072,173	6,011,082	5,517,820	209,325	5,727,145	283,937
(Deficiency) Excess of Revenues Over Expenditures	(297,711)	(2,042,711)	(1,019,524)	(245,595)	(1,265,119)	777,592
Other Financing Sources (Uses):						
Proceeds From the Sale of Capital Assets	2,000	2,000	1,285	-	1,285	(715)
Proceeds From Long-term Debt, Net	-	1,730,000	1,323,691	-	1,323,691	(406,309)
Transfers In	3,600	3,600	73,927	(33,927)	40,000	36,400
Transfers Out	(6,100)	(6,100)	(22,560)	20,060	(2,500)	3,600
Appropriated Fund Balance	313,211	313,211	-	120	120	(313,091)
Total other financing (uses) sources, net	312,711	2,042,711	1,376,343	(13,747)	1,362,596	(680,115)
(Deficiency) Excess of Revenues Over Expenditures After Other Financing Sources (Uses)	\$ 15,000	\$ -	\$ 356,819	\$ (259,342)	\$ 97,477	\$ 97,477

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Net Position
Proprietary Funds
December 31, 2013

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Airport Operating	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 435,449	\$ 2,036,525	\$ -	\$ 2,471,974	\$ -
Other accounts receivable, (net of allowance)	324,489	273,175	27,434	625,098	5,686
Due from other funds	4,072	93,176	40,189	137,437	-
Due from other governments	5,000	5,030	5,211	15,241	-
Restricted cash	-	3,661,030	-	3,661,030	-
Other current assets	5,169	-	-	5,169	-
Total current assets	774,179	6,068,936	72,834	6,915,949	5,686
Capital assets:					
Public utility systems (including related equipment)	7,522,626	8,751,720	-	16,274,346	-
Land and improvements	-	504,600	2,505,919	3,010,519	-
Equipment and vehicles	-	-	741,095	741,095	-
Construction in progress	-	26,231,582	1,770	26,233,352	-
Less accumulated depreciation	(3,293,896)	(5,920,771)	(1,005,844)	(10,220,511)	-
Total capital assets, net	4,228,730	29,567,131	2,242,940	36,038,801	-
Total assets	\$ 5,002,909	\$ 35,636,067	\$ 2,315,774	\$ 42,954,750	\$ 5,686
Liabilities					
Current liabilities:					
Current portion of bonds payable	\$ 80,900	\$ 98,400	\$ 23,700	\$ 203,000	\$ -
Current portion of notes payable	114,851	6,947,600	-	7,062,451	-
Vouchers (accounts) payable:					
Trade	1,884	14,336	6,303	22,523	17,250
Construction contracts, including retainage	-	2,970,088	-	2,970,088	-
Accrued liabilities	5,166	14,612	1,981	21,759	-
Due to other funds	97,181	27,925	280,229	405,335	14,180
Unearned revenue	-	251,419	2,527	253,946	-
Total current liabilities	299,982	10,324,380	314,740	10,939,102	31,430
Non-current liabilities:					
Compensated absences	15,712	35,077	1,521	52,310	-
Long-term portion of bonds payable	428,367	7,356,737	143,185	7,928,289	-
Long-term portion of notes payable	3,057,717	5,690,999	-	8,748,716	-
Payable to other governments	845	-	-	845	-
Total non-current liabilities	3,502,641	13,082,813	144,706	16,730,160	-
Total liabilities	3,802,623	23,407,193	459,446	27,669,262	31,430
Net Position					
Net investment in capital assets	546,895	10,164,337	2,076,055	12,787,287	-
Unrestricted	653,391	2,064,537	(219,727)	2,498,201	(25,744)
Total net position	1,200,286	12,228,874	1,856,328	15,285,488	(25,744)
Total liabilities and net position	\$ 5,002,909	\$ 35,636,067	\$ 2,315,774	\$ 42,954,750	\$ 5,686

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, 2013

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Airport Operating	Total	
Revenues					
Charges for services	\$ 1,522,921	\$ 2,300,922	\$ 326,805	\$ 4,150,648	\$ 159,917
Operating Expenses					
Personnel services	407,349	834,164	120,164	1,361,677	-
Utilities (including water filtration costs)	588,408	126,470	26,053	740,931	-
Depreciation	272,878	272,003	161,889	706,770	-
Materials, supplies and maintenance	7,180	159,578	181,566	348,324	177,524
Administrative expense	26,826	87,823	3,806	118,455	-
Sludge disposal	-	98,335	-	98,335	-
Insurance	2,788	48,035	18,836	69,659	-
Nutrient credit purchase	-	212,331	-	212,331	-
Miscellaneous	6,168	17,684	3,773	27,625	-
Total operating expenses	1,311,597	1,856,423	516,087	3,684,107	177,524
Operating income (loss)	211,324	444,499	(189,282)	466,541	(17,607)
Non-Operating Revenues (Expenses)					
Subsidies from other governments:					
State	-	3,188,364	369,628	3,557,992	-
Local	198,827	-	-	198,827	-
Interest income	5,655	6,878	-	12,533	2
Rental income	14,210	49,142	-	63,352	-
Proceeds from sale of assets	9,484	80	-	9,564	-
Interest expense	(52,452)	(42,623)	(4,966)	(100,041)	-
Total non-operating revenues, net	175,724	3,201,841	364,662	3,742,227	2
Income (Loss) Before Other Financing Sources	387,048	3,646,340	175,380	4,208,768	(17,605)
Other Financing Sources					
Transfers in	-	-	41,506	41,506	-
Net Income (Loss)	387,048	3,646,340	216,886	4,250,274	(17,605)
Net Position, Beginning					
As previously reported	837,713	8,761,537	1,656,910	11,256,160	(8,139)
Effect of adoption of GASB Statement No. 65	(24,475)	(179,003)	(17,468)	(220,946)	-
As adjusted	813,238	8,582,534	1,639,442	11,035,214	(8,139)
Net Position, Ending	\$ 1,200,286	\$ 12,228,874	\$ 1,856,328	\$ 15,285,488	\$ (25,744)

