

CITY OF LOCK HAVEN, PENNSYLVANIA

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
&
INDEPENDENT AUDITORS' REPORT
&
REQUIRED SUPPLEMENTARY INFORMATION
&
ADDITIONAL INFORMATION
&
SINGLE AUDIT REPORTS**

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INDEPENDENT AUDITORS' REPORT

Honorable Members of City Council,
City of Lock Haven, Pennsylvania:

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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 represent 100% of the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit. Those financial statements were audited by another auditor 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 on the report of the other auditor.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of another auditor, 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, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has not presented Management's Discussion and Analysis (MD&A) that 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 accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2009 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedule of Funding Progress - Pension Trust Funds on page 46, Schedule of Employer Contributions - Pension Trust Funds on page 47 and Note to Required Supplementary Information - Pension Trust Funds on page 48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards on pages 49 – 50 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The accompanying combining pension trust fund financial statements on pages 51 - 52 are presented for purposes of additional analysis, and are also not a required part of the basic financial statements of the City. The schedule of expenditures of federal awards and the combining pension trust funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Parente Randolph, LLC

Williamsport, Pennsylvania
July 30, 2009

CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF NET ASSETS
DECEMBER 31, 2008

PRIMARY GOVERNMENT

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	Component Unit - Flood Protection Authority
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 1,443,254	\$ 811,024	\$ 2,254,278	\$ 8,757
Receivables (net of allowance for uncollectibles):				
Taxes	464,729	-	464,729	-
Loans	312,362	-	312,362	-
Other	-	500,056	500,056	-
Internal balances	216,277	(216,277)	-	-
Due from other governments	244,518	9,552	254,070	-
Other current assets	-	5,801	5,801	-
Total current assets	<u>2,681,140</u>	<u>1,110,156</u>	<u>3,791,296</u>	<u>8,757</u>
Capital assets:				
Utility system (including equipment)	-	15,964,672	15,964,672	-
Land and improvements	5,002,944	1,072,701	6,075,645	-
Infrastructure and infrastructure in progress	1,500,044	-	1,500,044	84,590,355
Buildings	3,867,833	-	3,867,833	-
Equipment and furniture	2,854,944	457,712	3,312,656	-
Less: accumulated depreciation	(4,580,191)	(6,920,720)	(11,500,911)	(8,459,032)
Total capital assets	<u>8,645,574</u>	<u>10,574,365</u>	<u>19,219,939</u>	<u>76,131,323</u>
Deferred charges	<u>6,713</u>	<u>18,236</u>	<u>24,949</u>	<u>-</u>
TOTAL	<u>11,333,427</u>	<u>11,702,757</u>	<u>23,036,184</u>	<u>76,140,080</u>
LIABILITIES:				
Accounts payable and accrued expenses	185,412	175,508	360,920	588
Due to other governments	-	729	729	-
Deferred revenues	519,156	2,075	521,231	-
Long-term liabilities:				
Due within one year,				
Bonds and note payable	161,112	1,825,266	1,986,378	-
Due in more than one year:				
Bonds and note payable	2,072,191	6,188,973	8,261,164	-
Compensated absences	156,526	57,005	213,531	-
TOTAL	<u>3,094,397</u>	<u>8,249,556</u>	<u>11,343,953</u>	<u>588</u>
NET ASSETS:				
Invested in capital assets, net of related debt	6,412,271	2,560,126	8,972,397	76,131,323
Restricted for:				
Capital projects	355,223	-	355,223	-
Other projects	936,970	-	936,970	-
Unrestricted	<u>534,566</u>	<u>893,075</u>	<u>1,427,641</u>	<u>8,169</u>
TOTAL	<u>\$ 8,239,030</u>	<u>\$ 3,453,201</u>	<u>\$ 11,692,231</u>	<u>\$ 76,139,492</u>

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

FUNCTIONS/PROGRAMS	PROGRAM REVENUE					NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNIT	
	CHARGES FOR SERVICES		OPERATING GRANTS AND CONTRIBUTIONS		CAPITAL GRANTS AND CONTRIBUTIONS		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES		TOTAL
	EXPENSES									
PRIMARY GOVERNMENT:										
Governmental activities:										
General government	\$ 706,892	\$ 321,146	\$ 318,237	\$ -	\$ (67,509)	\$ (67,509)		\$ (67,509)		
Public safety	1,213,950	150,173	-	-	(1,063,777)	(1,063,777)		(1,063,777)		
Health, welfare and sanitation	1,086,503	35,897	736,321	33,333	(280,952)	(280,952)		(280,952)		
Culture and recreation	27,739	8,857	18,500	-	(18,882)	(18,882)		(18,882)		
Building and property	216,432	-	-	-	(197,932)	(197,932)		(197,932)		
Interest on long-term debt	203,133	-	-	-	(203,133)	(203,133)		(203,133)		
Employee benefits and insurance	75,060	-	-	-	(75,060)	(75,060)		(75,060)		
Other	703,189	-	-	-	(703,189)	(703,189)		(703,189)		
Unallocated depreciation	4,675	-	-	-	(4,675)	(4,675)		(4,675)		
	336,371	-	-	-	(336,371)	(336,371)		(336,371)		
Total governmental activities	4,573,944	507,216	1,081,915	33,333	(2,951,480)	(2,951,480)		(2,951,480)		
Business-type activities:										
Utility services - Water	1,634,404	1,219,468	-	76,167			\$ (338,769)	(338,769)		
Utility services - Sanitary sewer	1,517,336	1,567,258	-	-			49,922	49,922		
William T. Piper Memorial Airport	394,097	294,069	-	120,977			20,949	20,949		
Total business-type activities	3,545,837	3,080,795	-	197,144			(267,898)	(267,898)		
TOTAL	\$ 8,119,781	\$ 3,588,011	\$ 1,081,915	\$ 230,477	(2,951,480)	(2,951,480)	(267,898)	(3,219,378)		
COMPONENT UNITS:										
Lock Haven Area Flood Protection Authority	\$ 853,254	\$ -	\$ 9,000	\$ -					\$ (844,254)	
GENERAL REVENUES:										
Taxes					2,396,472	2,396,472		2,396,472		
Grants and contributions not restricted to specific programs					970,161	970,161		970,161		
Unrestricted investment earnings					35,990	35,990	33,968	69,958	49	
Miscellaneous					205,895	205,895	14,770	220,665		
Gain on sale of asset					-	-	8,583	8,583		
Transfers					(333,728)	(333,728)	333,728	-		
Total general revenues					3,274,790	3,274,790	391,049	3,665,839	49	
Change in net assets					323,310	323,310	123,151	446,461	(844,205)	
Net assets - beginning					7,915,720	7,915,720	3,330,050	11,245,770	76,983,697	
Net assets, ending					\$ 8,239,030	\$ 8,239,030	\$ 3,453,201	\$ 11,692,231	\$ 76,139,492	

