

**City Of Lock Haven,  
Pennsylvania**

Basic Financial Statements  
and Supplementary Information

December 31, 2010

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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, 2010, 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 represents 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 the 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 provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other 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, 2010, 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 September 26, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Parente Beard LLC".

Williamsport, Pennsylvania  
September 26, 2011

City Of Lock Haven, Pennsylvania

Statement Of Net Assets

December 31, 2010

	Primary Government		Total	Component Unit - Flood Protection
	Governmental Activities	Business-type Activities		
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 1,323,110	\$ 459,310	\$ 1,782,420	\$ 6,208
Restricted cash	-	7,650,288	7,650,288	-
Receivables (net of allowance for uncollectibles):				
Taxes	349,905	-	349,905	-
Loans	513,210	-	513,210	-
Other	1,951	548,416	550,367	-
Internal balances	385,900	(385,900)	-	-
Due from other governments	133,152	84,075	217,227	-
Other current assets	-	5,074	5,074	-
<b>Total current assets</b>	<b>2,707,228</b>	<b>8,361,263</b>	<b>11,068,491</b>	<b>6,208</b>
Capital assets:				
Public utility systems (including equipment)	-	16,096,343	16,096,343	-
Land and improvements	5,021,113	1,905,975	6,927,088	-
Infrastructure and infrastructure in progress	2,418,913	-	2,418,913	84,590,355
Buildings	3,925,614	-	3,925,614	-
Equipment and furniture	2,980,016	557,257	3,537,273	-
Other capital assets	44,567	776,181	820,748	-
Less: accumulated depreciation	(5,493,350)	(8,176,409)	(13,669,759)	(10,150,838)
<b>Total capital assets</b>	<b>8,896,873</b>	<b>11,159,347</b>	<b>20,056,220</b>	<b>74,439,517</b>
Deferred charges	29,564	88,558	118,122	-
<b>Total</b>	<b>11,633,665</b>	<b>19,609,168</b>	<b>31,242,833</b>	<b>74,445,725</b>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	145,475	274,685	420,160	462
Due to other governments	-	773	773	-
Deferred revenues	533,689	10,029	543,718	-
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	152,926	9,569,486	9,722,412	-
Due in more than one year:				
Bonds and notes payable	1,177,725	6,847,231	8,024,956	-
Compensated absences	162,458	74,652	237,110	-
Other postemployment benefit obligation	860,041	-	860,041	-
<b>Total</b>	<b>3,032,314</b>	<b>16,776,856</b>	<b>19,809,170</b>	<b>462</b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	7,595,786	2,392,918	9,988,704	74,439,517
Restricted for:				
Capital projects	230,588	-	230,588	-
Program purposes	68,624	-	68,624	-
Unrestricted	706,353	439,394	1,145,747	5,746
<b>Total</b>	<b>\$ 8,601,351</b>	<b>\$ 2,832,312</b>	<b>\$ 11,433,663</b>	<b>\$ 74,445,263</b>

**City Of Lock Haven, Pennsylvania**

Statement Of Activities  
Year Ended December 31, 2010

Functions/Programs	Net (Expenses) Revenue And Changes In Net Assets					
	Program Revenues		Primary Government		Component Unit	
	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>						
Governmental activities:						
General government	\$ 663,929	\$ 314,902	\$ 257,901	\$ (91,126)	\$ (1,480,730)	\$ (91,126)
Public safety	1,636,319	155,589	-	(1,480,730)	(137,955)	(1,480,730)
Public works	2,872,976	48,726	2,032,500	(137,955)	(17,544)	(137,955)
Health, welfare and sanitation	25,387	-	7,843	(17,544)	(167,455)	(167,455)
Culture and recreation	175,455	-	8,000	(167,455)	(247,589)	(247,589)
Buildings and property	247,589	-	-	(30,087)	(705,758)	(705,758)
Interest on long-term debt	30,087	-	223,204	(30,087)	(1,051)	(1,051)
Employee benefits and insurance	928,962	-	-	(705,758)	(1,051)	(705,758)
Other	1,051	-	-	(1,051)	(469,851)	(469,851)
Unallocated depreciation	469,851	-	-	(469,851)	-	-
Total governmental activities	7,051,606	519,217	1,150,743	(3,349,146)	(3,349,146)	(3,349,146)
<b>Business-type activities:</b>						
Public utility services - Water	1,794,286	1,251,931	260,939	\$ (281,416)	225,118	(281,416)
Public utility services - Sanitary sewer	1,701,889	1,927,007	-	225,118	75,566	225,118
William T. Piper Memorial Airport	452,049	297,165	230,450	75,566	19,268	75,566
Total business-type activities	3,948,224	3,476,103	491,389	19,268	19,268	19,268
<b>TOTAL</b>	<b>\$ 10,999,830</b>	<b>\$ 3,985,320</b>	<b>\$ 1,150,743</b>	<b>\$ (3,349,146)</b>	<b>\$ (3,329,878)</b>	<b>\$ (849,976)</b>
<b>Component Unit,</b> Lock Haven Area Flood Protection Authority	\$ 849,976	\$ -	\$ -	\$ -	\$ -	\$ -
<b>General Revenues:</b>						
Taxes				2,383,305		2,383,305
Grants and contributions not restricted to specific programs				171,177		171,177
Unrestricted investment earnings				47,651		47,651
Miscellaneous				32,780		32,780
Gain on sale of asset				7,357		7,357
Reallocation of multi-purpose debt				(990,810)		(990,810)
Transfers				(56,561)		(56,561)
Total general revenues				3,689,341		3,689,341
<b>Change In Net Assets</b>				340,195		340,195
<b>Net Assets - Beginning</b>				8,261,156		8,261,156
<b>Net Assets, Ending</b>				\$ 8,601,351		\$ 8,601,351

**City Of Lock Haven, Pennsylvania**

Balance Sheet  
 Governmental Funds  
 December 31, 2010

	<u>General Fund</u>	<u>Capital Escrow</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 502,240	\$ 403,081	\$ 397,775	\$ 1,303,096
Receivables:				
Taxes	349,905	-	-	349,905
Loans	-	-	513,210	513,210
Other governments	37,412	-	95,740	133,152
Due from other funds	<u>110,540</u>	<u>81,952</u>	<u>310,973</u>	<u>503,465</u>
Total	<u>\$ 1,000,097</u>	<u>\$ 485,033</u>	<u>\$ 1,317,698</u>	<u>\$ 2,802,828</u>
<b>Liabilities And Fund Balances:</b>				
Liabilities:				
Vouchers (accounts) payable	\$ 44,242	\$ -	\$ 69,380	\$ 113,622
Accrued liabilities	18,535	-	519	19,054
Due to other funds	108,378	-	9,187	117,565
Deferred revenue	<u>230,169</u>	<u>-</u>	<u>533,689</u>	<u>763,858</u>
Total liabilities	<u>401,324</u>	<u>-</u>	<u>612,775</u>	<u>1,014,099</u>
Fund balances:				
Unreserved, designated:				
Recreation	-	-	46,604	46,604
Flood protection	-	-	93,037	93,037
Streets	-	-	40,725	40,725
Curbs and sidewalks	-	-	75,854	75,854
Other designations	-	485,033	-	485,033
Reserved for:				
Capital projects	-	-	230,558	230,558
Economic development	-	-	235,929	235,929
Unreserved, undesignated	<u>598,773</u>	<u>-</u>	<u>(17,784)</u>	<u>580,989</u>
Total fund balances	<u>598,773</u>	<u>485,033</u>	<u>704,923</u>	<u>1,788,729</u>
Total	<u>\$ 1,000,097</u>	<u>\$ 485,033</u>	<u>\$ 1,317,698</u>	<u>\$ 2,802,828</u>

## City Of Lock Haven, Pennsylvania

Reconciliation Of The Governmental Funds Balance Sheet  
To The Statement Of Net Assets  
December 31, 2010

**Total Fund Balance, Governmental Funds** \$ 1,788,729

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.	8,896,873
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.	230,169
Deferred financing costs related to issuance of debt are deferred and amortized over life of the debt in statement of activities.	29,564
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.	9,166
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at December 31, 2010 are:	
Bonds and notes payable	(1,330,651)
Other postemployment benefit obligation	(860,041)
Compensated absences	<u>(162,458)</u>