See notes to financial statements

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

Year Ended December 31, 2013

	Business-Type Activities				Governmental Activities
	Water Fund	Sewer Fund	Airport Fund	Totals	Internal Service Inventory Fund
Cash Flows From Operating Activities					
Cash received from users	\$ 1,468,943	\$ 2,627,071	\$ 350,666	\$ 4,446,680	\$ 169,520
Cash payments to employees for services	(414,042)	(831,971)	(119,230)	(1,365,243)	-
Cash paid to suppliers for goods and services	(633,666)	(771,836)	(245,652)	(1,651,154)	(169,522)
Net cash provided by (used in) operating activities	421,235	1,023,264	(14,216)	1,430,283	(2)
Cash Flows From Non-Capital Financing Activities					
Operating subsidies and transfers from (to) other funds	-	-	41,506	41,506	-
Cash Flows Provided by Investing Activities:					
Rental income	14,210	49,142	-	63,352	-
Earnings on investments	5,655	6,878	-	12,533	2
Net cash provided by investing activities	19,865	56,020	-	75,885	2
Cash Flows From Capital and Related Financing Activities					
Payments for capital acquisitions	(14,133)	(13,324,330)	(384,056)	(13,722,519)	-
Capital subsidies from other governments	198,827	6,405,915	369,628	6,974,370	-
Principal payments on long-term debt	(147,377)	(2,841,054)	(7,896)	(2,996,327)	-
Proceeds from long term debt	-	11,785,308	-	11,785,308	-
Interest paid	(52,452)	(202,744)	(4,966)	(260,162)	-
Proceeds from sale of assets	9,484	80	-	9,564	-
Net cash (used in) provided by capital and related financing activities	(5,651)	1,823,175	(27,290)	1,790,234	-
Increase in Cash and Cash Equivalents	435,449	2,902,459	-	3,337,908	-
Cash and Cash Equivalents, Beginning	-	2,795,096	-	2,795,096	-
Cash and Cash Equivalents, Ending	<u>\$ 435,449</u>	<u>\$ 5,697,555</u>	<u>\$ -</u>	<u>\$ 6,133,004</u>	<u>\$ -</u>
Displayed as:					
Cash and cash equivalents	\$ 435,449	\$ 2,036,525	\$ -	\$ 2,471,974	\$ -
Restricted cash	-	3,661,030	-	3,661,030	-
Total	<u>\$ 435,449</u>	<u>\$ 5,697,555</u>	<u>\$ -</u>	<u>\$ 6,133,004</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:					
Operating income (loss)	\$ 211,324	\$ 444,499	\$(189,282)	\$ 466,541	\$ (17,607)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	272,878	272,003	161,889	706,770	-
Changes in assets and liabilities:					
Accounts receivable, other	6,822	86,086	7,672	100,580	5,440
Due from/to other governments and funds	(60,800)	(6,956)	15,115	(52,641)	4,163
Other current assets	253	-	-	253	-
Vouchers payable	(2,296)	(21,580)	(11,596)	(35,472)	8,002
Deferred revenue	-	247,019	1,052	248,071	-
Accrued and other liabilities	(6,946)	2,193	934	(3,819)	-
Net Cash Provided by (Used In) Operating Activities	<u>\$ 421,235</u>	<u>\$ 1,023,264</u>	<u>\$ (14,216)</u>	<u>\$ 1,430,283</u>	<u>\$ (2)</u>
Supplemental Disclosure of Non-Cash Capital and Related Financing Activities					
Construction in process in contracts and retainage payable	\$ -	\$ 2,970,088	\$ -	\$ 2,970,088	\$ -
Interest capitalized as construction in process	\$ -	\$ 160,121	\$ -	\$ 160,121	\$ -

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2013

	<u>Pension and OPEB Trust Funds</u>
Assets	
Cash and cash equivalents	\$ 384,221
Contributions receivable	<u>26,507</u>
Total	<u>410,728</u>
Investments:	
Fixed income securities	3,239,833
Equity securities	6,571,611
Mutual funds	<u>1,174,106</u>
Total investments	<u>10,985,550</u>
Total assets	<u>\$ 11,396,278</u>
Liabilities	
Benefits payable	\$ 7,512
Net Position	
Held in trust for benefits and other purposes	<u>11,388,766</u>
Total liabilities and net position	<u>\$ 11,396,278</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2013

	Pension and OPEB Trust Funds
Additions	
Contributions:	
Commonwealth of Pennsylvania	\$ 238,466
Employees	90,602
City	<u>4,794</u>
Total contributions	<u>333,862</u>
Investment earnings:	
Net increase in fair value of investments	1,672,448
Interest and dividends	<u>233,476</u>
Total investment earnings	<u>1,905,924</u>
Total additions	<u>2,239,786</u>
Deductions	
Benefits	455,286
Other	<u>99,310</u>
Total deductions	<u>554,596</u>
Change In Net Position	1,685,190
Net Position, Beginning	<u>9,703,576</u>
Net Position, Ending	<u><u>\$ 11,388,766</u></u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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, 2013

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.

