

**City of Lock Haven,
Pennsylvania**

Financial Statements and
Supplementary Information

December 31, 2011

City of Lock Haven, Pennsylvania

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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, 2011, 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, 2011, 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.

As disclosed in Note 1 and 18 to the financial statements, the City adopted provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011. The City restated the beginning fund balances of its General, Capital Escrow, Capital Projects, and Nonmajor Governmental Funds.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2012 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.

Accounting principles generally accepted in the United States of America require that 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with managements responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Williamsport, Pennsylvania
September 25, 2012

City of Lock Haven, Pennsylvania

Statement of Net Assets

December 31, 2011

	Primary Government			Component Unit - Flood Protection Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,665,606	\$ 707,069	\$ 2,372,675	\$ 3,960
Restricted cash	-	1,150	1,150	-
Receivables (net of allowance for uncollectibles):				
Taxes	358,078	-	358,078	-
Loans	315,757	-	315,757	-
Other	9,936	727,031	736,967	-
Internal balances	410,196	(410,196)	-	-
Due from other governments	28,585	19,407	47,992	-
Other current assets	-	4,831	4,831	-
Total current assets	<u>2,788,158</u>	<u>1,049,292</u>	<u>3,837,450</u>	<u>3,960</u>
Capital assets:				
Public utility systems (including equipment)	-	16,151,234	16,151,234	84,590,355
Land and improvements	5,021,113	1,905,975	6,927,088	-
Infrastructure and infrastructure in progress	2,607,234	-	2,607,234	-
Buildings	3,925,614	-	3,925,614	-
Equipment and furniture	3,015,994	621,859	3,637,853	-
Construction in progress	923,498	2,091,144	3,014,642	-
Less: accumulated depreciation	<u>(5,986,425)</u>	<u>(8,820,702)</u>	<u>(14,807,127)</u>	<u>(10,996,741)</u>
Total capital assets	<u>9,507,028</u>	<u>11,949,510</u>	<u>21,456,538</u>	<u>73,593,614</u>
Deferred charges	46,271	137,123	183,394	-
Total assets	<u>12,341,457</u>	<u>13,135,925</u>	<u>25,477,382</u>	<u>73,597,574</u>
Liabilities				
Accounts payable and accrued expenses	78,978	75,691	154,669	266
Due to other governments	-	797	797	-
Deferred revenues	305,512	10,429	315,941	-
Long-term liabilities:				
Due within one year,				
Bonds and notes payable	188,455	553,998	742,453	-
Due in more than one year:				
Bonds and notes payable	1,804,277	9,507,272	11,311,549	-
Compensated absences	154,928	70,689	225,617	-
Other postemployment benefit obligation	<u>1,218,342</u>	<u>-</u>	<u>1,218,342</u>	<u>-</u>
Total liabilities	<u>3,750,492</u>	<u>10,218,876</u>	<u>13,969,368</u>	<u>266</u>
Net Assets				
Invested in capital assets, net of related debt	7,560,567	2,026,513	9,587,080	73,593,614
Restricted for:				
Capital projects	973,755	-	973,755	-
Program purposes	29,160	-	29,160	-
Unrestricted	<u>27,483</u>	<u>890,536</u>	<u>918,019</u>	<u>3,694</u>
Total net assets	<u>\$ 8,590,965</u>	<u>\$ 2,917,049</u>	<u>\$ 11,508,014</u>	<u>\$ 73,597,308</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Activities

Year Ended December 31, 2011

Functions/Programs	Program Revenues					Net (Expenses) Revenue And Changes In Net Assets			Component Unit Flood Protection Authority
	Expenses	Charges for Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Primary Government		Total	
						Business-type Activities	Total		
Primary Government									
Governmental activities:									
General government	\$ 790,132	\$ 288,485	\$ 246,469	\$ 745,341	\$ 490,163	\$ -	\$ 490,163		
Public safety	1,736,024	161,442	38,401	-	(1,536,181)	-	(1,536,181)		
Public works	968,634	41,533	687,090	5,000	(235,011)	-	(235,011)		
Health, welfare and sanitation	23,760	-	9,734	-	(14,026)	-	(14,026)		
Culture and recreation	143,224	-	-	-	(143,224)	-	(143,224)		
Buildings and property	252,118	-	-	-	(252,118)	-	(252,118)		
Interest on long-term debt	26,617	-	-	-	(26,617)	-	(26,617)		
Employee benefits and insurance	1,155,476	-	238,864	-	(916,612)	-	(916,612)		
Other	145,815	121,087	-	-	(24,728)	-	(24,728)		
Unallocated depreciation	493,075	-	-	-	(493,075)	-	(493,075)		
Total governmental activities	5,734,875	612,547	1,220,558	750,341	(3,151,429)	-	(3,151,429)		
Business-type activities:									
Public utility services - Water	1,864,878	1,611,709	-	262,623	-	\$ 9,454	9,454		
Public utility services - Sanitary sewer	2,061,653	2,057,581	-	-	-	(4,072)	(4,072)		
William T. Piper Memorial Airport	487,270	354,825	-	56,673	-	(75,772)	(75,772)		
Total business-type activities	4,413,801	4,024,115	-	319,296	-	(70,390)	(70,390)		
Total primary government	\$ 10,148,676	\$ 4,636,662	\$ 1,220,558	\$ 1,069,637	(3,151,429)	(70,390)	(3,221,819)		
Component Unit, Lock Haven Area Flood Protection Authority	\$ 852,503	\$ 4,500	\$ -	\$ -	-	-	-	\$ (848,003)	
General Revenues:									
Taxes					2,526,661	-	2,526,661		
Grants and contributions not restricted to specific programs					468,769	-	468,769		
Unrestricted investment earnings					1,440	41,348	42,788	2	
Miscellaneous					162,034	84,670	246,704	46	
Gain on sale of asset					-	11,248	11,248	-	
Reallocation of multi-purpose debt					(26,287)	26,287	-	-	
Transfers					8,426	(8,426)	-	-	
Total general revenues					3,141,043	155,127	3,296,170	48	
Change in Net Assets					(10,386)	84,737	74,351	(847,955)	
Net Assets - Beginning					8,601,351	2,832,312	11,433,663	74,445,263	
Net Assets, Ending					\$ 8,590,965	\$ 2,917,049	\$ 11,508,014	\$ 73,597,308	