**Net Assets Of Governmental Activities**  
**In The Statement Of Net Assets** \$ 8,601,351

**City Of Lock Haven, Pennsylvania**

Statement Of Revenues, Expenditures And Changes In Fund Balances  
 Governmental Funds  
 Year Ended December 31, 2010

	<u>General Fund</u>	<u>Capital Escrow</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Taxes	\$ 2,469,711	\$ -	\$ -	\$ 2,469,711
Licenses and permits	69,071	-	-	69,071
Fines and forfeits	155,589	-	-	155,589
Interest, rents and royalties	2,923	837	1,410	5,170
Intergovernmental	410,700	2,000,000	944,836	3,355,536
Charges for service	134,995	-	48,726	183,721
Collections on loans	-	-	80,382	80,382
Miscellaneous	75,997	-	62,502	138,499
	<u>3,318,986</u>	<u>2,000,837</u>	<u>1,137,856</u>	<u>6,457,679</u>
<b>Total revenues</b>				
<b>Expenditures:</b>				
Current:				
General government	305,150	-	264,325	569,475
Employee benefits and insurance	917,860	-	14,719	932,579
Buildings and property	256,017	-	-	256,017
Community and economic development	-	2,000,000	213,505	2,213,505
Public works - highways and streets	346,881	-	321,099	667,980
Health and sanitation	25,387	-	-	25,387
Public safety	1,202,193	-	171,091	1,373,284
Culture and recreation	143,962	-	39,533	183,495
Other	4,000	-	30,000	34,000
Capital outlay	-	12,147	72,343	84,490
Debt service	175,069	-	-	175,069
	<u>3,376,519</u>	<u>2,012,147</u>	<u>1,126,615</u>	<u>6,515,281</u>
<b>Total expenditures</b>				
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<u>(57,533)</u>	<u>(11,310)</u>	<u>11,241</u>	<u>(57,602)</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from the sale of capital assets	648	-	-	648
Transfers in	40,000	-	6,554	46,554
Transfers out	(30,648)	(40,000)	(32,467)	(103,115)
	<u>10,000</u>	<u>(40,000)</u>	<u>(25,913)</u>	<u>(55,913)</u>
<b>Total other financing (uses) sources, net</b>				
<b>Change In Fund Balances</b>	(47,533)	(51,310)	(14,672)	(113,515)
<b>Fund Balance, Beginning</b>	<u>646,306</u>	<u>536,343</u>	<u>719,595</u>	<u>1,902,244</u>
<b>Fund Balance, Ending</b>	<u>\$ 598,773</u>	<u>\$ 485,033</u>	<u>\$ 704,923</u>	<u>\$ 1,788,729</u>

**City Of Lock Haven, Pennsylvania**

Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental  
Funds To The Statement Of Activities  
Year Ended December 31, 2010

Net Change In Fund Balances - Total Governmental Funds \$ (113,515)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation, \$469,851 exceeded capital outlays, \$315,156, in the current period. (154,695)

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, 2010. (86,403)

The issuance of long-term debt (e.g. bonds, notes, etc.) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of costs of issuance of debt when the debt is originally issued, whereas these amounts are deferred and amortized in the statement of activities. During 2010, the following transactions factor into this reconciliation:

Retirement of principal of long-term debt	144,982	
Amortization of issuance costs	<u>(1,040)</u>	
		143,942

Transfer of proceeds from multi-purpose borrowing from governmental-type activities to business-type activities. 990,810

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, 2010. (7,560)

Other postemployment benefit ("OPEB") expense reported in the statement of activities is recognized on the accrual basis. The net OPEB obligation is adjusted for any difference between OPEB expense and contributions made in relation to the annual required contribution (ARC). (432,829)

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported within governmental activities. 445

Change In Net Assets Of Governmental Activities \$ 340,195

**City Of Lock Haven, Pennsylvania**

Statement Of Revenues, Expenditures And

Changes In Fund Balance - General Fund

Budget And Actual

Year Ended December 31, 2010

	<u>Budgeted Amounts Original &amp; Final</u>	<u>Actual Amounts GAAP Basis</u>	<u>Adjustments Budgetary Basis</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>					
Taxes	\$ 2,427,400	\$ 2,469,711	\$ 13,759	\$ 2,483,470	\$ 56,070
Licenses and permits	59,200	69,071	25	69,096	9,896
Fines and forfeits	150,500	155,589	-	155,589	5,089
Interest, rents and royalties	4,000	2,923	-	2,923	(1,077)
Intergovernmental	226,538	410,700	9,416	420,116	193,578
Charges for services	108,168	134,995	3,706	138,701	30,533
Miscellaneous	<u>87,742</u>	<u>75,997</u>	<u>38,765</u>	<u>114,762</u>	<u>27,020</u>
Total revenues	<u>3,063,548</u>	<u>3,318,986</u>	<u>65,671</u>	<u>3,384,657</u>	<u>321,109</u>
<b>Expenditures:</b>					
Current:					
General government	305,990	305,150	(8,509)	296,641	9,349
Employee benefits and insurance	839,910	917,860	(4,176)	913,684	(73,774)
Public safety	1,230,716	1,202,193	(56,680)	1,145,513	85,203
Public works - highways and streets	277,540	346,881	(9,543)	337,338	(59,798)
Building and property	290,494	256,017	(7,037)	248,980	41,514
Health and sanitation	32,175	25,387	-	25,387	6,788
Culture and recreation	129,796	143,962	(4,295)	139,667	(9,871)
Other	9,195	4,000	-	4,000	5,195
Debt service:					
Principal	193,492	144,982	-	144,982	48,510
Interest and other charges	<u>-</u>	<u>30,087</u>	<u>-</u>	<u>30,087</u>	<u>(30,087)</u>
Total expenditures	<u>3,309,308</u>	<u>3,376,519</u>	<u>(90,240)</u>	<u>3,286,279</u>	<u>23,029</u>
<b>(Deficiency) Excess Of Revenues Over Expenditures</b>	<u>(245,760)</u>	<u>(57,533)</u>	<u>155,911</u>	<u>98,378</u>	<u>344,138</u>
<b>Other Financing Sources (Uses):</b>					
Proceeds from the sale of capital assets	1,000	648	-	648	(352)
Transfers in	-	40,000	(40,000)	-	-
Transfers out	(6,100)	(30,648)	24,548	(6,100)	-
Appropriated fund balance	<u>250,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250,860)</u>
Total other financing (uses) sources, net	<u>245,760</u>	<u>10,000</u>	<u>(15,452)</u>	<u>(5,452)</u>	<u>(251,212)</u>
<b>(Deficiency) Excess Of Revenues Over Expenditures After Other Financing Sources (Uses)</b>	<u>\$ -</u>	<u>\$ (47,533)</u>	<u>\$ 140,459</u>	<u>\$ 92,926</u>	<u>\$ 92,926</u>