Blended Component Unit	Brief Description of Activities and Relationship to the City
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.
Discretely Presented Component Unit	Brief Description of Activities and Relationship to the City
The Lock Haven Area Flood Protection Authority (the "Flood Protection Authority") was created for the purpose of implementing the Lock Haven Flood Protection Project and accomplishing the related duties of the "local sponsor."	The Flood Protection Authority's board, consisting of seven members, is appointed by City Council (five appointments) and the Woodward Township Board of Supervisors (two appointments).

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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

Notes to Financial Statements

December 31, 2013

- 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 Federal Enterprise Program Fund accounts for revenues used to provide support to various projects and programs benefiting 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.

Fiduciary Funds

Pension and OPEB Trust Funds

Pension and 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 Principle

The City adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, for the year ended December 31, 2013. GASB No. 61 addresses certain issues with distinguishing a government's control over another government in the reporting of component units. The City implemented the accounting and reporting requirement of GASB 61 as of January 1, 2013. This implementation did not materially change the City's accounting and reporting policies.

The City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2013. GASB No. 65 provides financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as changes in the use of the term "deferred" in financial statement presentations. In addition, this statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to more consistently align with asset, liability, deferred inflow of resources and deferred outflow of resources definitions. The City implemented the accounting and reporting requirements of GASB No. 65 as of January 1, 2013. The effect of this adoption was to decrease the net position of the City's governmental activities by \$31,323 and the net position of its water, sewer and airport funds / net position by \$24,475, \$179,003 and \$17,468 (collectively, \$220,946 for business-type activities), respectively.

The City adopted GASB Statement No. 66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62*, for the year ended December 31, 2013. GASB No. 66 provides technical corrections to resolve conflicting guidance related to accounting for risk financing activities and the treatment of leases with scheduled rent increases. The City implemented the accounting and reporting requirements of GASB No. 66 as of January 1, 2013. The effect of this adoption did not materially change the City's accounting and reporting policies.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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

Marketable securities are stated at their fair values. Other investments, including cash investment funds and certificates of deposit, are carried at cost, which approximates market. Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported as investment income.

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, 2013 amounted to approximately \$106,839. 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, 2013.

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 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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

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

Liabilities for Compensated Absences

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

Unearned Revenues

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

At December 31, 2013, the General, Non-major Governmental, Sewer and Airport Operating Funds had unearned revenues of \$3,794, \$471,244, \$251,419, 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City, but not through formal action of City Council. The City Manager is authorized to make assignments.
- *Unassigned* - includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

Pension Plans

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

OPEB Plan

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

Use of Estimates

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

2. Budgetary Procedures and Budgetary Accounting

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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 10 of the accompanying financial statements. During 2013, the City had no major special revenue funds that adopted an annual budget.

3. Cash, Cash Equivalents, and Investments

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

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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, 2013, the aggregate bank balance of bank deposits was \$7,322,892, of which \$975,925 was covered by federal depository insurance and \$384,221 was covered by SIPC insurance. The uninsured remaining bank deposits of \$5,962,746 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 \$7,175,054- at December 31, 2013.

Investments - Pension Trust Funds

As of December 31, 2013, the City had the following investments:

Investment	Maturities	Fair Value
Equity securities	N/A	\$ 6,571,611
Mutual funds	N/A	1,174,106
Corporate bonds	Average of 8 years	888,858
Government bonds	Average of 4 years	882,007
U.S. Treasury securities	Average of 9 years	657,487
Government asset backed securities	Average of 20 years	129,544
Corp. mortgage/asset backed securities	Average of 23 years	376,065
Government mortgage pools	Average of 24 years	305,872
Total		<u>\$ 10,985,550</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, 2013, all of the City's Pension and OPEB Trust Fund investments were held by Charles Schwab and were insured by SIPC up to \$500,000 per account.

Credit Risk

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

As of December 31, 2013, the City's credit quality distribution of securities as a percentage of total investments is as follows:

Corporate bonds	BBB+ to AAA	27.44 %
U.S. Treasury securities	AA+	20.29 %
Government asset backed securities	AA- to AA+	4.00 %
Corp. mortgage/asset backed securities	BBB+ to AAA	11.61 %
Government bonds	AA+	27.22 %
Government mortgage pools	AA+	9.44 %
Total fixed income		<u>100.00 %</u>

The City's investment policy limits investments as follows:

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

Concentration of Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Restricted Cash

The City's Sewer Fund reports the unspent bond proceeds for future capital activity as restricted cash. At December 31, 2013, the unspent bond proceeds amounted to \$3,661,030.

Component Unit - Flood Protection Authority

Cash

At December 31, 2013 the carrying amount and bank balance of the Flood Protection Authority's deposits were \$4,723, all of which was covered by federal depository insurance.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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, 2013, upon which the 2013 levy was based, was \$280,609,800 of taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2013 were 88.20% of the tax levy.