See notes to financial statements

City of Lock Haven, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2011

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 321,688	\$ 1,297,561	\$ 48,760	\$ 1,668,009
Receivables:				
Taxes	358,078	-	-	358,078
Loans	-	-	315,757	315,757
Other governments	7,705	-	20,880	28,585
Due from other funds	<u>110,540</u>	<u>81,952</u>	<u>335,270</u>	<u>527,762</u>
Total assets	<u>\$ 798,011</u>	<u>\$ 1,379,513</u>	<u>\$ 720,667</u>	<u>\$ 2,898,191</u>
Liabilities and Fund Balances				
Liabilities:				
Vouchers (accounts) payable	\$ 34,750	\$ 3,778	\$ 3,561	\$ 42,089
Accrued liabilities	24,101	-	1,252	25,353
Due to other funds	116,736	-	829	117,565
Deferred revenue	<u>237,741</u>	<u>-</u>	<u>305,512</u>	<u>543,253</u>
Total liabilities	<u>413,328</u>	<u>3,778</u>	<u>311,154</u>	<u>728,260</u>
Fund balances:				
Restricted	-	1,375,735	440,062	1,815,797
Assigned	96,847	-	-	96,847
Unassigned	<u>287,836</u>	<u>-</u>	<u>(30,549)</u>	<u>257,287</u>
Total fund balances	<u>384,683</u>	<u>1,375,735</u>	<u>409,513</u>	<u>2,169,931</u>
Total liabilities and fund balances	<u>\$ 798,011</u>	<u>\$ 1,379,513</u>	<u>\$ 720,667</u>	<u>\$ 2,898,191</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets December 31, 2011

Total Fund Balance, Governmental Funds \$ 2,169,931

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. 9,507,028

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. 237,741

Deferred financing costs related to issuance of debt are
deferred and amortized over life of the debt in statement
of activities. 46,271

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. (4,004)

Long-term liabilities applicable to the City's governmental activities
are not due and payable in the current period and accordingly,
are not reported as fund liabilities. All liabilities, both current and long-term,
are reported in the statement of net assets. Balances at December
31, 2011 are:

Bonds and notes payable	(1,992,732)
Other postemployment benefit obligation	(1,218,342)
Compensated absences	<u>(154,928)</u>

Net Assets of Governmental Activities
in the Statement of Net Assets \$ 8,590,965

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended December 31, 2011

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
Revenues				
Taxes	\$ 2,519,089	\$ -	\$ -	\$ 2,519,089
Licenses and permits	72,389	-	-	72,389
Fines and forfeits	161,442	-	-	161,442
Interest, rents and royalties	435	451	553	1,439
Intergovernmental	450,402	784,487	896,727	2,131,616
Charges for service	181,697	-	41,533	223,230
Collections on loans	-	-	120,123	120,123
Miscellaneous	107,081	27,000	65,225	199,306
Total revenues	3,492,535	811,938	1,124,161	5,428,634
Expenditures				
Current:				
General government	354,907	-	186,853	541,760
Employee benefits and insurance	1,146,209	-	9,166	1,155,375
Buildings and property	253,699	-	-	253,699
Community and economic development	-	-	95,870	95,870
Public works - highways and streets	362,417	-	643,419	1,005,836
Health and sanitation	23,760	-	-	23,760
Public safety	1,358,318	-	64,817	1,423,135
Culture and recreation	112,701	-	40,108	152,809
Other	11,533	-	10,494	22,027
Capital outlay	-	900,124	79,982	980,106
Debt service	205,854	5,526	-	211,380
Total expenditures	3,829,398	905,650	1,130,709	5,865,757
Deficiency of Revenues Over Expenditures	(336,863)	(93,712)	(6,548)	(437,123)
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	470	-	-	470
Proceeds from long-term debt, net	-	809,429	-	809,429
Transfers in	40,000	8,426	26,500	74,926
Transfers out	(2,500)	(64,000)	-	(66,500)
Total other financing (uses) sources, net	37,970	753,855	26,500	818,325
Change in Fund Balances	(298,893)	660,143	19,952	381,202
Fund Balance, Beginning				
As previously reported	598,773	230,559	959,397	1,788,729
Effect of adoption of GASB No. 54	84,803	485,033	(569,836)	-
As restated	683,576	715,592	389,561	1,788,729
Fund Balance, Ending	\$ 384,683	\$ 1,375,735	\$ 409,513	\$ 2,169,931