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	GENERAL FUND	CAPITAL PROJECTS	2003 CDBG	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 256,085	\$ 476,988	\$ -	\$ 696,240	\$ 1,429,313
Receivables:					
Taxes	464,729	-	-	-	464,729
Loans	-	-	-	312,362	312,362
Other governments	23,199	-	192,561	25,308	241,068
Due from other funds	94,131	-	-	370,411	464,542
TOTAL	\$ 838,144	\$ 476,988	192,561	\$ 1,404,321	\$ 2,912,014
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Vouchers payable	\$ 34,110	\$ 1,151	\$ 48,774	\$ 12,715	\$ 96,750
Accrued liabilities	71,704	-	-	11,153	82,857
Due to other funds	108,378	-	130,700	9,187	248,265
Deferred revenue	341,795	-	-	312,364	654,159
Total liabilities	555,987	1,151	179,474	345,419	1,082,031
Fund balances:					
Unreserved, designated:					
Off-street parking	-	-	-	(6,664)	(6,664)
Recreation	-	-	-	20,410	20,410
Interchange	-	-	-	(3,344)	(3,344)
Flood protection	-	-	-	85,576	85,576
Streets	-	-	-	30,041	30,041
Curbs and sidewalks	-	-	-	63,851	63,851
Other designations	-	-	-	566,432	566,432
Reserved for:					
Capital projects	-	475,837	-	-	475,837
Economic development	-	-	13,087	302,600	315,687
Unreserved, undesignated	282,157	-	-	-	282,157
Total fund balances	282,157	475,837	13,087	1,058,902	1,829,983
TOTAL	\$ 838,144	\$ 476,988	\$ 192,561	\$ 1,404,321	\$ 2,912,014

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2008

TOTAL FUND BALANCE, GOVERNMENTAL FUNDS \$ 1,829,983

Amounts reported for governmental activities in the
statement of net assets 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 assets. 8,645,574

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 deferred revenue
in the funds. 135,004

Deferred financing cost related to issuance of debt are
deferred and amortized over life of the debt in statement
of activities. 6,713

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 assets. 11,585

Long-term liabilities, including bonds and notes payable, are not
due and payable in the current period, and therefore are
not reported as liabilities in the funds. (2,233,303)

Compensated absences, primarily sick-time buy back, are not
due and payable in the current period, and therefore are not
reported as liabilities in the funds. (156,526)

NET ASSETS OF GOVERNMENTAL ACTIVITIES
IN THE STATEMENT OF NET ASSETS \$ 8,239,030

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	GENERAL FUND	CAPITAL PROJECTS	2003 CDBG	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 2,393,268	\$ -	\$ -	\$ -	\$ 2,393,268
Licenses and permits	58,473	-	-	-	58,473
Fines and forfeits	150,173	-	-	-	150,173
Interest, rents and royalties	2,886	23,738	-	9,360	35,984
Intergovernmental	246,466	80,000	848,338	810,026	1,984,830
Charges for service	127,333	-	-	35,897	163,230
Collections on loans	-	-	-	65,350	65,350
Miscellaneous	60,731	2,692	-	185,475	248,898
Total revenues	3,039,330	106,430	848,338	1,106,108	5,100,206
EXPENDITURES:					
Current:					
General government	275,368	-	-	214,802	490,170
Employee benefits and insurance	685,619	-	-	17,734	703,353
Building and property	202,378	-	-	-	202,378
Community and economic development	-	-	848,337	1,100,386	1,948,723
Public works - highways and streets	240,581	-	-	204,440	445,021
Health and sanitation	27,739	-	-	-	27,739
Public safety	1,246,196	-	-	-	1,246,196
Culture and recreation	126,589	-	-	89,756	216,345
Other	4,000	-	-	82,400	86,400
Capital outlay	-	26,287	-	675	26,962
Debt service	227,318	1,256,000	-	-	1,483,318
Total expenditures	3,035,788	1,282,287	848,337	1,710,193	6,876,605
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,542	(1,175,857)	1	(604,085)	(1,776,399)
OTHER FINANCING SOURCES (USES):					
Proceeds from the sale of capital assets	-	1,256,000	-	-	1,256,000
Transfer to business-type activities	-	(122,799)	-	-	(122,799)
Transfers in	40,000	-	-	66,100	106,100
Transfers out	(66,100)	(333,728)	-	(40,000)	(439,828)
Total other financing (uses) sources, net	(26,100)	799,473	-	26,100	(333,728)
CHANGE IN FUND BALANCES	(22,558)	(376,384)	1	(577,985)	(2,110,127)
FUND BALANCE, BEGINNING	304,715	852,221	13,086	1,636,887	3,940,110
FUND BALANCE, ENDING	\$ 282,157	\$ 475,837	\$ 13,087	\$ 1,058,902	\$ 1,829,983

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
FOR THE YEAR ENDED DECEMBER 31, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,110,127)

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, \$1,365,320 exceeded depreciation, \$336,371, in the current period. 1,028,949

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, 2008. 9,207

Governmental funds report repayment of debt principal as an expenditure. In contrast, the statement of net assets treats such repayments as a reduction in long-term liabilities. 1,408,258

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, 2008. (11,770)

Government funds report the effect of issuance costs when debt is first issued, where as these amounts are deferred and amortized in the statement of net assets. (5,754)

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 with governmental activities. 4,547

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 323,310

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS BUDGETARY BASIS	WITH FINAL BUDGET
REVENUES:				
Taxes	\$ 2,280,568	\$ 2,310,168	\$ 2,393,268	\$ 83,100
Licenses and permits	59,200	59,200	58,473	(727)
Fines and forfeits	152,500	152,500	150,173	(2,327)
Interest, rents and royalties	4,000	4,000	2,886	(1,114)
Intergovernmental	181,939	249,762	246,466	(3,296)
Charges for services	94,456	97,675	127,333	29,658
Miscellaneous	<u>94,052</u>	<u>95,552</u>	<u>60,731</u>	<u>(34,821)</u>
Total revenues	<u>2,866,715</u>	<u>2,968,857</u>	<u>3,039,330</u>	<u>70,473</u>
EXPENDITURES:				
Current:				
General government	252,114	282,217	275,368	6,849
Employee benefits and insurance	738,997	711,527	685,619	25,908
Public safety	1,249,499	1,283,012	1,246,196	36,816
Public works - highways and streets	258,828	264,897	240,581	24,316
Building and property	204,107	209,921	202,378	7,543
Health and sanitation	32,000	32,104	27,739	4,365
Culture and recreation	129,709	129,971	126,589	3,382
Other	4,000	4,000	4,000	-
Debt service:				
Principal	218,780	272,527	152,258	120,269
Interest and other charges	<u>-</u>	<u>-</u>	<u>75,060</u>	<u>(75,060)</u>
Total expenditures	<u>3,088,034</u>	<u>3,190,176</u>	<u>3,035,788</u>	<u>154,388</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	<u>(221,319)</u>	<u>(221,319)</u>	<u>3,542</u>	<u>224,861</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	40,000	40,000
Transfers out	<u>(66,100)</u>	<u>(66,100)</u>	<u>(66,100)</u>	<u>-</u>
Total other financing (uses) sources, net	<u>(66,100)</u>	<u>(66,100)</u>	<u>(26,100)</u>	<u>40,000</u>
NET CHANGE IN FUND BALANCES	<u>\$ (287,419)</u>	<u>\$ (287,419)</u>	<u>\$ (22,558)</u>	<u>\$ 264,861</u>