City Of Lock Haven, Pennsylvania

Statement Of Net Assets

Proprietary Funds

December 31, 2010

	Enterprise Funds			Internal Service Fund	
	Water	Sewer	Airport Operating		Total
<b>Assets:</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ -	\$ 459,310	\$ -	\$ 459,310	\$ 20,014
Other accounts receivable, (net of allowance)	261,090	253,285	34,041	548,416	1,951
Due from other funds	4,072	39,017	39,598	82,687	-
Due from other governments	5,000	4,738	74,337	84,075	-
Restricted cash	-	7,650,288	-	7,650,288	-
Bond issuance costs	27,860	40,606	20,092	88,558	-
Other current assets	5,074	-	-	5,074	-
<b>Total current assets</b>	<b>303,096</b>	<b>8,447,244</b>	<b>168,068</b>	<b>8,918,408</b>	<b>21,965</b>
<b>Capital assets:</b>					
Public utility systems (including related equipment)	7,395,871	8,700,472	-	16,096,343	-
Land and improvements	-	500,000	1,405,975	1,905,975	-
Equipment and vehicles	-	-	557,257	557,257	-
Construction in progress	-	774,411	1,770	776,181	-
Less accumulated depreciation	(2,475,268)	(5,099,107)	(602,034)	(8,176,409)	-
<b>Total capital assets, net</b>	<b>4,920,603</b>	<b>4,875,776</b>	<b>1,362,968</b>	<b>11,159,347</b>	<b>-</b>
<b>Total</b>	<b>\$ 5,223,699</b>	<b>\$ 13,323,020</b>	<b>\$ 1,531,036</b>	<b>\$ 20,077,755</b>	<b>\$ 21,965</b>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Current portion of bonds payable	\$ 68,114	\$ 145,024	\$ 18,936	\$ 232,074	\$ -
Current portion of notes payable	200,910	9,136,502	-	9,337,412	-
Vouchers (accounts) payable	9,131	191,779	63,673	264,583	12,799
Accrued liabilities	2,965	6,349	788	10,102	-
Due to other funds	239,566	27,855	201,166	468,587	-
Deferred revenue	-	4,400	5,629	10,029	-
<b>Total current liabilities</b>	<b>520,686</b>	<b>9,511,909</b>	<b>290,192</b>	<b>10,322,787</b>	<b>12,799</b>
<b>Non-current liabilities:</b>					
Compensated absences	23,733	45,960	4,959	74,652	-
Long-term portion of bonds payable	524,570	1,116,875	145,830	1,787,275	-
Long-term portion of notes payable	3,428,880	1,631,076	-	5,059,956	-
Payable to other governments	773	-	-	773	-
<b>Total non-current liabilities</b>	<b>3,977,956</b>	<b>2,793,911</b>	<b>150,789</b>	<b>6,922,656</b>	<b>-</b>
<b>Total liabilities</b>	<b>4,498,642</b>	<b>12,305,820</b>	<b>440,981</b>	<b>17,245,443</b>	<b>12,799</b>
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	698,129	496,587	1,198,202	2,392,918	-
Unrestricted	26,928	520,613	(108,147)	439,394	9,166
<b>Total net assets</b>	<b>725,057</b>	<b>1,017,200</b>	<b>1,090,055</b>	<b>2,832,312</b>	<b>9,166</b>
<b>Total</b>	<b>\$ 5,223,699</b>	<b>\$ 13,323,020</b>	<b>\$ 1,531,036</b>	<b>\$ 20,077,755</b>	<b>\$ 21,965</b>

See notes to financial statements

**City Of Lock Haven, Pennsylvania**

Statement Of Revenues, Expenses And Changes In Fund Net Assets

Proprietary Funds

Year Ended December 31, 2010

	Enterprise Funds			Total	Internal Service Funds
	Water	Sewer	Airport Operating		
<b>Revenues,</b>					
Charges for services	\$ 1,251,931	\$ 1,927,007	\$ 297,165	\$ 3,476,103	\$ 88,553
<b>Operating Expenses:</b>					
Personnel services	377,483	749,812	94,354	1,221,649	-
Utilities (including water filtration costs)	1,031,811	180,251	28,038	1,240,100	-
Depreciation	273,977	238,855	91,738	604,570	-
Materials, supplies and maintenance	375	143,324	217,723	361,422	88,131
Administrative expense	43,917	108,525	1,806	154,248	-
Sludge disposal	-	92,357	-	92,357	-
Insurance	6,421	26,080	9,480	41,981	-
Miscellaneous	649	15,598	4,705	20,952	-
Total operating expenses	1,734,633	1,554,802	447,844	3,737,279	88,131
Operating (loss) income	(482,702)	372,205	(150,679)	(261,176)	422
<b>Non-Operating Revenues (Expenses):</b>					
Subsidies from other governments:					
State	-	-	230,450	230,450	-
Local	260,939	-	-	260,939	-
Interest income	6,769	40,882	-	47,651	23
Rental income	5,003	27,777	-	32,780	-
Proceeds from sale of assets	7,192	165	-	7,357	-
Interest expense	(59,853)	(147,087)	(4,205)	(210,945)	-
Total non-operating revenues (expenses)	220,250	(78,263)	226,245	368,232	23
Income (Loss) Before Transfers	(262,452)	293,942	75,566	107,056	445
<b>Other Financing Sources (Uses),</b>					
Reallocation of multi-purpose debt	(342,390)	(608,574)	(39,846)	(990,810)	-
Transfers in	75,404	-	23,199	98,603	-
Transfers out	-	(42,042)	-	(42,042)	-
Total other financing sources	(266,986)	(650,616)	(16,647)	(934,249)	-
Net Income (Loss)	(529,438)	(356,674)	58,919	(827,193)	445
Net Assets, Beginning	1,254,495	1,373,874	1,031,136	3,659,505	8,721
Net Assets, Ending	\$ 725,057	\$ 1,017,200	\$ 1,090,055	\$ 2,832,312	\$ 9,166

City Of Lock Haven, Pennsylvania

Statement Of Cash Flows

Proprietary Funds

Year Ended December 31, 2010

	Business-Type Activities				Governmental Activities
	Water Fund	Sewer Fund	Airport Operating Fund	Totals	Internal Service Inventory Fund
<b>Cash Flows From Operating Activities:</b>					
Cash received from users	\$ 1,429,845	\$ 1,896,831	\$ 243,060	\$ 3,569,736	\$ 88,061
Cash payments to employees for services	(385,524)	(762,999)	(96,075)	(1,244,598)	-
Cash paid to suppliers for goods and services	(1,107,670)	(423,362)	(214,203)	(1,745,235)	(83,189)
Net cash (used in) provided by operating activities	(63,349)	710,470	(67,218)	579,903	4,872
<b>Cash Flows Provided By Investing Activities:</b>					
Rental income	5,003	27,777	-	32,780	-
Earnings on investments	6,769	40,882	-	47,651	23
Net cash provided by investing activities	11,772	68,659	-	80,431	23
<b>Cash Flows From Capital And Related Financing Activities:</b>					
Payments for capital acquisitions	(1,935)	(1,283,238)	(164,274)	(1,449,447)	-
Capital subsidies from other governments	260,939	-	230,450	491,389	-
Principal payments on long-term debt	(265,875)	(264,985)	(17,952)	(548,812)	-
Payments to refunding bond escrow agents	(535,000)	(5,465,000)	-	(6,000,000)	-
Proceeds from long term debt	570,505	9,000,000	-	9,570,505	-
Proceeds (payments) from interim inter-fund borrowings	75,404	(42,042)	23,199	56,561	-
Interest paid	(59,653)	(147,087)	(4,205)	(210,945)	-
Sale of assets	7,192	165	-	7,357	-
Net cash provided by capital and related financing activities	51,577	1,797,813	67,218	1,916,608	-
<b>Increase In Cash And Cash Equivalents</b>	-	2,576,942	-	2,576,942	4,895
<b>Cash And Cash Equivalents, Beginning</b>	-	5,532,656	-	5,532,656	15,119
<b>Cash And Cash Equivalents, Ending</b>	\$ -	\$ 8,109,598	\$ -	\$ 8,109,598	\$ 20,014
<b>Displayed As:</b>					
Cash and cash equivalents	\$ -	\$ 459,310	\$ -	\$ 459,310	\$ 15,119
Restricted cash	-	7,650,288	-	7,650,288	-
<b>Total</b>	\$ -	\$ 8,109,598	\$ -	\$ 8,109,598	\$ 15,119
<b>Reconciliation Of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:</b>					
Operating income (loss)	\$ (482,702)	\$ 372,205	\$ (150,679)	\$ (261,176)	\$ 422
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	273,977	238,855	91,738	604,570	-
Amortization	-	-	-	-	-
Changes in assets and liabilities:					
Accounts receivable, other	(14,391)	(30,370)	(8,689)	(53,450)	(492)
Due from/to other governments and funds	192,305	(1,806)	(49,570)	140,929	-
Other current assets	54	-	-	54	-
Deferred charges	498	(4,680)	515	(3,667)	-
Vouchers payable	(24,995)	147,453	47,034	169,492	4,942
Deferred revenue	-	2,000	4,154	6,154	-
Accrued and other liabilities	(8,095)	(13,187)	(1,721)	(23,003)	-
<b>Net Cash (Used In) Provided By Operating Activities</b>	\$ (63,349)	\$ 710,470	\$ (67,218)	\$ 579,903	\$ 4,872
<b>Supplemental Disclosure of Non-Cash Capital and Related Financing Activities:</b>					
Reallocation of multi-purpose debt	\$ (342,390)	\$ (608,574)	\$ (39,846)	\$ (990,810)	\$ -