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 22.16 mills and the millage on improvements as levied is 4.55 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, 2013 were:

General Governmental Services	6.47 mills
Levee System Operations	0.44 mills
Debt Service	0.67 mills

The City has a tax margin of 18.09 mills (25.00 mills limit less 6.47 mills for general government, less 0.44 mills for levee maintenance = 18.09 mills).

5. Due from Other Governments

The amount reported in the City's various governmental and proprietary funds at December 31, 2013 as due from other governments is summarized below:

	Federal	State	Local	Total
General Fund	\$ -	\$ -	\$ 67,615	\$ 67,615
Other Nonmajor Governmental Funds	14,408	-	-	14,408
Water Fund	-	-	5,000	5,000
Sewer Fund	-	5,030	-	5,030
Airport Fund	3,743	-	1,468	5,211
Total	\$ 18,151	\$ 5,030	\$ 74,083	\$ 97,264

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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 2013.

6. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2013 is as follows:

	Balance January 1, 2013	Acquisitions	Disposals	Transfers	Balance December 31, 2013
Governmental activities:					
Capital assets, not being depreciated,					
Land	\$ 3,411,307	\$ 153,000	\$ -	\$ -	\$ 3,564,307
Construction in progress	-	810,885	-	-	810,885
Total capital assets, not being depreciated	3,411,307	963,885	-	-	4,375,192
Capital assets, being depreciated:					
Land improvements	1,609,806	287,779	-	-	1,897,585
Buildings and improvements	3,925,614	-	-	-	3,925,614
Furniture and equipment	2,282,266	100,587	-	-	2,382,853
Transportation	812,404	300,396	-	-	1,112,800
Infrastructure	3,811,547	-	-	-	3,811,547
Total capital assets, being depreciated	12,441,637	688,762	-	-	13,130,399
Less accumulated depreciation:					
Land improvements	(1,275,125)	(67,403)	-	-	(1,342,528)
Buildings and improvements	(2,243,608)	(110,463)	-	-	(2,354,071)
Furniture and equipment	(1,573,113)	(109,071)	-	-	(1,682,184)
Transportation	(644,494)	(70,288)	-	-	(714,782)
Infrastructure	(751,820)	(249,871)	-	-	(1,001,691)
Total accumulated depreciation	(6,488,160)	(607,096)	-	-	(7,095,256)
Total capital assets, being depreciated	5,953,477	81,666	-	-	6,035,143
Governmental activities, net	\$ 9,364,784	\$ 1,045,551	\$ -	\$ -	\$ 10,410,335

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

	Balance January 1, 2013	Acquisitions	Disposals	Transfers	Balance December 31, 2013
Business-type activities:					
Capital assets, not being depreciated					
Land	\$ 669,000	\$ -	\$ -	\$ -	\$ 669,000
Construction in process	13,233,167	13,000,185	-	-	26,233,352
Total capital assets not being depreciated	13,902,167	13,000,185	-	-	26,902,352
Capital assets, being depreciated:					
Utility system	16,249,748	29,198	-	(88,741)	16,190,205
Land improvements	1,952,863	384,056	-	-	2,336,919
Equipment and vehicles	741,095	-	-	88,741	829,836
Total capital assets, being depreciated	18,943,706	413,254	-	-	19,356,960
Less accumulated depreciation:					
Utility system	(8,662,817)	(533,788)	-	5,249	(9,191,356)
Land improvements	(453,016)	(116,846)	-	-	(569,862)
Equipment and vehicles	(397,908)	(56,136)	-	(5,249)	(459,293)
Total accumulated depreciation	(9,513,741)	(706,770)	-	-	(10,220,511)
Business-type activities capital assets, net	\$ 23,332,132	\$ 12,706,669	\$ -	\$ -	\$ 36,038,801

Governmental activity depreciation expense, which amounted to \$607,096 for the year ended December 31, 2013 was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$272,878, \$272,003, and \$161,889 for the year ended December 31, 2013 was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

	<u>Balance January 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance December 31, 2013</u>
Component - Unit				
Flood Protection Authority:				
Land improvements	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(11,842,644)	(845,903)	-	(12,688,547)
Component unit - capital asset, net	<u>\$ 72,747,711</u>	<u>\$ (845,903)</u>	<u>\$ -</u>	<u>\$ 71,901,808</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, 2013 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 110,542	\$ 116,736
Non-major Funds	289,219	947
Enterprise Funds	137,437	405,335
Internal Service Fund	-	14,180
Total	<u>\$ 537,198</u>	<u>\$ 537,198</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2013 were as follows:

	In	Out
General Fund	\$ 73,927	\$ 22,560
Non-major Funds	13,971	106,844
Enterprise Funds	41,506	-
Total	<u>\$ 129,404</u>	<u>\$ 129,404</u>

During the year ended December 31, 2013, 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) \$(11,470) to fund loans for rehabilitation of city sidewalks, and to its Airport Fund (a nonmajor proprietary fund) \$(8,590) to fund capital asset projects. The City also transferred \$(32,916) from its capital projects fund (a nonmajor governmental fund) to fund certain capital assets projects within its Airport Fund (a nonmajor proprietary fund). The City transferred \$(40,000) from its capital projects fund (a nonmajor governmental fund) which represents an annually budgeted transfer of \$40,000 to the General Fund (pursuant to an agreement between the City and International Paper). The City transferred \$(33,927) from its capital projects fund (a nonmajor governmental fund) to the General Fund for purposes of funding certain capital purchases made during the current year.