See notes to financial statements

City of Lock Haven, Pennsylvania

Reconciliation of The Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 381,202
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, \$493,075 exceeded capital outlays, \$1,103,230, in the current period.	610,155
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, 2011.	7,572
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 2011, the following transactions factor into this reconciliation:	
Issuance of long-term debt	(809,429)
Bond issuance costs capitalized	29,578
Retirement of principal of long-term debt	173,635
Amortization of issuance costs	<u>(12,871)</u>
	(619,087)
Transfer of proceeds from multi-purpose borrowing from governmental-type activities to business-type activities.	(26,287)
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, 2011.	7,530
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).	(358,301)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported within governmental activities.	<u>(13,170)</u>
Change in Net Assets of Governmental Activities	<u>\$ (10,386)</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Revenues, Expenditures and
Changes in Fund Balance - General Fund
Budget and Actual
Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance
	Original (Unaudited)	Final (Unaudited)	GAAP Basis	Budgetary Basis	Budgetary Basis	With Final Budget
Revenues						
Taxes	\$ 2,504,800	\$ 2,504,800	\$ 2,519,089	\$ (102,044)	\$ 2,417,045	\$ (87,755)
Licenses And Permits	66,200	66,200	72,389	-	72,389	6,189
Fines And Forfeits	165,000	165,000	161,442	-	161,442	(3,558)
Interest, Rents And Royalties	950	950	435	-	435	(515)
Intergovernmental	428,765	507,536	450,402	-	450,402	(57,134)
Charges For Services	121,409	181,409	181,697	-	181,697	288
Miscellaneous	59,854	84,940	107,081	-	107,081	22,141
Total revenues	3,346,978	3,510,835	3,492,535	(102,044)	3,390,491	(120,344)
Expenditures:						
Current:						
General Government	321,365	342,365	354,907	(2,197)	352,710	(10,345)
Employee Benefits And Insurance	1,189,835	1,204,699	1,146,209	(1,088)	1,145,121	59,578
Public Safety	1,227,809	1,310,314	1,358,318	(14,430)	1,343,888	(33,574)
Public Works - Highways And Streets	302,650	324,911	362,417	(3,267)	359,150	(34,239)
Building And Property	222,702	222,702	253,699	(1,969)	251,730	(29,028)
Health And Sanitation	28,225	28,225	23,760	-	23,760	4,465
Culture And Recreation	105,898	105,898	112,701	(1,150)	111,551	(5,653)
Other	7,292	32,780	11,533	-	11,533	21,247
Debt Service, Principal	225,654	225,654	205,854	-	205,854	19,800
Total expenditures	3,631,430	3,797,548	3,829,398	(24,101)	3,805,297	(7,749)
(Deficiency) Excess of Revenues Over Expenditures	(284,452)	(286,713)	(336,863)	(77,943)	(414,806)	(128,093)
Other Financing Sources (Uses):						
Proceeds From the Sale of Capital Assets	1,000	1,000	470	-	470	(530)
Transfers In	40,000	40,000	40,000	-	40,000	-
Transfers Out	(2,500)	(2,500)	(2,500)	-	(2,500)	-
Appropriated Fund Balance	245,952	248,213	-	-	-	(248,213)
Total other financing (uses) sources, net	284,452	286,713	37,970	-	37,970	(248,743)
(Deficiency) Excess of Revenues Over Expenditures After Other Financing Sources (Uses)	\$ -	\$ -	\$ (298,893)	\$ (77,943)	\$ (376,836)	\$ (376,836)