**City of Lock Haven, Pennsylvania**Statement Of Fiduciary Net Assets  
December 31, 2010

	<u>Pension and OPEB Trust Funds</u>	<u>Agency Fund - Payroll</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 432,681	\$ 2,500
Contributions receivable	<u>11,825</u>	<u>-</u>
Total	<u>444,506</u>	<u>2,500</u>
<b>Investments:</b>		
Fixed income securities	2,928,000	-
Equity securities	4,512,407	-
Mutual funds	<u>943,245</u>	<u>-</u>
Total investments	<u>8,383,652</u>	<u>-</u>
Total	<u>\$ 8,828,158</u>	<u>\$ 2,500</u>
<b>Liabilities,</b>		
Due to other taxing units		\$ 2,500
Benefits payable	<u>\$ 9,070</u>	<u>-</u>
Total liabilities	<u>9,070</u>	<u>2,500</u>
<b>Net Assets,</b>		
Held in trust for benefits and other purposes	<u>8,819,088</u>	<u>-</u>
Total	<u>\$ 8,828,158</u>	<u>\$ 2,500</u>

See notes to financial statements

## City of Lock Haven, Pennsylvania

### Statement Of Changes In Fiduciary Net Assets

Year Ended December 31, 2010

	<u>Pension and OPEB Trust Funds</u>
<b>Additions:</b>	
Contributions:	
Employees	\$ 93,740
Commonwealth of Pennsylvania	223,244
Other	<u>685</u>
Total contributions	<u>317,669</u>
Investment earnings:	
Net increase in fair value of investments	520,455
Interest and dividends	<u>178,074</u>
Total investment earnings	<u>698,529</u>
Total additions	<u>1,016,198</u>
<b>Deductions:</b>	
Benefits	276,620
Other	<u>63,102</u>
Total deductions	<u>339,722</u>
<b>Change In Net Assets</b>	676,476
<b>Net Assets, Beginning</b>	<u>8,142,612</u>
<b>Net Assets, Ending</b>	<u>\$ 8,819,088</u>

See notes to financial statements

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements  
December 31, 2010

### 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.

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements

December 31, 2010

- 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.

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements  
December 31, 2010

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.

## City Of Lock Haven, Pennsylvania

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### Notes To Financial Statements

December 31, 2010

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Governmental Funds**

#### **General Fund**

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

#### **Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to specified purposes. The major Special Revenue Fund reported by the City is the Capital Escrow 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.

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements  
December 31, 2010

- 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 are funded with federal funds passed through the Commonwealth of Pennsylvania and whose use is restricted for the provision of community services under four specific federal criteria.
- The Hoberman Park Fund accounts for certain recreational activities conducted at the Hoberman Park Playground.
- The Housing Home Program Fund accounts for federal HOME revenues used to provide assistance to low to moderate income homeowners for housing repairs to meet minimum building code requirements.
- The Owner Occupied Housing Fund accounts for housing assistance to low income families.
- The New Communities Main Street Fund and the Downtown Streetscape Fund account for certain City revitalization projects.

## **City Of Lock Haven, Pennsylvania**

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Notes To Financial Statements  
December 31, 2010

### **Capital Projects Fund**

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital facilities or assets (other than those financed by proprietary funds). The Capital Projects Fund is considered a non-major fund for 2010.

### **Proprietary Funds**

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

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

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

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

### **Fiduciary Funds**

#### **Pension And OPEB Trust Funds**

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

# City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

## Receivables And Payables

### Interfund Receivables And Payables

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

### Trade And Property Tax Receivables

All receivables are reported at net realizable value. Amounts are written off when they are determined to be uncollectible based upon management's assessment of individual amounts. The allowance for doubtful accounts is estimated based upon a combination of the City's historical losses and a percentage of aged receivables. The allowance for uncollectible real estate and debt service taxes as of December 31, 2010 amounted to approximately \$98,000. The allowance for doubtful accounts related to the Water, Sewer, and Airport proprietary funds amounted to approximately \$18,000, \$18,000, and \$1,000, respectively, as of December 31, 2010.

## Capital Assets

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

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

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

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

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

## **City Of Lock Haven, Pennsylvania**

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Notes To Financial Statements  
December 31, 2010

### **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 31<sup>st</sup> 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, 2010, the General, Non-major Governmental, Sewer and Airport Operating Funds had deferred revenues of \$230,169, \$533,689, \$4,400, and \$5,629, 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.

### **OPEB Plan**

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

### **Use Of Estimates**

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

## **2. Budgetary Procedures And Budgetary Accounting**

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

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

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements  
December 31, 2010

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

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which *annual* budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is presented on page 11 of the accompanying financial statements. During 2010, 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.

## City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

### 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, 2010, the aggregate bank balance of bank deposits was \$9,972,290, of which \$1,094,496 was covered by federal depository insurance and \$432,681 was covered by the SIPC. The uninsured remaining bank deposits of \$8,445,114 were covered by pledged pools of assets maintained in accordance with Act 72 of the General Assembly that requires the institution pool collateral for all governmental deposits. The carrying amount of these bank deposits was \$9,867,889 at December 31, 2010.

### Investments - Pension Trust Funds

As of December 31, 2010, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Equity securities	N/A	\$4,512,407
U.S. Treasury securities	Average of 11 years	1,055,114
Government bonds	Average of 13 years	970,406
Mutual funds	N/A	943,245
Corporate bonds	Average of 8 years	712,490
Corp. mortgage/asset backed securities	Average of 28 years	119,063
Government asset backed securities	Average of 25 years	<u>70,927</u>
Total		<u>\$8,383,652</u>

### Credit Ratings

The City's fixed income investments had the following credit ratings:

U.S. Treasury securities	AAA	36.04%
Government bonds	AA to AAA	33.14%
Corporate bonds	BBB+ to AA+	24.33%
Corp. mortgage/asset backed securities	AA- to AAA	4.07%
Government asset backed securities	AAA	<u>2.42%</u>
Total fixed income		<u>100%</u>

The City's investment policy limits investments as follows:

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

## **City Of Lock Haven, Pennsylvania**

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Notes To Financial Statements  
December 31, 2010

### **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 in order 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, 2010, all of the City's Pension and OPEB Trust Fund investments were held by Charles Schwab and were insured by SIPC up to \$500,000 per account.

### **Restricted Cash**

The City's Sewer Fund reports the unspent bond proceeds for future capital activity as restricted cash. At December 31, 2010, the unspent bond proceeds amounted to \$7,650,288.

### **Component Unit – Flood Protection Authority**

#### **Cash**

At December 31, 2010 the carrying amount and bank balance of the Flood Protection Authority's deposits were \$6,208, all of which was covered by federal depository insurance.

## **4. Property Taxes**

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

The assessed value at January 1, 2010, upon which the 2010 levy was based, was \$279,618,000 for taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2010 were 93% of the tax levy.

The City is permitted by the Third Class City Code to levy taxes up to 25 mills (\$25 per \$1,000 of assessed valuation) for general governmental services. The City imposes a split rate tax on real estate, with the millage on land being different from that on improvements. The millage on land as levied is 18.25 mills and the millage on improvements as levied is 3.74 mills. Since this is a split rate the two amounts cannot be simply added to determine the total millage. An equivalent single tax rate can be calculated by dividing the total tax revenue by the total assessed value.

# City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

The City's equivalent single tax rates at December 31, 2010 were:

General Governmental Services	5.290 mills
Levee System Operations	0.326 mills
Debt Service	0.676 mills

The City has a tax margin of 19.384 mills (25.00 mills limit less 5.29 mills for general government, less 0.326 mills for levee maintenance = 19.384 mills).

## 5. Due From Other Governments

The amount reported in the City's various governmental and proprietary funds at December 31, 2010 as due from other governments is summarized below:

	<u>Federal</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ -	\$37,412	\$ 37,412
Other Nonmajor Governmental Funds	95,740	-	95,740
Water Fund	-	5,000	5,000
Sewer Fund	-	4,738	4,738
Airport Fund	<u>74,337</u>	<u>-</u>	<u>74,337</u>
Total	<u>\$170,077</u>	<u>\$47,150</u>	<u>\$217,227</u>

Amounts due from the federal government are primarily grants receivable related to the City's various federal grant programs. Amounts due from local governments are primarily reimbursements for intergovernmental services performed during 2010.