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2008

	ENTERPRISE FUNDS				INTERNAL SERVICE FUND
	WATER	SEWER	AIRPORT OPERATING	TOTAL	
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 794,192	\$ 16,829	\$ -	\$ 811,021	\$ 13,940
Other accounts receivable, (net of allowance)	276,170	194,728	29,158	500,056	3,450
Due from other funds	14,514	13,015	50,944	78,473	-
Due from other governments	5,000	4,552	-	9,552	-
Bond issuance costs	10,628	6,908	700	18,236	-
Other current assets	5,801	-	-	5,801	-
Total current assets	1,106,305	236,032	80,802	1,423,139	17,390
Capital assets:					
Utility systems (including related equipment)	7,390,098	8,574,574	-	15,964,672	-
Land improvements	-	-	1,072,701	1,072,701	-
Equipment	-	-	457,712	457,712	-
Less accumulated depreciation	(1,927,338)	(4,569,198)	(424,184)	(6,920,720)	-
Total capital assets, net	5,462,760	4,005,376	1,106,229	10,574,365	-
TOTAL	\$ 6,569,065	\$ 4,241,408	\$ 1,187,031	\$ 11,997,504	\$ 17,390
LIABILITIES:					
Current liabilities:					
Current portion of bonds payable	\$ 19,410	\$ 168,915	\$ -	\$ 188,325	\$ -
Current portion of notes payable	1,505,359	131,197	385	1,636,941	-
Vouchers payable	91,443	40,150	3,666	135,259	5,805
Accrued liabilities	11,837	25,094	3,317	40,248	-
Due to other funds	279	38,368	256,103	294,750	-
Deferred revenue	-	1,600	475	2,075	-
Total current liabilities	1,628,328	405,324	263,946	2,297,598	5,805
Non-current liabilities:					
Compensated absences	20,019	33,444	3,541	57,004	-
Long-term portion of bonds payable	38,908	770,808	-	809,716	-
Long-term portion of notes payable	3,362,055	1,894,788	122,414	5,379,257	-
Payable to other governments	729	-	-	729	-
Total non-current liabilities	3,421,711	2,699,040	125,955	6,246,706	-
Total liabilities	5,050,039	3,104,364	389,901	8,544,304	5,805
NET ASSETS:					
Invested in capital assets, net of related debt	537,028	1,039,668	983,430	2,560,126	-
Unrestricted	981,998	97,376	(186,300)	893,074	11,585
Total net assets	1,519,026	1,137,044	797,130	3,453,200	11,585
TOTAL	\$ 6,569,065	\$ 4,241,408	\$ 1,187,031	\$ 11,997,504	\$ 17,390

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	WATER	SEWER	AIRPORT OPERATING	TOTAL	
REVENUES,					
Charges for services	\$ 1,219,468	\$ 1,495,445	\$ 294,069	\$ 3,008,982	\$ 121,566
OPERATING EXPENSES:					
Personnel services	298,619	666,504	91,463	1,056,586	-
Utilities (including water filtration costs)	866,307	124,596	26,714	1,017,617	-
Depreciation	265,255	238,775	77,574	581,604	-
Materials, supplies and maintenance	22,335	193,367	177,374	393,076	117,085
Administrative expense	32,351	72,032	1,367	105,750	-
Sludge disposal	-	83,642	-	83,642	-
Insurance	7,882	33,954	10,698	52,534	-
Miscellaneous	248	11,719	4,089	16,056	-
Total operating expenses	1,492,997	1,424,589	389,279	3,306,865	117,085
Operating income (loss)	(273,529)	70,856	(95,210)	(297,883)	4,481
NON-OPERATING REVENUES (EXPENSES):					
Subsidies from other governments:					
State	-	-	120,977	120,977	-
Local	76,167	-	-	76,167	-
Interest income	14,390	19,578	-	33,968	66
Rental income	7,780	78,802	-	86,582	-
Proceeds from sale of assets	8,207	376	-	8,583	-
Interest expense	(141,406)	(92,747)	(4,818)	(238,971)	-
Total non-operating (expenses) revenues	(34,862)	6,009	116,159	87,306	66
(LOSS) INCOME BEFORE TRANSFERS	(308,391)	76,865	20,949	(210,577)	4,547
OTHER FINANCING SOURCES,					
Transfers in	151,796	181,932	-	333,728	-
NET (LOSS) INCOME	(156,595)	258,797	20,949	123,151	4,547
NET ASSETS, BEGINNING	1,675,621	878,247	776,181	3,330,049	7,038
NET ASSETS, ENDING	\$ 1,519,026	\$ 1,137,044	\$ 797,130	\$ 3,453,200	\$ 11,585

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-Type Activities				Governmental Activities
	Water Fund	Sewer Fund	Airport Operating Fund	Totals	Internal Service Inventory Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from users	\$ 1,173,212	\$ 1,500,693	\$ 332,113	\$ 3,006,018	\$ 119,471
Cash payments to employees for services	(298,910)	(662,519)	(90,033)	(1,051,462)	-
Cash paid to suppliers for goods and services	(900,564)	(513,001)	(219,764)	(1,633,329)	(120,622)
Net cash (used in) provided by operating activities	(26,262)	325,173	22,316	321,227	(1,151)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:					
Rental income	7,780	78,802	-	86,582	-
Earnings on investments	14,390	19,578	-	33,968	66
Net cash provided by investing activities	22,170	98,380	-	120,550	66
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments for capital acquisitions	(2,318,387)	(432,237)	(261,274)	(3,011,898)	-
Capital subsidies from other governments	76,167	-	120,977	197,144	-
Principal payments on 2002 General Obligation Bonds	-	(106,630)	-	(106,630)	-
Principal payments - PennVEST note	-	(159,105)	-	(159,105)	-
Proceeds from 2007 General Obligation Note	3,540,310	-	122,799	3,663,109	-
Proceeds from interim inter-fund borrowings	151,796	181,932	-	333,728	-
Repayment of inter-fund borrowings used for capital outlay	(518,403)	-	-	(518,403)	-
Interest paid	(141,406)	(92,747)	(4,818)	(238,971)	-
Sale of assets	8,207	376	-	8,583	-
Net cash provided by (used in) capital and related financing activities	798,284	(608,411)	(22,316)	167,557	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	794,192	(184,858)	-	609,334	(1,085)
CASH AND CASH EQUIVALENTS, BEGINNING	-	201,687	-	201,687	15,025
CASH AND CASH EQUIVALENTS, ENDING	\$ 794,192	\$ 16,829	\$ -	\$ 811,021	\$ 13,940
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	\$ (273,529)	\$ 70,856	\$ (95,210)	\$ (297,883)	\$ 4,481
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	265,254	238,775	77,574	581,603	-
Changes in assets and liabilities:					
Accounts receivable, other	(46,551)	10,069	(2,390)	(38,872)	(2,095)
Due from/to other governments and funds	295	(4,821)	40,434	35,908	-
Other current assets	428	-	-	428	-
Deferred charges	14,098	2,408	244	16,750	-
Vouchers payable	14,462	3,901	234	18,597	(3,537)
Deferred revenue	-	-	-	-	-
Accrued and other liabilities	(719)	3,985	1,430	4,696	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (26,262)	\$ 325,173	\$ 22,316	\$ 321,227	\$ (1,151)

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2008

	PENSION TRUST FUNDS	AGENCY FUND - PAYROLL
ASSETS:		
Cash and cash equivalents	\$ 122,155	\$ 14,905
Contributions receivable	<u>55,144</u>	<u>-</u>
Total	<u>177,299</u>	<u>14,905</u>
Investments:		
Fixed income securities	2,712,879	-
Equity securities	3,025,188	-
Mutual funds	<u>792,935</u>	<u>-</u>
Total investments	<u>6,531,002</u>	<u>-</u>
TOTAL	<u>\$ 6,708,301</u>	<u>\$ 14,905</u>
LIABILITIES,		
Due to other taxing units		\$ 14,905
NET ASSETS,		
Held in trust for benefits and other purposes	<u>\$ 6,708,301</u>	<u>-</u>
TOTAL	<u>\$ 6,708,301</u>	<u>\$ 14,905</u>

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	PENSION TRUST FUNDS
ADDITIONS:	
Contributions:	
Employees	\$ 85,342
Commonwealth of Pennsylvania	51,925
Other	1,536
City	<u>1,138</u>
Total contributions	<u>139,941</u>
Investment earnings (losses):	
Net decrease in fair value of investments	(2,484,771)
Interest and dividends	<u>258,604</u>
Total investment losses, net	<u>(2,226,167)</u>
Total additions	<u>(2,086,226)</u>
DEDUCTIONS:	
Benefits	271,671
Other	<u>78,025</u>
Total deductions	<u>349,696</u>
CHANGE IN NET ASSETS	(2,435,922)
NET ASSETS, Beginning	<u>9,144,223</u>
NET ASSETS, Ending	<u>\$ 6,708,301</u>

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

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

The City operates under a Council-Manager form of government. City Council consists of six council members and a mayor, each serving 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 GASB Statement Nos. 14 and 39, 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.