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Net Assets

Proprietary Funds

December 31, 2011

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Airport Operating	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ -	\$ 707,069	\$ -	\$ 707,069	\$ -
Other accounts receivable, (net of allowance)	314,968	372,339	39,724	727,031	9,935
Due from other funds	71,576	39,656	40,167	151,399	-
Due from other governments	5,000	4,832	9,575	19,407	-
Restricted cash	-	1,150	-	1,150	-
Bond issuance costs	27,399	90,111	19,613	137,123	-
Other current assets	4,832	-	-	4,832	-
Total current assets	423,775	1,215,157	109,079	1,748,011	9,935
Capital assets:					
Public utility systems (including related equipment)	7,410,826	8,740,408	-	16,151,234	-
Land and improvements	-	500,000	1,405,975	1,905,975	-
Equipment and vehicles	-	-	621,859	621,859	-
Construction in progress	-	2,089,374	1,770	2,091,144	-
Less accumulated depreciation	(2,743,692)	(5,375,742)	(701,268)	(8,820,702)	-
Total capital assets, net	4,667,134	5,954,040	1,328,336	11,949,510	-
Total assets	\$ 5,090,909	\$ 7,169,197	\$ 1,437,415	\$ 13,697,521	\$ 9,935
Liabilities					
Current liabilities:					
Current portion of bonds payable	\$ 16,986	\$ 195,765	\$ 3,948	\$ 216,699	\$ -
Current portion of notes payable	202,929	134,370	-	337,299	-
Vouchers (accounts) payable	4,742	50,576	8,192	63,510	11,536
Accrued liabilities	2,764	8,301	1,116	12,181	-
Due to other funds	300,781	27,855	232,960	561,596	2,403
Deferred revenue	-	4,800	5,629	10,429	-
Total current liabilities	528,202	421,667	251,845	1,201,714	13,939
Non-current liabilities:					
Compensated absences	24,198	36,022	10,469	70,689	-
Long-term portion of bonds payable	542,777	4,067,057	174,781	4,784,615	-
Long-term portion of notes payable	3,225,950	1,496,707	-	4,722,657	-
Payable to other governments	797	-	-	797	-
Total non-current liabilities	3,793,722	5,599,786	185,250	9,578,758	-
Total liabilities	4,321,924	6,021,453	437,095	10,780,472	13,939
Net Assets					
Invested in capital assets, net of related debt	705,891	151,402	1,169,220	2,026,513	-
Unrestricted	63,094	996,342	(168,900)	890,536	(4,004)
Total net assets	768,985	1,147,744	1,000,320	2,917,049	(4,004)
Total liabilities and net assets	\$ 5,090,909	\$ 7,169,197	\$ 1,437,415	\$ 13,697,521	\$ 9,935

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, 2011

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Airport Operating	Total	
Revenues					
Charges for services	\$ 1,611,709	\$ 2,057,581	\$ 354,825	\$ 4,024,115	\$ 121,087
Operating Expenses					
Personnel services	392,159	805,678	112,291	1,310,128	-
Utilities (including water filtration costs)	1,116,047	139,020	32,504	1,287,571	-
Depreciation	268,424	276,635	99,234	644,293	-
Materials, supplies and maintenance	435	136,377	219,589	356,401	134,282
Administrative expense	23,831	100,765	4,952	129,548	-
Sludge disposal	-	360,192	-	360,192	-
Insurance	5,740	23,808	9,150	38,698	-
Miscellaneous	1,107	14,226	4,026	19,359	-
Total operating expenses	1,807,743	1,856,701	481,746	4,146,190	134,282
Operating (loss) income	(196,034)	200,880	(126,921)	(122,075)	(13,195)
Non-Operating Revenues (Expenses)					
Subsidies from other governments:					
State	-	-	56,673	56,673	-
Local	262,623	-	-	262,623	-
Interest income	5,482	35,866	-	41,348	25
Rental income	5,073	79,597	-	84,670	-
Proceeds from sale of assets	11,250	-	-	11,250	-
Interest expense	(57,136)	(204,953)	(5,524)	(267,613)	-
Total non-operating revenues (expenses)	227,292	(89,490)	51,149	188,951	25
Income (Loss) Before Other Financing Sources (Uses)	31,258	111,390	(75,772)	66,876	(13,170)
Other Financing Sources (Uses)					
Reallocation of multi-purpose debt	12,670	27,580	(13,963)	26,287	-
Transfers out	-	(8,426)	-	(8,426)	-
Total other financing sources (uses)	12,670	19,154	(13,963)	17,861	-
Net Income (Loss)	43,928	130,544	(89,735)	84,737	(13,170)
Net Assets, Beginning	725,057	1,017,200	1,090,055	2,832,312	9,166
Net Assets, Ending	\$ 768,985	\$ 1,147,744	\$ 1,000,320	\$ 2,917,049	\$ (4,004)

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement Of Cash Flows
 Proprietary Funds
 Year Ended December 31, 2011