## 6. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2010 is as follows:

	<u>Balance January 1, 2010</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Balance December 31, 2010</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated,				
Land	\$ 3,411,307	\$ -	\$ -	\$ 3,411,307
Construction in process	<u>6,704</u>	<u>37,863</u>	<u>-</u>	<u>44,567</u>
Total capital assets, not being depreciated	<u>3,418,011</u>	<u>37,863</u>	<u>-</u>	<u>3,455,874</u>
Capital assets, being depreciated:				
Land improvements	1,591,637	18,169	-	1,609,806
Buildings and improvements	3,867,833	57,781	-	3,925,614
Furniture and equipment	2,211,111	21,831	-	2,232,942
Transportation	726,824	20,250	-	747,074
Infrastructure	<u>2,259,651</u>	<u>159,262</u>	<u>-</u>	<u>2,418,913</u>
Total capital assets, being depreciated	<u>10,657,056</u>	<u>277,293</u>	<u>-</u>	<u>10,934,349</u>

# City Of Lock Haven, Pennsylvania

## Notes To Financial Statements December 31, 2010

	<u>Balance January 1, 2010</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Balance December 31, 2010</u>
Less accumulated depreciation:				
Land improvements	(1,087,080)	(62,483)	-	(1,149,563)
Buildings and improvements	(1,912,648)	(110,034)	-	(2,022,682)
Furniture and equipment	(1,271,510)	(96,815)	-	(1,368,325)
Transportation	(554,849)	(29,243)	-	(584,092)
Infrastructure	<u>(197,412)</u>	<u>(171,276)</u>	<u>-</u>	<u>(368,688)</u>
Total accumulated depreciation	<u>(5,023,499)</u>	<u>(469,851)</u>	<u>-</u>	<u>(5,493,350)</u>
Total capital assets, being depreciated	<u>5,633,557</u>	<u>(192,558)</u>	<u>-</u>	<u>5,440,999</u>
Governmental activities, net	<u>\$ 9,051,568</u>	<u>\$ (154,695)</u>	<u>\$ -</u>	<u>\$ 8,896,873</u>
<b>Business – type activities:</b>				
Capital assets, being depreciated:				
Utility system	\$15,970,759	\$ 125,584	\$ -	16,096,343
Land and improvements	1,241,701	664,274	-	1,905,975
Machinery and equipment	506,312	-	-	506,312
Vehicles	50,945	-	-	50,945
Construction in process	<u>116,592</u>	<u>659,589</u>	<u>-</u>	<u>776,181</u>
Total cost	<u>17,886,309</u>	<u>1,449,447</u>	<u>-</u>	<u>19,335,756</u>
Less accumulated depreciation:				
Utility system	(7,061,543)	(512,832)	-	(7,574,375)
Land and improvements	(231,675)	(61,849)	-	(293,524)
Machinery and equipment	(227,676)	(29,889)	-	(257,565)
Vehicles	<u>(50,945)</u>	<u>-</u>	<u>-</u>	<u>(50,945)</u>
Total accumulated depreciation	<u>(7,571,839)</u>	<u>(604,570)</u>	<u>-</u>	<u>(8,176,409)</u>
Business-type activities capital assets, net	<u>\$10,314,470</u>	<u>\$ 844,877</u>	<u>\$ -</u>	<u>\$11,159,347</u>
<b>Component – Unit Flood Protection Authority:</b>				
	<u>Balance January 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance December 31, 2010</u>
Land improvements	\$84,590,355	\$ -	\$ -	\$84,590,355
Accumulated depreciation	<u>(9,304,935)</u>	<u>(845,903)</u>	<u>-</u>	<u>(10,150,838)</u>
Component unit capital asset, net	<u>\$75,285,420</u>	<u>\$(845,903)</u>	<u>\$ -</u>	<u>\$74,439,517</u>

Governmental activity depreciation expense, which amounted to \$469,851 for the year ended December 31, 2010 was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$273,977, \$238,855, and \$91,738 for the year ended December 31, 2010 was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

## City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

### 7. Interfund Balances And Activity

#### Balances Due To/From Other Funds

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

Individual fund receivable and payable amounts at December 31, 2010 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$110,540	\$(108,378)
Capital Escrow Fund	81,952	-
Non-major Funds	310,973	(9,187)
Enterprise Funds	<u>82,687</u>	<u>(468,587)</u>
Total	<u>\$586,152</u>	<u>\$(586,152)</u>

#### Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2010 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 40,000	\$ (30,648)
Capital Escrow	-	(40,000)
Non-major Funds	6,554	(32,467)
Enterprise Funds	<u>98,603</u>	<u>(42,042)</u>
Total	<u>\$145,157</u>	<u>\$(145,157)</u>

During the year ended December 31, 2010 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 \$23,199 and \$1,349 to its Airport and Water Funds, respectively, for various capital project activities. The City transferred \$32,013 from its Capital Projects Fund (non-major) to its Airport Fund for ongoing capital projects. The remainder of the Enterprise Funds transfers are intra-fund in nature. The Capital Escrow Fund 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  
December 31, 2010

**8. Long-Term Debt**

As of December 31, 2010, 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 1/1/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance At 12/31/10</u>	<u>Current Portion</u>
PennVEST Note Payable - Sewer Fund	1.156%	\$2,638,730	\$ 1,877,312	\$ -	\$ (126,266)	\$ 1,751,046	\$ 127,734
DCED Note Payable	2.00%	25,000	17,760	-	(1,228)	16,532	8,768
PennVEST Note Payable - Water Fund	1.00%	6,122,000	3,260,584	570,505	(201,299)	3,629,790	200,910
2009 General Obligation Bond, Series A	1.00 - 3.50%	3,715,000	3,715,000	-	(365,000)	3,350,000	385,000
2009 General Obligation Bond, Series B	1.50%	6,000,000	6,000,000	-	(6,000,000)	-	-
2010 General Obligation Note, Series A	1.50%	9,000,000	-	<u>9,000,000</u>	-	<u>9,000,000</u>	<u>9,000,000</u>
Total, net			<u>\$14,870,656</u>	<u>\$9,570,505</u>	<u>\$(6,693,793)</u>	<u>\$17,747,368</u>	<u>\$9,722,412</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	\$ 152,926	\$1,177,725	\$ 1,330,651
Business-Type Activity Bonds & Notes Payable	<u>9,569,486</u>	<u>6,847,231</u>	<u>16,416,717</u>
Total	<u>\$9,722,412</u>	<u>\$8,024,956</u>	<u>\$17,747,368</u>

## **City Of Lock Haven, Pennsylvania**

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Notes To Financial Statements  
December 31, 2010

### **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 \$12,275 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 – DCED – Sewer Fund**

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

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

In 2008, the City entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority ("PennVEST") with a maximum balance of \$6,122,000 (only \$4,140,427 was drawn as of 12/31/10), due in monthly installments of \$19,691, including principal and interest at 1% per annum through maturity in July 2038. The proceeds drawn on the note to date were used to finance the City's Ohi Dam Grouting Project. The note is secured by the City's pledge of all gross receipts and revenues of the water system and a lien position thereto.

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

In 2009, the City issued a \$3,715,000 General Obligation Bond, Series A of 2009, bearing interest at rates ranging from 1.00% to 3.50% per annum, maturing on dates ranging from November 1, 2013 to November 1, 2019. The proceeds from the bonds were used to (1) currently refund the City's General Obligation Bonds, Series of 2002, General Obligation Note, Series B of 2007 and a portion of the General Obligation Note, Series A of 2007; (2) to finance various capital projects of the City; and (3) to pay the costs of issuing the bonds. Of the \$3,715,000, \$1,475,632 was allocated to governmental activities and \$2,239,368 was allocated to proprietary funds. At December 31, 2010, the City had \$1,330,651 and \$2,019,349 outstanding within its governmental activities and proprietary funds, respectively.

### **Reallocation Of Multi-Purpose Debt**

During 2010, the City repurposed certain proceeds from its General Obligation Bond, Series A of 2009, originally reported as Governmental Activity debt in the amount of \$990,810, to certain enterprise fund capital projects, including the City's Sewer Plant Upgrade.