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

Lock Haven City Authority (the "City Authority") functions as a financing medium for capital activity of City water and sewer systems.

Brief Description of Activities and Relationship to the City

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

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."

Brief Description of Activities and Relationship to the City

The Flood Protection Authority's board, consisting of seven (7) 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 assets 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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.

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 fund are charges for utility services (water and sewer). Operating expenses for the enterprise fund 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. The major Special Revenue Fund reported by the City is the 2003 CDBG Fund. This fund does not adopt an annual operating budget; rather, a multi-year budget that coincides with the federally mandated period of availability of program funds is used. 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 parking 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 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 Levee Escrow Fund accumulates funds allocated from the General Fund for future maintenance of the levee.
- The River Dam Fund accumulates funds allocated from the General Fund for maintenance of the City's Susquehanna River Dam.

- The Highway Aid Fund accounts for liquid fuel tax revenues used for building, improving and maintaining City streets.
- The Rehabilitation/Sidewalk Fund and the HCD/MMR Funds account 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 and Block Grant program, which is 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 Enterprise Zone Fund accounts for state funds, which fund activities designated in the City's state enterprise program.
- 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 Capital Escrow Fund accounts for financial resources and certain public contributions to be used for future City capital projects and related expenditures.
- The Owner Occupied Housing Fund accounts for housing assistance to low income families.
- The New Communities Main Street Fund accounts for certain City revitalization projects.

Capital Projects Fund

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

Pension 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 plans. The City maintains three, single-employer defined benefit pension trust funds, the Police Pension Fund, the Police Death Benefit Fund, and the City Employees Retirement Fund.

Agency Funds

Agency funds are used to report resources held by the City in a purely custodial capacity (i.e., assets = liabilities.) The Agency fund reported by the City in the accompanying financial statements is the Payroll Fund.

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

All trade and property tax receivables are shown net of allowance for uncollectibles.

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.

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

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

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

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
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	-

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.

DEFERRED REVENUES

Deferred 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, 2008, the General, Non-major, Sewer and Airport Operating Funds had deferred revenues of \$341,795, \$312,364, \$1,600, and \$475 respectively.

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.

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 Department Heads, to prepare and submit a governing financial plan to the legislative body on an annual basis.

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

The City prepares its budgets for each fund type on the cash basis of accounting. There are no significant differences between the City's budget and actual results.

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 11 of the accompanying financial statements. During 2008, 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.

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

DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2008, the City's total deposits were \$3,005,159. Of this amount, \$750,000 was insured by the FDIC and \$122,153 was insured by the SIPC. The remaining deposits of \$2,133,006 were exposed to custodial credit risk, since the deposits were collateralized with securities held by the pledging financial institutions, but not in the City's name.

INVESTMENTS - PENSION TRUST FUNDS

As of December 31, 2008, the City had the following investments:

<u>INVESTMENT</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
Corporate bonds	Average of 7 years	\$970,047
Government bonds	Average of 20 years	754,404
U.S. Treasury securities	Average of 5 years	394,662
Government asset backed securities	Average of 26 years	237,224
Certificates of deposit	Average of 11 years	174,581
Corp. mortgage/asset backed securities	Average of 27 years	104,394

CREDIT RATINGS

The City's investments had the following credit ratings:

Corporate bonds	BBB- to AAA	36.60%
Government bonds	AAA	28.46%
U.S. Treasury securities	AAA	14.89%
Government asset backed securities	AAA	8.95%
Certificates of deposit	Not Rated	6.59%
Corp. mortgage/asset backed securities	A to AAA	4.51%

The City's investment policy limits investments as follows:

- At least 50% of it's 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.

INTEREST RATE RISK

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 so as to achieve desired investment returns.

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, 2008, all of the City's Pension Trust Fund investments were held by Charles Schwab and were insured by SIPC up to \$500,000 per account.

COMPONENT UNIT – FLOOD PROTECTION AUTHORITY

CASH

At December 31, 2008 the carrying amount and bank balance of the Flood Protection Authority's deposits were \$8,757, all of which was covered by federal depository insurance.

4. PROPERTY TAXES

The City is responsible for the collection and apportionment of property taxes for City and Keystone Central School District taxes within 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, 2008, upon which the 2008 levy was based, was \$56,173,150 for taxable property. The estimated market value of taxable property was \$140,432,875, making the assessed value 40% of the estimated market value. Current tax collections for the year ended December 31, 2008 were 92% of the tax levy.

The City is permitted by the Third Class City Code to levy taxes up to \$25 per \$1,000 of assessed valuation for general governmental services. The tax rate to finance general governmental services for the year ended December 31, 2008 was 23.79 mills per \$1,000. In addition, the City has also levied a real estate tax for the purpose of funding the operations of a dike/levee system; this levy amounted to 1.21 mills per \$1,000 for the year ended December 31, 2008. Accordingly, the City has a tax margin of \$0 per \$1,000 (\$25.00 limit less \$23.79 general government less \$1.21 dike/levee equals \$25.00). The City is also permitted to levy an annual tax sufficient to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act; for the year ended December 31, 2008, this levy amounted to 3.84 mills per \$1,000.

5. DUE FROM OTHER GOVERNMENTS

The amount reported in the City's various governmental and proprietary funds at December 31, 2008 as due from other governments is summarized below:

	<u>FEDERAL</u>	<u>LOCAL</u>	<u>TOTAL</u>
General Fund	\$ 23,199		\$ 23,199
2003 CDBG Fund	192,561		192,561
Other Nonmajor Governmental Funds	25,308		25,308
Water Fund		\$5,000	5,000
Sewer Fund		<u>4,552</u>	<u>4,552</u>
 Total	 <u>\$241,068</u>	 <u>\$9,552</u>	 <u>\$250,620</u>