	Business-Type Activities			Totals	Governmental Activities Internal Service Inventory Fund
	Water Fund	Sewer Fund	Airport Fund		
Cash Flows From Operating Activities					
Cash received from users	\$ 1,551,566	\$ 1,938,194	\$ 445,128	\$ 3,934,888	\$ 113,103
Cash payments to employees for services	(391,653)	(813,664)	(106,452)	(1,311,769)	-
Cash paid to suppliers for goods and services	(1,151,088)	(965,096)	(325,223)	(2,441,407)	(133,142)
Net cash (used in) provided by operating activities	8,825	159,434	13,453	181,712	(20,039)
Cash Flows From Non-Capital Financing Activities					
Operating subsidies and transfers from (to) other funds	-	(8,426)	-	(8,426)	-
Cash Flows Provided by Investing Activities:					
Rental income	5,073	79,597	-	84,670	-
Earnings on investments	5,482	35,866	-	41,348	25
Net cash provided by investing activities	10,555	115,463	-	126,018	25
Cash Flows From Capital and Related Financing Activities					
Payments for capital acquisitions	(14,955)	(1,354,900)	(64,602)	(1,434,457)	-
Capital subsidies from other governments	262,623	-	56,673	319,296	-
Principal payments on long-term debt	(221,162)	(9,327,615)	-	(9,548,777)	-
Proceeds from long term debt	-	3,219,617	-	3,219,617	-
Interest paid	(57,136)	(204,953)	(5,524)	(267,613)	-
Proceeds from sale of assets	11,250	-	-	11,250	-
Net cash provided by capital and related financing activities	(19,380)	(7,667,851)	(13,453)	(7,700,684)	-
Decrease In Cash and Cash Equivalents	-	(7,401,380)	-	(7,401,380)	(20,014)
Cash and Cash Equivalents, Beginning	-	8,109,598	-	8,109,598	20,014
Cash and Cash Equivalents, Ending	\$ -	\$ 708,218	\$ -	\$ 708,218	\$ -
Displayed as:					
Cash and cash equivalents	\$ -	\$ 707,068	\$ -	\$ 707,068	\$ -
Restricted cash	-	1,150	-	1,150	-
Total	\$ -	\$ 708,218	\$ -	\$ 708,218	\$ -
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:					
Operating income (loss)	\$ (196,034)	\$ 200,880	\$(126,921)	\$ (122,075)	\$ (13,195)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	268,424	276,635	99,235	644,294	-
Changes in assets and liabilities:					
Accounts receivable, other	(53,878)	(119,054)	(5,683)	(178,615)	(7,984)
Due from/to other governments and funds	(6,265)	(733)	95,986	88,988	2,403
Other current assets	242	-	-	242	-
Deferred charges	461	(49,505)	479	(48,565)	-
Vouchers payable	(4,389)	(141,203)	(55,482)	(201,074)	(1,263)
Deferred revenue	-	400	-	400	-
Accrued and other liabilities	264	(7,986)	5,839	(1,883)	-
Net Cash Provided by (Used In) Operating Activities	\$ 8,825	\$ 159,434	\$ 13,453	\$ 181,712	\$ (20,039)
Supplemental Disclosure of Non-Cash Capital and Related Financing Activities:					
Reallocation of multi-purpose debt	\$ 12,670	\$ 27,580	\$(13,963)	\$ 26,287	\$ -

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Fiduciary Net Assets

December 31, 2011

	<u>Pension and OPEB Trust Funds</u>
Assets	
Cash and cash equivalents	\$ 231,065
Contributions receivable	<u>9,907</u>
Total	<u>240,972</u>
Investments:	
Fixed income securities	3,226,733
Equity securities	4,718,388
Mutual funds	<u>771,027</u>
Total investments	<u>8,716,148</u>
Total assets	<u><u>\$ 8,957,120</u></u>
Net Assets	
Held in trust for benefits and other purposes	<u><u>\$ 8,957,120</u></u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Changes in Fiduciary Net Assets

Year Ended December 31, 2011

	Pension and OPEB Trust Funds
Additions	
Contributions:	
Employees	\$ 90,162
Commonwealth of Pennsylvania	<u>238,864</u>
Total contributions	<u>329,026</u>
Investment earnings:	
Net increase in fair value of investments	25,137
Interest and dividends	<u>187,180</u>
Total investment earnings	<u>212,317</u>
Total additions	<u>541,343</u>
Deductions	
Benefits	309,292
Other	<u>94,019</u>
Total deductions	<u>403,311</u>
Change In Net Assets	138,032
Net Assets, Beginning	<u>8,819,088</u>
Net Assets, Ending	<u><u>\$ 8,957,120</u></u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

The City is financially accountable for:

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

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

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

Notes to Financial Statements

December 31, 2011

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

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

- The Rural Business Enterprise Grant Fund accounts for revenues used to provide support to various projects and programs benefiting local businesses.
- The Off Street Parking Fund accounts for revenues and expenditures related to operation, maintenance, fines and enforcement as related to off-street parking lots.
- The Recreation Fund accounts for the public contributions and event revenues used to provide recreational activities for City residents.
- The Interchange Fund accounts for revenues and expenditures for maintenance and electricity related to street lighting for the U.S. Route 220 Interchange.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

- The Triangle Park and Hoberman Project Funds account for public contributions used for equipment purchases and improvements for those two parks.
- The Highway Aid Fund accounts for liquid fuel tax revenues used for building, improving and maintaining City streets.
- 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 Block Grant program, which are funded with federal funds passed through the Commonwealth of Pennsylvania and whose use is restricted for the provision of community services under four specific federal criteria.
- The Hoberman Park Fund accounts for certain recreational activities conducted at the Hoberman Park Playground.
- The Housing Home Program Fund accounts for federal HOME revenues used to provide assistance to low to moderate income homeowners for housing repairs to meet minimum building code requirements.
- The Owner Occupied Housing Fund accounts for housing assistance to low income families.
- The New Communities Main Street Fund accounts for certain City revitalization projects.

Capital Projects Fund

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

Proprietary Funds

Enterprise Funds - Water, Sewer, and Airport Operating Funds

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

Internal Service Fund - Inventory Fund

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

Fiduciary Funds

Pension and OPEB Trust Funds

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

New Accounting Principle

The City adopted Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. GASB No. 54 provides for more clearly defined fund balance categories and classifications to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability and better understand the purposes for which governments have chosen to use particular funds for financial reporting. The City implemented the recognition and disclosure requirements of GASB No. 54 as of January 1, 2011.

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, 2011

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, 2011 amounted to approximately \$96,000. The allowance for doubtful accounts related to the Water, Sewer, and Airport proprietary funds amounted to approximately \$22,000, \$23,000, and \$1,500, respectively, as of December 31, 2011.