# City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

## General Obligation Bond, Series B Of 2009 (Refunded in 2010) – Water/Sewer Funds

In 2009, the City issued, as interim financing, a \$6,000,000 General Obligation Bond, Series of B 2009, bearing interest at 1.5% per annum, maturing December 22, 2010. The proceeds from the sale of the bonds were used to (1) currently refund a portion of the City's General Obligation Note, Series A of 2007; (2) to finance various capital projects of the City; and (3) to pay the costs of issuing the bonds. This bond series was refunded during 2010 by the City's General Obligation Note, Series A of 2010. The reduction in total debt service payments and net economic gain resulting from this refunding were not material

## General Obligation Note, Series A of 2010– Sewer Fund

In 2010, the City issued, as interim financing, a \$9,000,000 General Obligation Note, Series A Note 2010, bearing interest at 1.5% per annum, maturing December 15, 2011. The proceeds from the issuance of the note were used to (1) currently refund all of the City's General Obligation Bonds, Series B of 2009; (2) to finance a sewer system capital improvement project; and (3) to pay the costs of issuing the notes. The City anticipates refinancing the balance of this note through PennVEST financing in 2011.

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, 2010:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 9,722,412	\$ 271,579	\$ 9,993,991
2012	737,299	127,296	864,595
2013	788,302	115,659	903,961
2014	739,266	103,061	842,327
2015	752,883	90,444	843,327
2016-2020	3,075,033	250,926	3,325,959
2021-2025	1,537,471	55,526	1,592,997
2026-2030	<u>394,702</u>	<u>3,497</u>	<u>398,199</u>
Total	<u>\$17,747,368</u>	<u>\$1,017,988</u>	<u>\$18,765,356</u>

## 9. Compensated Absences

The changes in the City's compensated absences in 2010 are summarized as follows:

### Governmental Activities

Balance, January 1, 2010	\$154,898
Increase	24,659
Decrease	<u>(17,099)</u>
Balance, December 31, 2010	<u>\$162,458</u>

### Business Type Activities

Balance, January 1, 2010	\$ 63,804
Increase	14,391
Decrease	<u>(3,543)</u>
Balance, December 31, 2010	<u>\$ 74,652</u>

# City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

## 10. Water And Sewer Fund Leases

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

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

During the year ended December 31, 2010, the City transferred \$25,825 to the Authority pursuant to the water system lease. In doing so, the City substantially met the funding requirement of this agreement. No such transfer was made to the Authority pursuant to the sewer system lease, because the sewer capital reserve account had reached the required amount during 2002.

## 11. Employee Pension Funds

### Plan Descriptions

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

	Combining Statement Of Fiduciary Net Assets				Total Pension/ OPEB
	Police Pension	City Employees Retirement Fund	Total Pension	OPEB Police Death Benefit *	
<b>Assets:</b>					
Cash and cash equivalents	\$ 229,691	\$ 198,063	\$ 427,754	\$ 4,927	\$ 432,681
Contributions receivable	<u>309</u>	<u>11,516</u>	<u>11,825</u>	<u>-</u>	<u>11,825</u>
Total	<u>230,000</u>	<u>209,579</u>	<u>439,579</u>	<u>,927</u>	<u>444,506</u>
<b>Investments:</b>					
Fixed income securities	1,439,553	1,436,470	2,876,023	51,977	2,928,000
Equity securities	2,239,182	2,208,641	4,447,823	64,584	4,512,407
Mutual funds	<u>441,208</u>	<u>488,048</u>	<u>929,256</u>	<u>13,989</u>	<u>943,245</u>
Total Investments	<u>4,119,943</u>	<u>4,133,159</u>	<u>8,253,102</u>	<u>130,550</u>	<u>8,838,652</u>
Total	<u>\$4,349,943</u>	<u>\$4,342,738</u>	<u>\$8,692,681</u>	<u>\$135,477</u>	<u>\$8,828,158</u>
<b>Liabilities:</b>					
Benefits payable	\$ -	\$ 9,070	\$ 9,070	\$ -	\$ 9,070
<b>Net Assets, Held in trust for pension benefits</b>					
	<u>4,349,943</u>	<u>4,333,668</u>	<u>8,683,611</u>	<u>135,477</u>	<u>8,819,088</u>
Total	<u>\$4,349,943</u>	<u>\$4,342,738</u>	<u>\$8,692,681</u>	<u>\$135,477</u>	<u>\$8,828,158</u>

# City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

## Combining Statement Of Changes In Fiduciary Net Assets

	<u>Police Pension</u>	<u>City Employees Retirement Fund</u>	<u>Total Pension</u>	<u>OPEB Police Death Benefit *</u>	<u>Total Pension/ OPEB</u>
Additions:					
Contributions:					
Employees	\$ 3,158	\$ 90,622	\$ 93,780	\$ -	\$ 93,780
Commonwealth of Pennsylvania	84,106	139,098	223,204	-	223,204
Other	<u>412</u>	<u>273</u>	<u>685</u>	<u>-</u>	<u>685</u>
Total contributions	<u>87,676</u>	<u>229,993</u>	<u>317,669</u>	<u>-</u>	<u>317,669</u>
Investment earnings:					
Net increase in fair value of investments	264,597	246,194	510,791	9,664	520,455
Interest and dividends	<u>86,536</u>	<u>86,584</u>	<u>173,120</u>	<u>4,954</u>	<u>178,074</u>
Total investment earnings	<u>351,133</u>	<u>332,778</u>	<u>683,911</u>	<u>14,618</u>	<u>698,529</u>
Total additions	<u>438,809</u>	<u>562,771</u>	<u>1,001,580</u>	<u>14,618</u>	<u>1,016,198</u>
Deductions:					
Benefits	174,046	102,574	276,620	-	276,620
Other	<u>32,547</u>	<u>29,860</u>	<u>62,407</u>	<u>695</u>	<u>63,102</u>
Total deductions	<u>206,593</u>	<u>132,434</u>	<u>339,027</u>	<u>695</u>	<u>339,722</u>
Change In Net Assets	232,216	430,337	662,553	13,923	676,476
Net Assets, Beginning	<u>4,117,727</u>	<u>3,903,331</u>	<u>8,021,058</u>	<u>121,554</u>	<u>8,142,612</u>
Net Assets, Ending	<u>\$4,349,943</u>	<u>\$4,333,668</u>	<u>\$8,683,611</u>	<u>\$135,477</u>	<u>\$8,819,088</u>

\* - See Note 12

Additional information related to each of the plans, as of January 1, 2009 (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)

## City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

	<u>CERF</u>	<u>Police</u>
Monthly retirement benefits	Will receive monthly benefit based on the following: (1) Elected officials received \$7 times years of service as an elected official; (2) City employees receive 1.8% of average monthly earnings in the highest 5 consecutive of the last 10 years of services times years of service; and (3) Police officers hired prior to 1/1/1978, will receive monthly benefit equal to \$3 times years of service	Will receive annual benefit equal to 50% of the highest one years' W-2 earnings during the last 3 years of service preceding retirement
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100
Disability benefits: Eligibility	None	Service related injury or illness
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.

**City Of Lock Haven, Pennsylvania**

Notes To Financial Statements  
December 31, 2010

Membership of the Plans consisted of the following at January 1, 2009, 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	1	-
Active plan members	<u>44</u>	<u>13</u>
Total	<u>71</u>	<u>23</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, 2010 the combined City/Commonwealth contributions to the CERF and Police plans were \$139,098 and \$84,759, respectively, each of which exceeded the related 2010 MMO.

**City Of Lock Haven, Pennsylvania**

Notes To Financial Statements  
December 31, 2010

**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	\$ 12,320	\$ 50,572
Interest on net pension asset	(13,629)	(4,957)
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual pension cost	(1,309)	45,615
Contributions made	<u>139,098</u>	<u>84,759</u>
Increase in net pension asset	140,407	39,144
Net pension asset, beginning of year	<u>194,698</u>	<u>70,817</u>
Net pension asset, end of year	<u>\$335,105</u>	<u>\$109,961</u>

The annual required contribution ("ARC") for the current year was determined as part of the January 1, 2009 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%	7.0%
Projected salary increase	4.0%	5.0%
Inflation rate	3.0%	3.0%
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	N/A	N/A

## City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

### 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			
12/31/10	\$ (1,309)	>100%	\$(335,105)
12/31/09	(4,811)	>100%	(194,698)
12/31/08	(1,569)	>100%	(181,961)
Police Pension Fund			
12/31/10	\$45,615	>100%	\$(109,960)
12/31/09	33,089	>100%	(70,817)
12/31/08	35,482	>100%	(66,188)

### **Funded Status And Funding Progress**

The funded status of the plan as of January 1, 2009, the most recent actuarial valuation date, was as follows:

	<u>Actuarial Value Of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Total Unfunded Actuarial Liability (Asset) (c)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Ratio Of Unfunded Liability To Annual Covered Payroll ((b-a)/c)</u>
Police Pension Fund	\$4,139,188	\$3,866,755	\$(272,433)	107.0%	\$ 631,043	N/A
City Employees Retirement Pension Fund	3,790,120	3,800,602	10,482	99.7%	1,395,136	0.8%

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

### **Summary Of Significant Accounting Policies**

#### **Basis Of Accounting**

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

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements  
December 31, 2010

### 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, 2010 the individual Plans held no investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents five percent or more of individual Plan net assets.