6. CAPITAL ASSETS

	BALANCE JANUARY 1, 2008	<u>ACQUISITIONS</u>	<u>DISPOSALS</u>	<u>TRANSFERS</u>	BALANCE DECEMBER 31, 2008
Governmental activities:					
Capital assets, not being depreciated,					
Land	<u>\$ 3,411,307</u>				<u>\$ 3,411,307</u>
Capital assets, being depreciated:					
Land improvements	1,540,593	\$ 51,044			1,591,637
Buildings and improvements	3,818,910	48,923			3,867,833
Furniture and equipment	2,043,139	91,481			2,134,620
Transportation	536,589	183,735			720,324
Infrastructure	509,905	990,139			1,500,044
Asset held for sale	<u>1,250,000</u>		<u>\$(1,250,000)</u>		
Total capital assets, being depreciated	<u>9,699,136</u>	<u>1,365,320</u>	<u>(1,250,000)</u>		<u>9,814,458</u>
Less accumulated depreciation:					
Land improvements	(949,915)	(65,605)			(1,015,520)
Buildings and improvements	(1,695,867)	(107,837)			(1,803,704)
Furniture and equipment	(1,070,949)	(96,254)			(1,167,203)
Transportation	(509,803)	(11,557)			(521,360)
Infrastructure	<u>(17,286)</u>	<u>(55,118)</u>			<u>(72,404)</u>
Total accumulated depreciation	<u>(4,243,820)</u>	<u>(336,371)</u>			<u>(4,580,191)</u>
Total capital assets, being depreciated	<u>5,455,316</u>	<u>1,028,949</u>	<u>(1,250,000)</u>		<u>5,234,267</u>
Governmental activities, net	<u>\$ 8,866,623</u>	<u>\$1,028,949</u>	<u>\$(1,250,000)</u>	<u>\$ -</u>	<u>\$ 8,645,574</u>

CITY OF LOCK HAVEN, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

	BALANCE JANUARY 1, 2008	ACQUISITIONS	DISPOSALS	TRANSFERS	BALANCE DECEMBER 31, 2008
Business – type activities:					
Capital assets, being depreciated:					
Utility system	\$11,290,900	\$ 584,032		\$4,089,739	\$15,964,672
Land improvements	811,426	261,274			1,072,700
Machinery and equipment	406,767				406,767
Vehicles	50,945				50,945
Construction in process	<u>2,679,926</u>	<u>1,409,813</u>		<u>(4,089,739)</u>	
Total cost	<u>15,239,964</u>	<u>2,255,119</u>			<u>17,495,083</u>
Less accumulated depreciation:					
Utility system	(5,992,507)	(504,028)			(6,496,535)
Land and improvements	(124,405)	(53,635)			(178,040)
Machinery and equipment	(171,259)	(23,939)			(195,198)
Vehicles	<u>(50,945)</u>				<u>(50,945)</u>
Total accumulated depreciation	<u>(6,339,116)</u>	<u>(581,602)</u>			<u>(6,920,718)</u>
Business-type activities capital assets, net	<u>\$ 8,900,848</u>	<u>\$1,673,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,574,365</u>
Component Unit --		BALANCE JANUARY 1, 2008		BALANCE DECEMBER 31, 2008	
Flood Protection Authority:			ADDITIONS	DISPOSALS	
Land improvements		\$84,590,355			\$84,590,355
Accumulated depreciation		<u>(7,613,129)</u>	<u>\$(845,903)</u>		<u>(8,459,032)</u>
Component unit capital asset, net		<u>\$76,977,226</u>	<u>\$(845,903)</u>	<u>\$ -</u>	<u>\$76,131,323</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.

CITY OF LOCK HAVEN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Individual fund receivable and payable amounts at December 31, 2008 were as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 94,131	\$(108,378)
2003 CDBG Fund	-	(130,700)
Non-major Funds	370,411	(9,187)
Enterprise Funds	<u>78,473</u>	<u>(294,750)</u>
Total	<u>\$543,015</u>	<u>\$(543,015)</u>

TRANSFERS TO/FROM OTHER FUNDS

Interfund transfers for the year ended December 31, 2008 were as follows:

	<u>IN</u>	<u>OUT</u>
General Fund	\$ 40,000	\$ (66,100)
Capital Projects Fund	-	(333,728)
Non-major Funds	66,100	(40,000)
Enterprise Funds	<u>333,728</u>	<u>-</u>
Total	<u>\$439,828</u>	<u>\$(439,828)</u>

During the year ended December 31, 2008 the City made transfers from its General Fund for the purposes of funding annual allocations to its Interchange \$(2,500), River Dam \$(600), and Levee Escrow \$(3,000) Non-major Funds as well as \$(60,000) to the Capital Escrow Non-Major Fund to satisfy an interfund borrowing. The City also made a transfer of \$333,728 from its Capital Projects Fund to its enterprise funds which represent the transfer of proceeds from issuance of long-term debt. The remaining transfer represents an annually budgeted transfer of \$40,000 from the Capital Escrow Fund to the General Fund (pursuant to an agreement between the City and International Paper).

CITY OF LOCK HAVEN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

8. LONG-TERM DEBT

As of December 31, 2008, the City's long-term debt consisted of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Balance at 1/1/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 12/31/08</u>	<u>Current Portion</u>
2002 General Obligation Bonds	3.90 - 4.35%	\$4,405,000	\$2,090,000	\$ -	\$ (330,000)	\$ 1,760,000	\$ 345,000
PennVEST Note Payable - Sewer Fund	1.00 - 1.156%	\$2,638,730	2,128,287	-	(124,913)	2,003,374	126,168
2007 General Obligation Note, Series A	3.85%	\$6,030,000	1,307,795	2,796,451	(2,700,000)	1,404,246	1,404,246
2007 General Obligation Note, Series B	4.38%	\$1,605,000	1,599,142	-	(5,000)	1,594,142	5,000
2007 General Obligation Note, Series C	5.92%	\$1,256,000	1,256,000	-	(1,256,000)	-	-
DCED Note Payable	2.00%	\$ 25,000	-	25,000	(2,389)	22,611	4,851
PennVEST Note Payable - Water Fund	1.00%	\$6,122,000	-	3,569,922	(106,754)	3,463,168	101,113
Total, net			<u>\$8,381,224</u>	<u>\$6,391,373</u>	<u>\$(4,525,056)</u>	<u>\$10,247,541</u>	<u>\$1,986,378</u>

Amounts are reported in the accompanying financial statements as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Governmental Activity Bonds & Notes Payable	\$ 161,112	\$2,072,191	\$ 2,233,303
Business-Type Activity Bonds & Notes Payable	1,825,266	6,188,972	8,014,238
Total	<u>\$1,986,378</u>	<u>\$8,261,163</u>	<u>\$10,247,541</u>

Specific information on each debt instrument is as follows:

GENERAL OBLIGATION BOND, SERIES OF 2002

In 2002, the City issued a \$4,405,000 General Obligation Bond, Series of 2002, bearing interest at rates ranging from 1.60% to 4.35% per annum, maturing May 1, 2013. The proceeds from the sale of the bonds were used to (1) currently refund the outstanding General Obligation Bonds, Series of 1997, (2) currently refund the General Obligation Note, Series of 2000, (3) to finance various capital improvements and purchases, and (4) to pay the costs of issuing and insuring the bonds.

PENNVEST - NOTE PAYABLE - SEWER FUND

In 2004, the City entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority ("PennVEST") with an original balance of \$2,638,730, due in monthly installments of \$12,135, including principal and interest at 1% per annum through November 2009; thereafter, in 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.

GENERAL OBLIGATION NOTE, SERIES A OF 2007

In 2007, the City issued, as interim financing, a \$6,030,000, General Obligation Note, Series A of 2007 bearing interest at 3.85% per annum maturing September 27, 2009. The proceeds from the issuance of the note are being used to finance (1) the grouting project at Ohl Dam, including any temporary water supply system costs and (2) to pay the costs of issuing the note. The City anticipates refinancing this balance of this note through PennVEST financing in 2009.

GENERAL OBLIGATION NOTE, SERIES B OF 2007

In 2007, the City issued a \$1,605,000, General Obligation Note, Series B of 2007 bearing interest at 4.38% per annum, maturing September 27, 2019. The proceeds from the issuance were used to finance (1) various City capital projects and (2) to pay the cost of issuing the Note.