8. Long-Term Debt

As of December 31, 2013, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at 1/1/13	Additions	Retirements	Balance at 12/31/13	Current Portion
PennVEST Note Payable - Sewer Fund	1.156 %	\$ 2,638,730	\$ 1,584,113	\$ -	\$ 124,709	\$ 1,459,404	\$ 126,174
DCED Note Payable - Sewer Fund	2.00 %	25,000	2,614	-	2,614	-	-
PennVEST Note Payable - Water Fund	1.00 %	6,122,000	3,286,281	-	113,713	3,172,568	114,851
2009 General Obligation Bond, Series A	2.25 - 3.50 %	3,715,000	2,565,000	-	450,000	2,115,000	400,000
2010 General Obligation Note	2.39 - 5.00 %	1,200,000	138,426	4,602	143,028	-	-
2011 General Obligation Bond - Sewer Fund	1.97 %	8,600,000	5,316,346	4,005,080	2,500,000	6,821,426	6,821,426
PennVEST Note Payable - Sewer Fund	1.00 %	18,074,732	3,398,968	7,780,228	-	11,179,196	-
2013 General Obligation Bond	2.46 - 5.50 %	2,118,000	-	1,351,627	-	1,351,627	3,000
Total, net			<u>\$ 16,291,748</u>	<u>\$ 13,141,537</u>	<u>\$ 3,334,064</u>	<u>\$ 26,099,221</u>	<u>\$ 7,465,451</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

Amounts are reported in the accompanying financial statements as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Governmental Activities Bonds & Notes Payable	\$ 200,000	\$ 1,956,765	\$ 2,156,765
Business-Type Activities Bonds & Notes Payable	<u>7,265,451</u>	<u>16,677,005</u>	<u>23,942,456</u>
Total	<u>\$ 7,465,451</u>	<u>\$ 18,633,770</u>	<u>\$ 26,099,221</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, originally due in monthly installments of \$12,275 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 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. Beginning in March 2012, the City's monthly payment installment changed to \$11,864, including principal and interest based on final amortization.

General Obligation Note - DCED - Sewer Fund

In April 2006, the City entered into a \$25,000 note payable arrangement with the Commonwealth of Pennsylvania, Department of Community and Economic Development ("DCED"), bearing interest at 2%, payable quarterly, maturing in May 2013. The City received the proceeds from this note in April 2008; the proceeds were used toward the purchase of a Flusher Truck. The balance of this note was paid in the current year.

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 12/31/13), originally due in monthly installments of \$19,691, 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. Beginning in May 2012, the City's monthly payment installment changed to \$12,171, including principal and interest based on final amortization.

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, General Obligation Note, Series B of 2007 and a portion of the 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, 2013, the City had \$805,138 and \$1,309,862 outstanding within its governmental activities and proprietary funds, respectively.

General Obligation Note, Series of 2010

In 2011, the City issued a \$1,200,000 General Obligation Note, Series of 2010, bearing interest at 67% of the sum of 1 month LIBOR plus 2.39% (not to exceed 5%), maturing June 1, 2013. For 2013, the interest rate equated to approximately 1.62%. The proceeds from the issuance of the note were used to (1) finance the planning, development, design, purchase, acquisition and construction of a Pedestrian Mall Walkway; and (2) to pay the costs of issuing the notes. The outstanding balance of this note was refunded in the current year by the City's issuance of its General Obligation Bond, Series of 2013. The change in total debt service payments and net economic gain (loss) resulting from this refunding were not material.

General Obligation Bond, Series of 2011 - Sewer Fund

In 2011, the City issued, as interim financing, a \$8,600,000 General Obligation Bond, Series of 2011, bearing interest at 1.97% per annum, maturing December 15, 2014 (only \$6,821,426 was drawn as of 12/31/13). 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 City intends to refinance this borrowing at maturity.

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 \$11,179,196 was drawn as of 12/31/13), due in monthly installments of \$58,135, including principal and interest at 1% per annum through maturity in July 2044. (If the City does not draw any further funds on this loan, final maturity would be during 2022.) The proceeds drawn on the note to date were used to finance the City's sewer system capital improvement project. The note is secured by the City's pledge of all gross receipts and revenues of the sewer system and a lien position thereto.

General Obligation Bond, Series of 2013

In 2013, the City issued a \$2,118,000 General Obligation Bond, Series of 2013, bearing interest at 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, 2013, the City had \$1,351,627 outstanding within its governmental activities.