## 12. Postemployment Benefits

### Plan Description

The City provides and administers other postretirement benefits, consisting of health-care benefits for retired employees who are participants in the City's Police pension plan. Currently, 8 retirees meet those eligibility requirements. Such benefits are provided in accordance with the police union contract. The costs of such insurance coverage for retirees are primarily funded through annual appropriations from the City's General Fund. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired employees who are ineligible under the above requirements and choose to participate in the medical plan must pay 100% of the composite rate cost of such coverage. While no formal plan document currently exists, GASB No. 45 requires the valuation to consider the "substantive plan," meaning the plan terms as understood by the City and plan members, as described in various current and historical employment and union contracts, including any plan changes that have been made and communicated to employees. The plan is an unfunded single employer plan and no financial report is prepared. Stand-alone financial statements are not issued for the plan.

## City Of Lock Haven, Pennsylvania

Notes To Financial Statements

December 31, 2010

### Funding Policy

The contribution requirements of plan members and the City are established and may be amended through negotiations between the City and the respective unions. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retirees are currently not required to contribute to the plan. The City paid premiums of approximately \$62,000 for the year ended December 31, 2010.

### Annual OPEB Cost And Net OPEB Obligation

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

Annual required contribution	\$478,068
Interest on net OPEB obligation	17,088
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	495,156
Contributions made	<u>(62,327)</u>
Increase in net OPEB obligation	432,829
Net OPEB obligation at January 1, 2010	<u>427,212</u>
Net OPEB obligation at December 31, 2010	<u>\$860,041</u>

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2010 and 2009 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$495,156	12.6%	\$860,041
December 31, 2009	478,068	10.6%	427,212

## City Of Lock Haven, Pennsylvania

Notes To Financial Statements  
December 31, 2010

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### Funded Status And Funding Progress

The funded status of the plan as of December 31, 2009, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$4,020,127
Actuarial value of plan assets	<u>121,553</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$3,898,574</u>
Funded ratio (actuarial value of plan assets/UAAL)	3%
Estimated annual covered payroll	\$2,200,000
UAAL as a percentage of covered payroll	177.2%

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

### Actuarial Methods And Assumptions

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

In the December 31, 2009, actuarial valuation, the Entry Age Normal Method was used. Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

The actuarial assumptions included a 4% investment rate of return, which is the expected rate to be earned on the City's deposits and investments, an annual healthcare cost trend rate of 11.0% for 2010, with the rate decreasing by 1% each year thereafter to an ultimate rate of 5.0% in 2029 and later, and a constant 5% increase per year for Medicare Part B and dental premiums. The UAAL is being amortized as a level dollar over a fifteen year open period.

## **City Of Lock Haven, Pennsylvania**

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Notes To Financial Statements  
December 31, 2010

### **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, 2010, the City purchased \$933,124 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 and as such is not considered a component unit of the City.

### **16. Contingent Liabilities**

#### **Grant Programs**

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

#### **Environmental**

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

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements  
December 31, 2010

### 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 14). At December 31, 2010, the outstanding balance on this promissory note amounted to \$2,035,872; the City is potentially liable for 40% of this balance, or \$814,349.

### 17. Pending Changes In Accounting Principles

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.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. GASB 59 is effective for the City's calendar year 2011 financial statements.

In December 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements ("SCA")*. This statement addresses how to account for and report situations where a government engages another entity to operate a major capital asset on its behalf. This statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferor's and governmental operators. To the extent applicable, the City is required to adopt Statement No. 60 for its calendar year 2012 financial statements.

In December 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement addresses certain issues with distinguishing a government's control over another government in the reporting of component units. The City is required to adopt Statement No. 61 for its calendar year 2013 financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates certain applicable accounting and financial reporting guidance of the FASB and AICPA into GASB literature to simplify the preparation of state and local government financial statements. The City is required to adopt Statement No. 62 for its calendar year 2012 financial statements.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The City is required to adopt Statement No. 63 for its calendar year 2012 financial statements.

## City Of Lock Haven, Pennsylvania

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Notes To Financial Statements  
December 31, 2010

In July 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53*. This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. To the extent applicable, the City is required to adopt Statement No. 64 for its calendar year 2012 financial statements.

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

**City Of Lock Haven, Pennsylvania**

Required Supplementary Information  
 Schedule Of Funding Progress - Pension Trust Funds  
 Year Ended December 31, 2010  
 (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
<b>City Employees Retirement Fund</b>	January 1, 2009	\$ 3,790,120	\$ 3,800,602	\$ 10,482	99.7%	\$ 1,395,136	0.8%
	January 1, 2007	4,011,159	3,404,242	(606,917)	117.8%	1,426,255	N/A
	January 1, 2005	3,335,826	3,120,287	(215,539)	106.9%	1,395,216	N/A
<b>Police Pension Fund</b>	January 1, 2009	\$ 4,139,188	\$ 3,866,755	\$ (272,433)	107.0%	\$ 631,043	N/A
	January 1, 2007	4,595,664	3,565,871	(1,029,793)	128.9%	616,735	N/A
	January 1, 2005	4,036,055	3,263,507	(772,548)	123.7%	594,398	N/A

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

## City Of Lock Haven, Pennsylvania

Required Supplementary Information  
 Schedule Of Employer Contributions - Pension Trust Funds  
 Year Ended December 31, 2010  
 (Unaudited)

Year Ended December 31,	Police Pension Fund		City Employees Retirement Pension Fund	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2010	\$ 50,572	168 %	\$ 12,320	1,129 %
2009	37,722	100 %	7,926	100 %
2008	40,011	103 %	10,313	103 %
2007	64,540	100 %	42,987	100 %
2006	56,187	100 %	37,529	100 %
2005	122,539	100 %	95,812	100 %
2004	110,428	102 %	88,807	102 %
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	104 %	60,118	145 %
1994	27,252	92 %	46,883	110 %
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.

## City Of Lock Haven, Pennsylvania

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Note To Required Supplementary Information - Pension Trust Funds  
December 31, 2010  
(Unaudited)

### Actuarial Assumptions

The following actuarial assumptions were used in the January 1, 2009 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%	7.0%
Projected salary increase	4.0%	5.0%
Consumer Price Index	3.0%	3.0%
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	N/A	N/A

**City Of Lock Haven, Pennsylvania**

Schedule Of Expenditures Of Federal Awards  
Year Ended December 31, 2010

Grantor/Program Title	Pass-Through Entity Identification Number	Federal CFDA Number	Program Amount	Total Received For The Year	Accrued (Deferred) Revenue January 1, 2010	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue December 31, 2010
<b>U.S. Department Of Housing And Urban Development, Passed through Pennsylvania Department of Community and Economic Development:</b>								
CDBG - State - Administered Small Cities Program Cluster:								
Community Development Block Grant State's Program (2007 Allotment)	C000029620	14.228	\$ 348,829	\$ 21,747	\$ 3,337	\$ 28,295	\$ 28,295 *	\$ 9,885
Community Development Block Grant State's Program (2008 Allotment)	C000034132	14.228	340,091	94,295	7,808	91,783	91,783 *	5,296
Community Development Block Grant State's Program (2009 Allotment)	C000045881	14.228	344,807	20,044	-	27,484	27,484 *	7,440
ARRA - Community Development Block Grant CDBG-R (2009 Allotment)	C000046628	14.255	93,960	93,960	-	93,960	93,960 *	-
Community Development Block Grant Revolving Loan Program Income	(N/A)	14.228	(N/A)	7,056	(34,650)	21,227	21,227 *	(20,479)
Total CDBG - State Administered Small Cities Program Cluster				237,102	(23,505)	262,749	262,749	2,142
HOME Program - Home Investment Partnerships Program	C000012762	14.239	500,000	53,047	16,860	36,187	36,187	-
HOME Program - Home Investment Partnerships Program	C000029944	14.239	500,000	184,068	16,622	171,487	171,487	4,041
Total U.S. Department of Housing and Urban Development				474,217	9,977	470,423	470,423	6,183
<b>U.S. General Services Administration, Passed through Pennsylvania Department of General Services, Federal Surplus Program</b>	(N/A)	39.003	(N/A)	21,080	-	21,080	21,080	-