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

Notes to Financial Statements

December 31, 2011

Liabilities for Compensated Absences

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

Deferred Revenues

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

At December 31, 2011, the General, Non-major Governmental, Sewer and Airport Operating Funds had deferred revenues of \$237,741, \$305,512, \$4,800, and \$5,629, respectively.

Governmental Fund Balance Classifications/Policies and Procedures

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

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

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

Pension Plans

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

OPEB Plan

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

Use of Estimates

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

2. Budgetary Procedures and Budgetary Accounting

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

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

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

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which annual budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is presented on page 9 of the accompanying financial statements. During 2011, the City had no major special revenue funds that adopted an annual budget.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

3. Cash, Cash Equivalents, and Investments

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

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2011, the aggregate bank balance of bank deposits was \$2,648,948, of which \$1,000,566 was covered by federal depository insurance and \$231,065 was covered by SIPC insurance. The uninsured remaining bank deposits of \$1,417,317 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 \$2,604,890 at December 31, 2011.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2011

Investments - Pension Trust Funds

As of December 31, 2011, the City had the following investments:

Investment	Maturities	Fair Value
Equity securities	N/A	\$ 4,718,388
U.S. Treasury securities	Average of 12 years	816,142
Government bonds	Average of 15 years	858,547
Mutual funds	N/A	771,027
Corporate bonds	Average of 9 years	978,400
Corp. mortgage/asset backed securities	Average of 26 years	253,195
Government asset backed securities	Average of 25 years	320,449
Total		<u>\$ 8,716,148</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2011, all of the City's Pension and OPEB Trust Fund investments were held by Charles Schwab and were insured by SIPC up to \$500,000 per account.

Credit Risk

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

As of December 31, 2011, The City's credit quality distribution of securities as a percentage of total investments is as follows:

U.S. Treasury securities	AA+	25.28	%
Government bonds	AA to AA+	26.61	%
Corporate bonds	BBB+ to AAA	30.33	%
Corp. mortgage/asset backed securities	AA- to AAA	7.85	%
Government asset backed securities	Aaa to AAA	9.93	%
Total fixed income		<u>100.00</u>	<u>%</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

Notes to Financial Statements

December 31, 2011

Concentration of Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Restricted Cash

The City's Sewer Fund reports the unspent bond proceeds for future capital activity as restricted cash. At December 31, 2011, the unspent bond proceeds amounted to \$1,150.

Component Unit – Flood Protection Authority

Cash

At December 31, 2011 the carrying amount and bank balance of the Flood Protection Authority's deposits were \$3,960, 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

The assessed value at January 1, 2011, upon which the 2011 levy was based, was \$280,897,900 of taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2011 were 90% 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.

The City's equivalent single tax rates at December 31, 2011 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, 2011 as due from other governments is summarized below:

	<u>Federal</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ -	\$ 7,705	\$ 7,705
Other Nonmajor Governmental Funds	17,061	3,819	20,880
Water Fund	-	5,000	5,000
Sewer Fund	-	4,832	4,832
Airport Fund	9,575	-	9,575
Total	<u>\$ 26,636</u>	<u>\$ 21,356</u>	<u>\$ 47,992</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 2011.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

6. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Acquisitions	Disposals	Balance December 31, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,411,307	\$ -	\$ -	\$ 3,411,307
Construction in progress	44,567	878,931	-	923,498
Total capital assets, not being depreciated	3,455,874	878,931	-	4,334,805
Capital assets, being depreciated:				
Land improvements	1,609,806	-	-	1,609,806
Buildings and improvements	3,925,614	-	-	3,925,614
Furniture and equipment	2,232,942	16,572	-	2,249,514
Transportation	747,074	19,406	-	766,480
Infrastructure	2,418,913	188,321	-	2,607,234
Total capital assets, being depreciated	10,934,349	224,299	-	11,158,648
Less accumulated depreciation:				
Land improvements	(1,149,563)	(62,902)	-	(1,212,465)
Buildings and improvements	(2,022,682)	(110,463)	-	(2,133,145)
Furniture and equipment	(1,368,325)	(101,066)	-	(1,469,391)
Transportation	(584,092)	(27,331)	-	(611,423)
Infrastructure	(368,688)	(191,313)	-	(560,001)
Total accumulated depreciation	(5,493,350)	(493,075)	-	(5,986,425)
Total capital assets, being depreciated	5,440,999	(268,776)	-	5,172,223
Governmental activities, net	<u>\$ 8,896,873</u>	<u>\$ 610,155</u>	<u>\$ -</u>	<u>\$ 9,507,028</u>
Business – type activities:				
Capital assets, being depreciated:				
Utility system	\$ 16,096,343	\$ 54,891	\$ -	\$ 16,151,234
Land and improvements	1,905,975	-	-	1,905,975
Machinery and equipment	506,312	64,602	-	570,914
Vehicles	50,945	-	-	50,945
Construction in progress	776,181	1,314,963	-	2,091,144
Total cost	19,335,756	1,434,456	-	20,770,212
Less accumulated depreciation:				
Utility system	(7,574,375)	(545,058)	-	(8,119,433)
Land and improvements	(293,524)	(61,849)	-	(355,373)
Machinery and equipment	(257,565)	(37,386)	-	(294,951)
Vehicles	(50,945)	-	-	(50,945)
Total accumulated depreciation	(8,176,409)	(644,293)	-	(8,820,702)
Business-type activities capital assets, net	<u>\$ 11,159,347</u>	<u>\$ 790,163</u>	<u>\$ -</u>	<u>\$ 11,949,510</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2011