Interest paid on these bonds and notes during the year ended December 31, 2013 amounted to \$283,144. Of the interest paid, \$160,121 was capitalized for the year ended December 31, 2013 within the City's Sewer Fund.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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, 2013:

Years Ending December 31	Principal	Interest	Total
2014	\$ 7,465,451	\$ 385,970	\$ 7,851,421
2015	1,055,917	229,672	1,285,589
2016	1,212,574	220,821	1,433,395
2017	1,187,915	202,271	1,390,186
2018	1,529,629	194,715	1,724,344
2019-2023	10,900,796	552,005	11,452,801
2024-2028	2,677,101	201,876	2,878,977
2029-2033	69,838	2,311	72,149
Total	<u>\$ 26,099,221</u>	<u>\$ 1,989,641</u>	<u>\$ 28,088,862</u>

9. Compensated Absences

The changes in the City's compensated absences in 2013 are summarized as follows:

Governmental Activities	
Balance, January 1, 2013	\$ 159,303
Increase	11,079
Decrease	<u>(47,254)</u>
Balance, December 31, 2013	<u>\$ 123,128</u>
Business Type Activities	
Balance, January 1, 2013	\$ 59,415
Increase	2,886
Decrease	<u>(9,991)</u>
Balance, December 31, 2013	<u>\$ 52,310</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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

During the year ended December 31, 2013, the City transferred \$29,527 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.

	Combining Statement of Fiduciary Net Position				
	Police Pension	City Employees Retirement Fund	Total Pension	OPEB Police Death Benefit *	Total Pension/OPEB
Assets:					
Cash and cash equivalents	\$ 154,881	\$ 226,199	\$ 381,080	\$ 3,141	\$ 384,221
Contributions receivable	13,487	10,899	24,386	2,121	26,507
Total	168,368	237,098	405,466	5,262	410,728
Investments:					
Fixed income securities	1,565,298	1,625,125	3,190,423	49,410	3,239,833
Equity securities	3,150,288	3,319,236	6,469,524	102,087	6,571,611
Mutual funds	527,273	630,116	1,157,389	16,717	1,174,106
Total investments	5,242,859	5,574,477	10,817,336	168,214	10,985,550
Total assets	<u>\$ 5,411,227</u>	<u>\$ 5,811,575</u>	<u>\$ 11,222,802</u>	<u>\$ 173,476</u>	<u>\$ 11,396,278</u>
Liabilities					
Benefits payable	\$ 4,011	\$ 3,501	\$ 7,512	\$ -	\$ 7,512
Net position,					
Held in trust for benefits	5,407,216	5,808,074	11,215,290	173,476	11,388,766
Total liabilities and net position	<u>\$ 5,411,227</u>	<u>\$ 5,811,575</u>	<u>\$ 11,222,802</u>	<u>\$ 173,476</u>	<u>\$ 11,396,278</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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	\$ 152,941	\$ 85,525	\$ 238,466	\$ -	\$ 238,466
Employees	10,466	80,136	90,602	-	90,602
City	2,562	1,432	3,994	800	4,794
Total contributions	165,969	167,093	333,062	800	333,862
Investment earnings:					
Net increase in fair value of investments	816,220	837,436	1,653,656	18,792	1,672,448
Interest and dividends	109,405	115,670	225,075	8,401	233,476
Total investment earnings	925,625	953,106	1,878,731	27,193	1,905,924
Total additions	1,091,594	1,120,199	2,211,793	27,993	2,239,786
Deductions:					
Benefits	311,400	143,886	455,286	-	455,286
Other	49,611	48,669	98,280	1,030	99,310
Total deductions	361,011	192,555	553,566	1,030	554,596
Change in net position	730,583	927,644	1,658,227	26,963	1,685,190
Net position, beginning	4,676,633	4,880,430	9,557,063	146,513	9,703,576
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>

* - See Note 12

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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 of the last 10 years of services 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
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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

	CERF	Police
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.

Membership of the Pension Plans consisted of the following at January 1, 2013, the date of the latest actuarial valuation:

	CERF	Police
Retirees and beneficiaries receiving benefits	26	15
Terminated members entitled to but not yet receiving benefits	2	-
Active plan members	<u>39</u>	<u>11</u>
Total	<u>67</u>	<u>26</u>
Number of participating employers	<u>1</u>	<u>1</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2013

Funding Policy

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:

Employee Groups Covered	CERF	Police
Elected officials	\$8 per month	n/a
City employees	6% of pay	n/a
Police officers	\$3 per month	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.

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	\$ 86,957	\$ 155,503
Interest on net pension asset	(27,755)	(9,135)
Adjustment to annual required contribution	-	
Annual pension cost	59,202	146,368
Contributions made	86,957	155,503
Increase in net pension asset	27,755	9,135
Net pension asset, beginning of year	396,502	130,496
Net pension asset, end of year	\$ 424,257	\$ 139,631

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

The annual required contribution ("ARC") for the current year was determined as part of the January 1, 2013 actuarial valuation, which used the following assumptions:

Actuarial Assumptions	CERF	Police
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Investment rate of return	7.0%	7.0%
Projected salary increase	4.0%	5.0%
Inflation rate	2.5%	2.5%
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	N/A	N/A

<u>Trend Information</u>			
Plan and Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
City Employees Retirement Pension Fund			
12/31/13	\$ 59,202	>100 %	\$ (422,825)
12/31/12	59,846	>100	(396,502)
12/31/11	116,894	>100	(365,590)
Police Pension Fund			
12/31/13	\$ 146,368	>100 %	\$ (137,069)
12/31/12	148,284	>100	(130,496)
12/31/11	79,487	>100	(121,959)

Funded Status and Funding Progress

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 %	\$ 604,470	38.9 %
City Employees Retirement Pension Fund	4,752,868	5,133,350	380,482	93 %	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.

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).