(Continued)

**City of Lock Haven, Pennsylvania**

Schedule Of Expenditures Of Federal Awards  
Year Ended December 31, 2010

Grantor/Program Title	Pass Through Entity Identification Number	Federal CFDA Number	Program Amount	Total Received For The Year	Accrued (Deferred) Revenue January 1, 2010	Revenue Recognized	Expenditures	(Deferred) Revenue December 31, 2010
<b>U.S. Department Of Transportation,</b> Passed through Pennsylvania Department of Transportation:								
Airport Action Plan - Update Airport Layout Plan	7880131084	20.106	\$ 249,635	\$ 119,093	\$ 26,256	\$ 111,093	\$ 111,093 *	\$ 18,256
Apply Crack Seal	7880131095	20.106	56,430	53,232	-	53,232	53,232 *	-
Replace Airport Beacon	7880131091	20.106	77,349	12,796	-	68,877	68,877 *	56,081
Transportation Enhancement Program - Bellefonte Ave Streetscape Phase I	02C980	20.205	802,440	8,312	8,312	-	-	-
Transportation Enhancement Program - Bellefonte Ave Streetscape Phase II	02C948	20.205	550,000	2,500	-	2,500	2,500	-
<b>Total U.S. Department Of Transportation</b>				<u>195,933</u>	<u>34,568</u>	<u>235,702</u>	<u>235,702</u>	<u>74,337</u>
<b>Environmental Protection Agency,</b> Passed through the Pennsylvania Department of Environmental Protection, ARRA - PA Conservation Works Program	7786409790	81.041	206,689	103,345	-	171,091	171,091 *	67,746
<b>U.S. Department Of Health And Human Services,</b> Passed through Pennsylvania Department of Community and Economic Development, Rural Enterprise Program - Program Income	(N/A)	93.585	(N/A)	52	-	52	52	-
<b>Total Federal Financial Assistance</b>				<u>\$ 794,627</u>	<u>\$ 44,545</u>	<u>\$ 898,348</u>	<u>\$ 898,348</u>	<u>\$ 148,266</u>

\* 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.

**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, 2010, and have issued our report thereon dated September 26, 2011. 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. Our report disclosed that the City has not presented a management's discussion and analysis which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of the basic financial statements. 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**

Management of the City is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2010-04 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-01 through 2010-03 to be significant deficiencies.

### **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 September 26, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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.

A handwritten signature in cursive script that reads "Parente Beard LLC".

Williamsport, Pennsylvania  
September 26, 2011

**Independent Auditors' Report  
On Compliance With Requirements That Could  
Have A Direct And Material Effect On 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 City of Lock Haven, Pennsylvania's (the "City") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each the City's major federal programs for the year ended December 31, 2010. The City's major federal programs are 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 each of its major federal programs 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 Governmental, 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

**Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

ParenteBeard LLC

Williamsport, Pennsylvania  
September 26, 2011

**City Of Lock Haven, Pennsylvania**

Schedule Of Findings And Questioned Costs  
Year Ended December 31, 2010

**Section I - Summary Of Auditors' Results**

Financial Statements

Type of auditors' report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified?	<u>  X  </u>	yes	<u>      </u>	no
Significant deficiency(ies) identified?	<u>  X  </u>	yes	<u>      </u>	none reported

Noncompliance material to financial statements noted?

<u>      </u>	yes	<u>  X  </u>	no
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u>      </u>	yes	<u>  X  </u>	no
Significant deficiency(ies) identified?	<u>      </u>	yes	<u>  X  </u>	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 OMB Circular A-133?

<u>      </u>	yes	<u>  X  </u>	no
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	CDBG – State – Administered Small Cities Program Cluster:
14.255	Community Development Block Grants/State's Program
20.106	ARRA – Community Development Block Grants/State's Program
81.041	Airport Action Plan
	ARRA - PA Conservation Works Program

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

Auditee qualified as low-risk auditee?        yes   X   no

# City Of Lock Haven, Pennsylvania

Schedule Of Findings And Questioned Costs  
Year Ended December 31, 2010

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## Section II - Financial Statement Findings

<u>Finding No.</u>	<u>Finding/Noncompliance</u>
2010-01	<b>Internal Control Over Financial Reporting – Segregation Of Duties Over Cash Receipts – Significant Deficiency</b>
<b>Criteria:</b>	Adequate segregation of duties between accounting functions is essential to good internal control.
<b>Condition/Context:</b>	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.
<b>Effect:</b>	Without proper segregation of accounting functions, errors or fraud could occur and go undetected.
<b>Cause:</b>	The City employs a limited number of accounting personnel.
<b>Recommendation:</b>	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.
<b>Views of Responsible Officials and Planned Corrective Actions:</b>	See corrective action plan.

## City Of Lock Haven, Pennsylvania

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Schedule Of Findings And Questioned Costs  
Year Ended December 31, 2010

### Finding No.

### Finding/Noncompliance

2010-02

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

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

- 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 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;
- Adjustment of Federal Grant Program receivables/deferred revenue;
- Adjustment of deferred financing costs for amortization
- Adjustment of Capital Project Fund cash and activity balances;
- Adjustment of proceeds of long-term debt; and,
- Adjustment of bond cash accounts and related interest income.

**Condition/Context:** Internal control is a process which captures and records transactions, safeguards your assets and assures compliance with laws and regulations. As part of the audit, there were certain adjustments required, which might not have been made had the audit not been performed. While we are pleased to provide these services, you understand that you are responsible for the City internal control over financial reporting.

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

## City Of Lock Haven, Pennsylvania

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### Schedule Of Findings And Questioned Costs

Year Ended December 31, 2010

**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.

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

**Views of  
Responsible  
Officials and  
Planned Corrective  
Actions:**

See corrective action plan.

#### Finding No.

#### Finding/Noncompliance

2010-03

#### **Internal Control Over Financial Reporting – Financial Statements – Significant Deficiency**

**Criteria:** In connection with our audit of your financial statements, you have requested that we assist you in the preparation of your financial statements including notes and schedule of expenditures of federal awards.

**Condition:** While we are pleased to provide this service, you understand that you are responsible for the City's internal control over financial reporting. 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.

**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 actively involved in the financial reporting process that leads to the preparation of the financial statements and give consideration to performing the above tasks internally.

## City Of Lock Haven, Pennsylvania

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Schedule Of Findings And Questioned Costs  
Year Ended December 31, 2010

**Views of  
Responsible  
Officials and  
Planned Corrective**

**Actions:** See corrective action plan.

**Finding No.**

**Finding/Noncompliance**

**2010-04**

**Internal Control Over Financial Reporting –  
Cash Reconciliation – Material Weakness**

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

**Condition/Context:** The City did not reconcile its General Obligation Bond Series of 2009, Sewer Project Fund, or Payroll cash accounts to the general ledger on a monthly basis during 2010.

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

**Cause:** Lack of oversight.

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

**Views of  
Responsible  
Officials and  
Planned Corrective**

**Actions:** See corrective action plan.

### Section III – Federal Award Findings And Questioned Costs

None.

### Section IV – Summary Schedule Of Prior Year Audit Findings

Prior year findings 2009-01, 2009-02, 2009-03, and 2009-04, all of which related to internal control over financial reporting, are repeated as current year findings 2010-01, 2010-02, 2010-03, and 2010-04 respectively. See below for prior year finding 2009-05 which was not repeated in the current year.

**City Of Lock Haven, Pennsylvania**

Schedule Of Findings And Questioned Costs  
Year Ended December 31, 2010

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**Finding No.**

**Finding/Noncompliance**

**2009-05**

**Internal Control Over Financial Reporting –  
Proprietary Fund Utility Billings**

**Condition:** At December 31, 2009, the City was unable to identify the portion of their proprietary funds' accounts receivable that was individually attributable to water and sewer operations; rather, only a single total for all utility billings could be produced.

**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.

**Resolution:** At December 31, 2010, the City was able to produce a report which identified the portion of their proprietary funds' accounts receivable that was individually attributable to water and sewer operations.