GENERAL OBLIGATION NOTE, SERIES C OF 2007

In 2007, the City issued a \$1,256,000, General Obligation Note, Series C of 2007 bearing interest at 5.92% per annum maturing September 27, 2009. The proceeds from the issuance were used to finance (1) the acquisition of Painter Stadium and (2) to pay the costs of issuing the Note. The City retired this Note in early 2008.

GENERAL OBLIGATION NOTE – DCED

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 to purchase a Flusher Truck.

PENNVEST - NOTE PAYABLE - WATER FUND

In 2008, the City entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority (“PennVEST”) with an original potential balance of \$6,122,000 (only \$3,569,922 was drawn as of 12/31/08), due in monthly installments of \$19,691, including principal and interest at 1% per annum through maturity during July 2038. The proceeds of the note were used to finance the Ohl 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.

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, 2008:

<u>YEARS ENDING DECEMBER 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$1,986,378	\$ 234,877	\$ 2,221,255
2010	593,344	176,238	769,582
2011	610,937	158,650	769,587
2012	978,561	148,517	1,127,078
2013	293,573	113,619	407,192
2014-2018	2,424,008	415,999	2,840,007
2019-2023	1,525,710	137,675	1,663,385
2024-2028	599,265	77,145	676,410
2029-2033	629,977	46,433	676,410
2034-2038	<u>605,788</u>	<u>14,241</u>	<u>620,029</u>
Total	<u>\$10,247,541</u>	<u>\$1,523,394</u>	<u>\$11,770,935</u>

9. COMPENSATED ABSENCES

The changes in the City's compensated absences in 2008 are summarized as follows:

GOVERNMENTAL ACTIVITIES

Balance, January 1, 2008	\$144,756
Increase	14,674
Decrease	<u>(2,904)</u>
Balance, December 31, 2008	<u>\$156,526</u>

BUSINESS TYPE ACTIVITIES

Balance, January 1, 2008	\$59,497
Increase	3,812
Decrease	<u>(6,304)</u>
Balance, December 31, 2008	<u>\$57,005</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 sewer and water systems to the City.

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

During the year ended December 31, 2008, the City transferred \$26,783 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. Additional information related to each of the plans, as of January 1, 2007 (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

CITY OF LOCK HAVEN, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	<u>CERF</u>	<u>Police</u>
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100
Disability benefits: Eligibility	None	Service related injury or illness
Monthly disability benefits	None	2.5% of final monthly compensation times years of completed service, not to exceed 50%
Death benefits - Spouse: Before retirement	Refund of employee contributions without interest	Monthly benefit equal to years of service times 1.25%, up to a maximum of 25% times last salary prior to death, if death was duty related.
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 Plans consisted of the following at January 1, 2007, the date of the latest actuarial valuation:

	<u>CERF</u>	<u>Police</u>
Retirees and beneficiaries receiving benefits	26	10
Terminated members entitled to but not yet receiving benefits	2	-
Active plan members	<u>47</u>	<u>12</u>
Total	<u>75</u>	<u>22</u>
Number of participating employers	<u>1</u>	<u>1</u>

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:

<u>Employee Groups Covered</u>	<u>CERF</u>	<u>Police</u>
Elected officials	\$8 times years of service	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

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.

For the year ended December 31, 2008, the combined City/Commonwealth contributions to the CERF and Police plans were \$10,645 and \$41,280, respectively, each of which was equal to the related 2008 MMO.

ANNUAL PENSION COST AND NET PENSION ASSET

The City's annual pension cost and net pension asset for the current year were calculated as follows:

	<u>CERF</u>	<u>Police</u>
Annual required contribution	\$ 10,313	\$40,011
Interest on net pension asset	(11,882)	(4,529)
Adjustment to annual required contribution	-	-
Annual pension cost	(1,569)	35,482
Contributions made	<u>10,645</u>	<u>41,280</u>
Increase in net pension asset	12,214	5,798
Net pension asset, beginning of year	<u>169,747</u>	<u>60,382</u>
Net pension asset, end of year	<u>\$181,961</u>	<u>\$66,183</u>

The annual required contribution ("ARC") for the current year was determined as part of the January 1, 2007 actuarial valuation, which used the following assumptions:

<u>ACTUARIAL ASSUMPTIONS</u>	<u>CERF</u>	<u>Police</u>
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%	7.25%
Projected salary increase	4.0%	5.0%
Inflation rate	3.5%	3.5%
Asset valuation method	Market value of Plans' assets	Market value of Plans' assets
Remaining amortization period	N/A	N/A

TREND INFORMATION

<u>Plan and Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
City Employees Retirement Pension Fund			
12/31/08	\$ (1,569)	678%	\$(181,961)
12/31/07	31,882	135%	(169,747)
12/31/06	27,151	138%	(158,640)
Police Pension Fund			
12/31/08	35,482	116%	(66,188)
12/31/07	60,327	107%	(60,385)
12/31/06	52,268	107%	(56,173)

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of January 1, 2007, 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 (c)	Ratio of Unfunded Liability to Annual Covered Payroll ((b-a)/c)
Police Pension Fund	\$4,595,664	\$3,565,871	\$(1,029,793)	128.88%	\$616,735	N/A
City Employees Retirement Pension Fund	4,011,157	3,404,242	(606,917)	117.83%	1,426,255	N/A

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present 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, 2008 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 of individual Plan net assets.

12. OTHER POSTRETIREMENT BENEFITS

In addition to the pension benefits described in Note 10, the City provides other postretirement benefits, consisting of health-care benefits for retired employees who are participants in the City's Police pension plan. Currently, 8 retirees meet those eligibility requirements. Such benefits are provided in accordance with the police union contract. All costs in relation to these benefits are absorbed by the City.

Expenditures for postretirement benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2008, expenditures of approximately \$43,543 were recognized for these health insurance benefits.

13. LITIGATION

The City has been named as a defendant in various lawsuits which relate to the day-to-day operations of City government. In the opinion of management and legal counsel, the resolution of these lawsuits will not have a material adverse effect on the City's financial position.

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, 2008, the City purchased \$760,595 in water filtration services from the Water Filtration Authority.

The City also guaranteed certain debt of the Central Clinton County Water Filtration Authority (Note 16).

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.

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.

GUARANTEE OF DEBT

The City has guaranteed 40% of a promissory note which the Water Filtration Authority entered into with the Pennsylvania Infrastructure Investment Authority in November 1993 (See Note 12). At December 31, 2008, the outstanding balance on this promissory note amounted to \$4,013,942; the City is potentially liable for 40% of this balance, or \$1,605,577.