	Balance January 1, 2011	Additions	Disposals	Balance December 31, 2011
Component – Unit Flood Protection Authority:				
Land improvements	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(10,150,838)	(845,903)	-	(10,996,741)
Component unit capital asset, net	<u>\$ 74,439,517</u>	<u>\$ (845,903)</u>	<u>\$ -</u>	<u>\$ 73,593,614</u>

Governmental activity depreciation expense, which amounted to \$493,075 for the year ended December 31, 2011 was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$268,424, \$276,635, and \$99,235 for the year ended December 31, 2011 was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

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, 2011 were as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 110,540	\$ 116,736
Capital Projects Fund	81,952	-
Non-major Funds	335,270	829
Enterprise Funds	151,399	561,596
Total	<u>\$ 679,161</u>	<u>\$ 679,161</u>

Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2011 were as follows:

	In	Out
General Fund	\$ 43,600	\$ 6,100
Capital Projects Fund	8,426	64,000
Non-major Funds	26,500	-
Enterprise Funds	-	8,426
Total	<u>\$ 78,526</u>	<u>\$ 78,526</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

During the year ended December 31, 2011, the City made a transfer from its General Fund for the purposes of funding annual allocations to its Interchange \$(2,500). The Capital Projects Fund transfer represents an annually budgeted transfer of \$40,000 from the Capital Projects Fund to the General Fund (pursuant to an agreement between the City and International Paper) and a \$24,000 transfer to the City's Off-Street Parking Fund (a non-major special revenue fund) to fund parking meter replacements during the year. The Sewer Fund, a major enterprise fund, transferred \$8,426 to the Capital Projects fund for purposes of repaying unexpended bond funding not utilized for capital projects within the Sewer Fund.

8. Long-Term Debt

As of December 31, 2011, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at 1/1/11	Additions	Retirements	Balance at 12/31/11	Current Portion
PennVEST Note Payable - Sewer Fund	1.156 %	\$ 2,638,730	\$ 1,751,046	\$ -	\$ (127,734)	\$ 1,623,312	\$ 129,220
DCED Note Payable - Sewer Fund	2.00 %	25,000	16,532	-	(8,768)	7,764	5,150
PennVEST Note Payable - Water Fund	1.00 %	6,122,000	3,629,790	-	(200,910)	3,428,880	202,929
2009 General Obligation Bond, Series A	2.00 - 3.50 %	3,715,000	3,350,000	-	(385,000)	2,965,000	400,154
2010 General Obligation Note, Series A - Sewer Fund	1.50 %	9,000,000	9,000,000	-	(9,000,000)	-	-
2010 General Obligation Note	2.39 - 5.00 %	1,200,000	-	809,429	-	809,429	5,000
2011 General Obligation Bond - Sewer Fund	1.97 %	8,600,000	-	3,219,617	-	3,219,617	-
Total, net			<u>\$ 17,747,368</u>	<u>\$ 4,029,046</u>	<u>\$ (9,722,412)</u>	<u>\$ 12,054,002</u>	<u>\$ 742,453</u>

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental Activities Bonds & Notes Payable	\$ 188,455	\$ 1,804,277	\$ 1,992,732
Business-Type Activities Bonds & Notes Payable	553,998	9,507,272	10,061,270
Total	<u>\$ 742,453</u>	<u>\$ 11,311,549</u>	<u>\$ 12,054,002</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2011

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. Beginning in March 2012, the City's monthly payment installment changed to \$11,864, including principal and interest based on final amortization.

General Obligation Note – DCED – Sewer Fund

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

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 12/31/11), 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 Ohl Dam Grouting Project. The note is secured by the City's pledge of all gross receipts and revenues of the water system and a lien position thereto. Beginning in May 2012, the City's monthly payment installment changed to \$12,171, including principal and interest based on final amortization.

General Obligation Bond, Series A of 2009

In 2009, the City issued a \$3,715,000 General Obligation Bond, Series A of 2009, bearing interest at rates ranging from 2.00% 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, 2011, the City had \$1,183,303 and \$1,781,697 outstanding within its governmental activities and proprietary funds, respectively.

General Obligation Note, Series A of 2010 (Refunded in 2011) – 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. This note was refunded in its entirety by the City's issuance of its General Obligation Bond, Series of 2011. The reduction in total debt service payments and net economic gain resulting from this refunding were not material.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

General Obligation Note, Series of 2010

In 2011, the City issued a \$1,200,000 General Obligation Note, Series of 2010, bearing interest at 67% of 1 month LIBOR plus 2.39% (not to exceed 5%), maturing June 1, 2013 (only \$809,429 was drawn as of 12/31/11). For 2011, the interest rate equated to approximately 2.67%. The proceeds from the issuance of the note were used to (1) finance the planning, development, design, purchase, acquisition and construction of a Pedestrian Mall Walkway; and (2) to pay the costs of issuing the notes.