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, 2013 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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. The costs of such insurance coverage for retirees are primarily funded through annual appropriations from the City's General Fund. 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 \$156,000 for the year ended December 31, 2013.

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	\$ 817,930
Interest on net OPEB obligation	72,950
Adjustment to annual required contribution	<u>(157,721)</u>
Annual OPEB cost (expense)	733,159
Contributions made	<u>156,172</u>
Increase in net OPEB obligation	576,987
Net OPEB obligation at January 1, 2013	<u>1,823,746</u>
Net OPEB obligation at December 31, 2013	<u>\$ 2,400,733</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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, 2013, 2012, and 2011 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 733,159	21.3 %	\$ 2,400,733
December 31, 2012	761,300	20.5 %	1,823,746
December 31, 2011	438,092	18.2 %	1,218,342

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 6,564,815
Actuarial value of plan assets	<u>146,916</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,417,899</u>
Funded ratio (actuarial value of plan assets/UAAL)	2.2%
Estimated annual covered payroll	730,000
UAAL as a percentage of covered payroll	879.2%

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

Actuarial Methods and Assumptions

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

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 9% for 2013, 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	<u>\$ 201,974</u>	<u>\$ -</u>	<u>\$ 201,974</u>
Restricted for:			
Capital Projects	\$ 197,598	\$ 424,881	\$ 622,479
Street Programs	-	79,669	79,669
Recreation	-	55,756	55,756
Economic Development	-	273,346	273,346
Total	<u>\$ 197,598</u>	<u>\$ 833,652</u>	<u>\$ 1,031,250</u>

14. Jointly Governed Organization

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

During the year ended December 31, 2013, the City purchased \$471,357 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 is not considered a component unit of the City.

16. 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.

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 \$69,093 at December 31, 2013. The City has a surplus deposit related to the plan in the amount of \$271,067 at December 31, 2013. The cost of medical coverage for employees was approximately \$201,974 in 2013.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

17. Effect of Adoption of GASB Statement No. 65

The City adopted GASB Statement No. 65 for its calendar year ended December 31, 2013, which requires that the effects be applied to the earliest period presented. The changes within the City's December 31, 2012 assets and net position are as follows:

	Governmental Activities	Water Fund	Sewer Fund	Airport Fund	Business-Type Activities
Total assets, as previously reported, at December 31, 2012	\$ 11,294,916	\$ 4,929,303	\$ 23,466,046	\$ 2,126,698	\$ 29,995,548
Deferred charges (Bond issuance costs)	31,323	24,475	179,003	17,468	220,946
Restated total assets at December 31, 2012	<u>\$ 11,263,593</u>	<u>\$ 4,904,828</u>	<u>\$ 23,287,043</u>	<u>\$ 2,109,230</u>	<u>\$ 29,774,602</u>
Net position, as previously reported, at January 1, 2013	\$ 7,675,686	\$ 837,713	\$ 8,761,537	\$ 1,656,910	\$ 11,256,160
Effect of adoption of GASB No. 65	31,323	24,475	179,003	17,468	220,946
Restated net position at January 1, 2013	<u>\$ 7,644,363</u>	<u>\$ 813,238</u>	<u>\$ 8,582,534</u>	<u>\$ 1,639,442</u>	<u>\$ 11,035,214</u>

18. Pending Changes in Accounting Principles

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. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this statement. The City is required to adopt Statement No. 68 for its fiscal year 2014 financial statements.

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. As used in this statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. To the extent applicable, the City would be required to adopt Statement No. 69 for its fiscal year 2014 financial statements.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2013

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-Exchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. To the extent applicable, the City is required to adopt Statement No. 70 for its fiscal year 2014 financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City is required to adopt Statement No. 71 for its fiscal year 2014 financial statements.

City management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

City of Lock Haven, Pennsylvania

Required Supplementary Information
Schedule of Funding Progress - Pension Trust Funds
Year Ended December 31, 2013
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (Asset)	Funded Ratio (a)/(b)	Annual Covered Payroll	Ratio of Unfunded Liability to Annual Covered Payroll
City Employees Retirement Fund						
January 1, 2013	\$ 4,752,868	\$ 5,133,350	\$ 380,482	92.6%	\$ 1,398,475	27.2%
January 1, 2011	4,476,383	4,500,489	24,106	99.5%	1,544,320	1.6%
January 1, 2009	3,790,120	3,800,602	10,482	99.7%	1,395,136	0.8%
Police Pension Fund						
January 1, 2013	\$ 4,526,703	\$ 4,762,090	\$ 235,387	95.1%	\$ 604,470	38.9%
January 1, 2011	\$ 4,549,639	\$ 4,417,256	\$ (132,383)	103.0%	\$ 647,361	N/A
January 1, 2009	4,139,188	3,866,755	(272,433)	107.0%	631,043	N/A

Note: As permitted by GASB No. 25,
the City has elected to value these
plans on a biennial basis.

City of Lock Haven, Pennsylvania

Required Supplementary Information

Schedule of Employer Contributions - Pension Trust Funds

Year Ended December 31, 2013

(Unaudited)

Year Ended December 31,	Police Pension Fund		City Employees Retirement Pension Fund	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2013	\$ 155,503	100 %	\$ 86,957	100 %
2012	156,821	100 %	85,437	106 %
2011	140,351	105 %	87,184	105 %
2010	50,572	168 %	12,320	1,129 %
2009	37,722	100 %	7,926	100 %
2008	40,011	103 %	10,313	103 %
2007	64,540	100 %	42,987	100 %
2006	56,187	100 %	37,529	100 %
2005	122,539	100 %	95,812	100 %
2004	110,428	102 %	88,807	102 %

(1) - An additional \$9,704 was paid in 2005 for 2003 as a result of a state audit.