17. PENDING CHANGES IN ACCOUNTING PRINCIPLES

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. Other post-employment benefits (OPEB) include health insurance and life insurance. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities (assets) in the financial statements of state and local governments. The City is required to adopt Statement No. 45 for its calendar year 2009 financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. GASB 51 is effective for the City's calendar year 2010 financial statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The City is required to adopt Statement No. 52 for its 2009 calendar year financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB 53 is effective for the City's calendar year 2010 financial statements.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City is required to adopt Statement No. 54 for its calendar year 2011 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
 FOR THE YEAR ENDED DECEMBER 31, 2008
 (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
<u>CITY EMPLOYEES RETIREMENT FUND</u>							
	January 1, 2007	\$ 4,011,159	\$ 3,404,242	\$ (606,917)	117.8%	\$ 1,426,255	-42.6%
	January 1, 2005	3,335,826	3,120,287	(215,539)	106.9%	1,395,216	-15.4%
	January 1, 2003	2,432,408	2,886,142	453,734	84.3%	1,320,498	34.4%
<u>POLICE PENSION FUND</u>							
	January 1, 2007	\$ 4,595,664	\$ 3,565,871	\$ (1,029,793)	128.9%	\$ 616,735	-167.0%
	January 1, 2005	4,036,055	3,263,507	(772,548)	123.7%	594,398	-130.0%
	January 1, 2003	3,177,831	3,075,650	(102,181)	103.3%	563,747	-18.1%

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

See Note to Required Supplementary Information

CITY OF LOCK HAVEN, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION TRUST FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008
 (UNAUDITED)

YEAR ENDED DECEMBER 31,	POLICE PENSION FUND		CITY EMPLOYEES RETIREMENT PENSION FUND	
	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
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%
2003	23,690	100%	80,447 (3)	100%
2002	12,606	114%	69,627	114%
2001	-	N/A	86,661	100%
2000	-	N/A	85,001	100%
1999	- (1)	N/A	13,867	527%
1998	- (2)	N/A	65,698	113%
1997	36,549	120%	76,676	120%
1996	35,520	121%	64,123	121%
1995	32,380	100%	60,118	100%
1994	27,252	102%	46,883	100%
1993	41,240	110%	53,044	115%

- (1) - Although no contribution was required in 1999, the City contributed \$3,908.
 (2) - Although no contribution was required in 1998, the City contributed \$447.
 (3) - 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, 2008
(UNAUDITED)

ACTUARIAL ASSUMPTIONS

The following actuarial assumptions were used in the January 1, 2007 actuarial valuation, the most recent actuarial valuation:

<u>Actuarial assumption</u>	<u>City Employees Retirement Fund</u>	<u>Police Pension Fund</u>
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%	7.25%
Projected salary increase	4.0%	5.0%
Consumer Price Index	N/A	3.0%
Asset valuation method	Market value of plan assets.	Market value of plan assets.
Remaining amortization period	N/A	N/A

CITY OF LOCK HAVEN, PENNSYLVANIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED		ACCRUED	
				(DEFERRED) REVENUE JANUARY 1, 2008	(DEFERRED) REVENUE DECEMBER 31, 2008	REVENUE RECOGNIZED	EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. Passed through Pennsylvania Department of Community and Economic Development:							
Community Development Block Grant State's Program (2003 Allotment)	14.228	\$ 425,258	\$ 72,274	\$ 15,614	\$ -	\$ 56,660	\$ -
Community Development Block Grant State's Program (2004 Allotment)	14.228	432,649	501	-	-	501	-
Community Development Block Grant State's Program (2005 Allotment)	14.228	403,224	50,000	(19)	-	50,019	-
Community Development Block Grant State's Program (2006 Allotment)	14.228	367,870	26,184	1,198	-	28,502	3,516
Community Development Block Grant State's Program (2007 Allotment)	14.228	348,829	123,757	-	-	130,087	6,330
Community Development Block Grant State's Program (2008 Allotment)	14.228	340,091	100,298	-	-	100,298	-
Community Development Block Grant Revolving Loan Program Income	14.228	(N/A)	14,169	19,004	-	4,229	9,064
Community Development Block Grant State's Program (All years - Program Income)	14.228	(N/A)	93	-	-	93	-
HOME Program - Home Investment Partnerships Program (pass-through grantor number C000012762)	14.239	500,000	144,711	8,859	-	144,761	8,909
HOME Program - Home Investment Partnerships Program (pass-through grantor number C000029944)	14.239	500,000	8,181	-	-	11,993	3,812
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			540,168	44,656	-	527,143	31,631
U.S. GENERAL SERVICES ADMINISTRATION. Passed through Pennsylvania Department of General Services. Federal Surplus Program	39.003		4,429	-	-	4,429	-

CITY OF LOCK HAVEN, PENNSYLVANIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE JANUARY 1, 2008	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE DECEMBER 31, 2008
U.S. DEPARTMENT OF TRANSPORTATION, Passed through Pennsylvania Department of Transportation: Airport - Phase III - Easement Acquisition (pass-through grantor number: 3900032685)	20.106	200,967	2,654	2,654	-	-	-
Transportation Enhancement Program - Bellefonte Ave Streetscape (pass-through grantor number: 02C980)	20.205	802,440	599,117	-	791,678 *	791,678	192,561
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			601,771	2,654	791,678	791,678	192,561
U.S. DEPARTMENT OF AGRICULTURE, Rural - Housing Preservation Grant	10.433	90,000	16,814	-	19,251	19,251	2,437
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, Passed through Pennsylvania Department of Community and Economic Development, Rural Enterprise Program - Program Income	93.585	(N/A)	185	-	185	185	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,163,367	\$ 47,310	\$ 1,342,666	\$ 1,342,666	\$ 226,629

* Tested as a major program.

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.

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
DECEMBER 31, 2008**

	POLICE PENSION	POLICE DEATH BENEFIT	CITY EMPLOYEES RETIREMENT	TOTAL
ASSETS:				
Cash and cash equivalents	\$ 58,774	\$ 5,337	\$ 58,044	\$ 122,155
Contributions receivable	<u>41,732</u>	<u>-</u>	<u>13,412</u>	<u>55,144</u>
Total	<u>100,506</u>	<u>5,337</u>	<u>71,456</u>	<u>177,299</u>
Investments:				
Fixed income securities	1,394,704	39,859	1,278,316	2,712,879
Equity securities	1,499,150	42,350	1,483,688	3,025,188
Mutual funds	<u>454,963</u>	<u>12,999</u>	<u>324,973</u>	<u>792,935</u>
Total Investments	<u>3,348,817</u>	<u>95,208</u>	<u>3,086,977</u>	<u>6,531,002</u>
TOTAL	<u>\$ 3,449,323</u>	<u>\$ 100,545</u>	<u>\$ 3,158,433</u>	<u>\$ 6,708,301</u>
NET ASSETS,				
Held in trust for pension benefits	<u>\$ 3,449,323</u>	<u>\$ 100,545</u>	<u>\$ 3,158,433</u>	<u>\$ 6,708,301</u>

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	POLICE PENSION	POLICE DEATH BENEFIT	CITY EMPLOYEES RETIREMENT FUND	TOTAL
ADDITIONS:				
Contributions:				
Employees	\$ 2,715	\$ -	\$ 82,627	\$ 85,342
Commonwealth of Pennsylvania	41,280	-	10,645	51,925
Other	1,536	-	-	1,536
City	<u>-</u>	<u>400</u>	<u>738</u>	<u>1,138</u>
Total contributions	<u>45,531</u>	<u>400</u>	<u>94,010</u>	<u>139,941</u>
Investment earnings (losses):				
Net decrease in fair value of investments	(1,293,886)	(35,789)	(1,155,096)	(2,484,771)
Interest and dividends	<u>132,057</u>	<u>7,569</u>	<u>118,978</u>	<u>258,604</u>
Total investment losses, net	<u>(1,161,829)</u>	<u>(28,220)</u>	<u>(1,036,118)</u>	<u>(2,226,167)</u>
Total additions	<u>(1,116,298)</u>	<u>(27,820)</u>	<u>(942,108)</u>	<u>(2,086,226)</u>
DEDUCTIONS:				
Benefits	161,021	4,000	106,650	271,671
Other	<u>41,983</u>	<u>657</u>	<u>35,385</u>	<u>78,025</u>
Total deductions	<u>203,004</u>	<u>4,657</u>	<u>142,035</u>	<u>349,696</u>
CHANGE IN NET ASSETS	(1,319,302)	(32,477)	(1,084,143)	(2,435,922)
NET ASSETS, Beginning	<u>4,768,625</u>	<u>133,022</u>	<u>4,242,576</u>	<u>9,144,223</u>
NET ASSETS, Ending	<u>\$ 3,449,323</u>	<u>\$ 100,545</u>	<u>\$ 3,158,433</u>	<u>\$ 6,708,301</u>

See Notes to 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 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, 2008, and have issued our report thereon dated July 30, 2009. We did not audit the financial statements of the Lock Haven Area Flood Protection Authority (the "Flood Protection Authority"), which represent 100% of the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our report on the City's financial statements, 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 through 2008-6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above as items 2008-4, 2008-5 and 2008-6 constitute material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain matters that we reported to the management of the City in a separate letter dated July 30, 2009.