See note to required supplementary information

City of Lock Haven, Pennsylvania

Note to Required Supplementary Information - Pension Trust Funds

December 31, 2013

(Unaudited)

Actuarial Assumptions

The following actuarial assumptions were used in the January 1, 2013 actuarial valuation, the most recent actuarial valuation:

Actuarial Assumption	City Employees Retirement Fund	Police Pension Fund
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Investment rate of return	7.0%	7.0%
Projected salary increase	4.0%	5.0%
Consumer Price Index	2.5%	2.5%
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	N/A	N/A

City of Lock Haven, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

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, 2013	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue December 31, 2013
U.S. Department of Housing and Urban Development, 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)	C0000049976	14.228	\$ 370,457	\$ 63,292	\$ 6,613	\$ 56,758	\$ 56,758	\$ 79
Community Development Block Grant State's Program (2011 Allotment)	C0000052228	14.228	316,864	194,337	-	197,935	197,935	3,598
Community Development Block Grant State's Program (2012 Allotment)	C0000052831	14.228	300,000	134,058	-	143,159	143,159	9,101
Community Development Block Grant Revolving Loan Program Income	(N/A)	14.228	(N/A)	1,723	31,888	14,005	14,005	44,170
Total CDBG - State Administered Small Cities Program Cluster				393,410	38,501	411,857	411,857	56,948
HOME Program - Home Investment Partnerships Program	C0000051595	14.239	500,000	201,870	6,550	196,950	196,950	1,630
Total U.S. Department of Housing and Urban Development				595,280	45,051	608,807	608,807	58,578
U.S. General Services Administration, Passed through Pennsylvania Department of General Services, Federal Surplus Program	(N/A)	39.003	(N/A)	2,844	-	2,844	2,844	-
U.S. Department of Transportation, Passed through Pennsylvania Department of Transportation:								
Taxway Rehab, Phase I Design	78801311131	20.106	82,440	-	-	4,213	4,213	4,213
Rehab RW 9/27, Phase I Design	78801311110	20.106	80,684	-	476	-	-	476
Rehab RW 9/27, Phase II Construction	78801311121	20.106	913,500	358,724	12,127	345,651	345,651	(946)
Total U.S. Department of Transportation				358,724	12,603	349,864	349,864	3,743

(Continued)

City of Lock Haven, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

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, 2013	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue December 31, 2013
U.S. Department of Justice, JAG Program Cluster ARRA/Byrne Justice Assistance Program - Police Hiring	2009-AJ-01-20862	16.803	100,000	22,471	13,689	8,767	8,767	(15)
Total Federal Financial Assistance				\$ 979,319	\$ 71,343	\$ 970,282	\$ 970,282	\$ 62,306

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.

**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, 2013, 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 24, 2014. 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 disclosed that the City has not presented a Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements. In our report, an emphasis-of-matter paragraph was included, as more fully disclosed in Notes 1 and 17 to the financial statements, to address the City's adoption of a new accounting principle. Our opinion 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 2013-001 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 2013-002, 2013-003, 2013-004, and 2013-005 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.



Williamsport, Pennsylvania
September 24, 2014

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

Honorable Members of City Council
City of Lock Haven, Pennsylvania

Report on Compliance for Each 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 each of the City's major federal programs for the year ended December 31, 2013. The City's major federal programs are 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 each of the City's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each 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 each of its major federal programs for the year ended December 31, 2013.

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 each 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.



Williamsport, Pennsylvania
September 24, 2014

City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

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 major programs:

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

Type of auditor's report issued on compliance for federal major programs: 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 programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program
20.106	Airport Improvement 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, 2013

Section II - Financial Statement Findings

Finding No.

Finding/Noncompliance

2013-001

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 2013.

Effect: General Fund cash account balances within the general ledger system, during 2013, did not reflect accurate, reconciled balances.

Cause: Lack of understanding of the pooled cash account reconciliation process within the MUNIS accounting system.

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, 2013

Finding No.

Finding/Noncompliance

2013-002

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 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, 2013

Finding No.

Finding/Noncompliance

2013-003

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;
- Conversion of financial statements from fund basis to government wide basis and from cash to accrual basis; and,
- Beginning fund balances for prior year activity.

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.

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, 2013

Finding No.

Finding/Noncompliance

2013-004

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

Criteria: The City provides separate defined benefit pension plans for general employees and police department personnel (the "Pension Funds").

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.

Effect: City management cannot be assured that its Pension Funds have been properly valued, credited for investment earnings, and that Pension Fund disbursements are limited to authorized benefit payments and administrative charges.

Cause: Lack of oversight.

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

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, 2013

Finding No.

Finding/Noncompliance

2013-005

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.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Summary Schedule of Prior Year Audit Findings

Prior year findings 2012-01, 2012-02 and 2012-03, which related to internal control over financial reporting, are repeated as current year findings 2013-002, 2013-003 and 2013-004, respectively.