This report is intended solely for the information and use of City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Parente Randolph, LLC

Williamsport, Pennsylvania
July 30, 2009

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Members of City Council,
City of Lock Haven, Pennsylvania:

COMPLIANCE

We have audited the compliance of the City of Lock Haven, Pennsylvania (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Parente Randolph, LLC

Williamsport, Pennsylvania
July 30, 2009

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes No

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: UNQUALIFIED

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Transportation Enhancement Program

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

Auditee qualified as low-risk auditee? yes No

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING NO.

FINDING/NONCOMPLIANCE

2008-01

**INTERNAL CONTROL OVER FINANCIAL REPORTING –
SEGREGATION OF DUTIES OVER CASH RECEIPTS**

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

CONDITION: 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.

CAUSE: The City employs a limited number of accounting personnel.

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

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 Assistant Administrator 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.

MANAGEMENT'S

RESPONSE: See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING NO.

FINDING/NONCOMPLIANCE

2008-02

**INTERNAL CONTROL OVER FINANCIAL REPORTING –
NON-ATTEST SERVICES**

CRITERIA: In connection with our audit of your financial statements, you have also engaged us to perform certain non-attest services, which included:

- Adjustment of accrued payroll liability;
- Adjustment of earned income tax revenue and receivable;
- Adjustment of real estate taxes receivable;
- Adjustment of deferred revenue for real estate taxes;
- Adjustment of non-real estate tax receivables and revenues;
- Adjustment of the Proprietary Fund accounts receivable, revenue & allowance for doubtful collections accounts;
- Adjustment of the Proprietary Fund loans payable to Lock Haven City Authority;
- Adjustment of pledges receivable for train station renovations;
- Adjustment of proprietary fund capital assets;
- Adjustment of the proprietary fund compensated absences liability;
- Adjustment of proprietary fund long term debt liability;
- Conversion of financial statements from fund basis to government wide basis;
- Conversion of financial statements from cash to accrual basis;
- Adjustment of beginning fund balances for prior year activity within the Capital Projects Funds;
- Adjustment of Federal Grant Program receivables/deferred revenue;
- Adjustment of retainage payable;
- Adjustment of deferred financing costs for amortization
- Adjustment of Capital Project Fund cash and activity balances;
- Adjustment of proceeds of long-term debt.

CONDITION: While we are pleased to provide these services, you understand that you are responsible for the City's internal control over financial reporting. As your auditors, we cannot be part of that internal control system.

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING NO.

FINDING/NONCOMPLIANCE

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 our services to supplement your internal capabilities.

EFFECT: The fact that you need 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.

RECOMMENDATION: We recommend that management remain aware of the use of the auditors as a part of internal control over financial reporting and give consideration to performing the above tasks internally.

MANAGEMENT'S

RESPONSE: See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING NO.

FINDING/NONCOMPLIANCE

2008-03

**INTERNAL CONTROL OVER FINANCIAL REPORTING –
FINANCIAL STATEMENTS**

CRITERIA: In connection with our audit of your financial statements, you have requested that we assist you in the preparation of your financial statements.

CONDITION: While we are pleased to provide this service, you understand that you are responsible for the City's internal control over financial reporting. As your auditors, we cannot be part of the internal control system. Internal control is a process which, in addition to capturing and properly recording transactions, safeguarding your assets and assuring compliance with laws and regulations, leads to the preparation of financial statements in accordance with generally accepted accounting principles. As your auditors, we cannot be part of that internal control.

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 our services to supplement your internal capabilities.

EFFECT: The fact that you need 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.

RECOMMENDATION: We recommend that management remain aware of the use of the auditors as a part of internal control over financial reporting and give consideration to performing the above tasks internally.

MANAGEMENT'S

RESPONSE: See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING NO.

FINDING/NONCOMPLIANCE

2008-04

**INTERNAL CONTROL OVER FINANCIAL REPORTING –
PROPRIETARY FUND UTILITY BILLINGS**

CRITERIA: Changes in accounting software (in this case, utility billing software) should be closely monitored to ensure the accuracy of program output.

CONDITION: During 2008, the City upgraded to a newer version of utility billing software. As part of this upgrade, a conversion of the customer database information was required. Following this upgrade, the City did not run parallel systems and/or closely monitor the utility billings to ensure their accuracy. As a result, numerous billing errors occurred.

CAUSE: Oversight.

EFFECT: Errors were later discovered in a number of customer accounts, wherein the amount initially billed was incorrect, leading to understatement and under-billing of revenues for some accounts and overstatement and over-billing of revenues for other accounts.

RECOMMENDATION: We understand that the City has since been able to work through the billing issues and has corrected the problems. On a go-forward basis, we recommend that parallel systems be run in situations where new software programs are being implemented, in order to ensure that the output of the new system is accurate and reliable.

MANAGEMENT'S

RESPONSE: See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING NO.	FINDING/NONCOMPLIANCE
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2008-05

**INTERNAL CONTROL OVER FINANCIAL REPORTING –
CASH RECONCILIATION**

CRITERIA: Good internal control leads to reconciliation of cash accounts on a timely basis.

CONDITION: The City did not reconcile their General Obligation Note Series of 2007 cash accounts to the general ledger.

CAUSE: Oversight.

EFFECT: Without timely reconciliation of cash accounts, errors or fraud could occur and go undetected.

RECOMMENDATION: We recommend that all cash accounts be reconciled to the general ledger in a timely manner after the conclusion of each month.

MANAGEMENT'S

RESPONSE: See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING NO.

FINDING/NONCOMPLIANCE

2008-06

**INTERNAL CONTROL OVER FINANCIAL REPORTING –
PROPRIETARY FUND RECEIVABLES**

CRITERIA: The City maintains a utility billing system for its Water and Sewer Funds. This system is utilized to calculate receivable amounts at year end related to Water and Sewer Fund receivable amounts.

CONDITION: At 12/31/08 the City was unable to identify the portion of their proprietary fund's accounts receivable that was attributable to water and sewer operations; rather, only a single total for all utility billings could be produced.

CAUSE: Utility billing system reports could not be segregated by Water and Sewer Fund billings.

EFFECT: The City had to estimate the portion accounts receivable attributable to water and sewer operations based upon a historical review of the composition of these amounts.

RECOMMENDATION: We recommend that management investigate this situation and consult with the appropriate parties so that in the future the utility billing system can provide accounts receivable information segregated by water and sewer operations.

MANAGEMENT'S

RESPONSE: See corrective action plan.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

CITY OF LOCK HAVEN, PENNSYLVANIA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Prior year findings 2007-1, 2007-2 and 2007-3, all of which related to internal control over financial reporting, are repeated as current year findings 2008-1, 2008-2 and 2008-3, respectively.