General Obligation Bond, Series of 2011 - Sewer Fund

In 2011, the City issued, as interim financing, a \$8,600,000 General Obligation Bond, Series of 2011, bearing interest at 1.97% per annum, maturing December 15, 2014 (only \$3,219,617 was drawn as of 12/31/11). The proceeds from the issuance of the bond were used to (1) currently refund all of the City's General Obligation Note, Series A of 2010; (2) to finance the sewer system capital improvement project; and (3) to pay the costs of issuing the bond.

The 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, 2011:

Years Ending December 31	Principal	Interest	Total
2012	\$ 742,453	\$ 212,664	\$ 955,117
2013	1,592,917	190,095	1,783,012
2014	3,959,616	166,486	4,126,102
2015	751,538	90,444	841,982
2016	710,512	77,154	787,666
2017-2021	2,730,204	242,062	2,972,266
2022-2026	1,405,470	40,227	1,445,697
2027-2031	161,292	618	161,910
Total	\$ 12,054,002	\$ 1,019,750	\$ 13,073,752

9. Compensated Absences

The changes in the City's compensated absences in 2011 are summarized as follows:

Governmental Activities	
Balance, January 1, 2011	\$ 162,458
Increase	14,002
Decrease	<u>(21,532)</u>
Balance, December 31, 2011	<u>\$ 154,928</u>
Business Type Activities	
Balance, January 1, 2011	\$ 74,652
Increase	7,170
Decrease	<u>(11,133)</u>
Balance, December 31, 2011	<u>\$ 70,689</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

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, 2011, the City transferred \$29,665 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				
	Police Pension	City Employees Retirement Fund	Total Pension	OPEB Police Death Benefit *	Total Pension/OPEB
Assets:					
Cash and cash equivalents	\$ 107,112	\$ 116,798	\$ 223,910	\$ 7,155	\$ 231,065
Contributions receivable	344	9,563	9,907	-	9,907
Total	107,456	126,361	233,817	7,155	240,972
Investments:					
Fixed income securities	1,563,996	1,604,841	3,168,837	57,896	3,226,733
Equity securities	2,319,121	2,343,985	4,663,106	55,282	4,718,388
Mutual funds	373,433	385,754	759,187	11,840	771,027
Total investments	4,256,550	4,334,580	8,591,130	125,018	8,716,148
Total	\$ 4,364,006	\$ 4,460,941	\$ 8,824,947	\$ 132,173	\$ 8,957,120
Net assets,					
Held in trust for benefits	\$ 4,364,006	\$ 4,460,941	\$ 8,824,947	\$ 132,173	\$ 8,957,120

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

Combining Statement of Changes in Fiduciary Net Assets

	Police Pension	City Employees Retirement Fund	Total Pension	OPEB Police Death Benefit *	Total Pension/OPEB
Additions:					
Contributions:					
Employees	\$ 3,073	\$ 87,089	\$ 90,162	\$ -	\$ 90,162
Commonwealth of Pennsylvania	147,379	91,485	238,864	-	238,864
Total contributions	150,452	178,574	329,026	-	329,026
Investment earnings:					
Net increase (decrease) in fair value of investments	28,959	4,616	33,575	(8,438)	25,137
Interest and dividends	89,969	91,301	181,270	5,910	187,180
Total investment earnings	118,928	95,917	214,845	(2,528)	212,317
Total additions	269,380	274,491	543,871	(2,528)	541,343
Deductions:					
Benefits	205,518	103,774	309,292	-	309,292
Other	49,800	43,443	93,243	776	94,019
Total deductions	255,318	147,217	402,535	776	403,311
Change in net assets	14,062	127,274	141,336	(3,304)	138,032
Net assets, beginning	4,349,944	4,333,667	8,683,611	135,477	8,819,088
Net assets, beginning	\$ 4,364,006	\$ 4,460,941	\$ 8,824,947	\$ 132,173	\$ 8,957,120

* - See Note 12

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

Additional information related to each of the pension plans, as of January 1, 2011 (the date of the most recent actuarial valuation), is as follows:

	CERF	Police
Employee groups covered	All non-uniformed employees, also, elected officials and City police officers hired prior to 1/1/1978	All City police officers
Legislative body governing plan and responsible for management of plan assets	Council of the City of Lock Haven	Council of the City of Lock Haven
Normal retirement age	65	50
Years of service requirement prior to retirement	10	20 (Vested at 12 years)
Monthly retirement benefits	Will receive monthly benefit based on the following: (1) Elected officials received \$7 times years of service as an elected official; (2) City employees receive 1.8% of average monthly earnings in the highest 5 consecutive of the last 10 years of services times years of service; and(3) Police officers hired prior to 1/1/1978, will receive monthly benefit equal to \$3 times years of service	Will receive annual benefit equal to 50% of the highest one years' W-2 earnings during the last 3 years of service preceding retirement
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100
Disability benefits: Eligibility	None	Service related injury or illness

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

	CERF	Police
Monthly disability benefits	None	2.5% of final monthly compensation times years of completed service, not to exceed 50%
Death benefits - Spouse: Before retirement	Refund of employee contributions without interest	Monthly benefit equal to years of service times 1.25%, up to a maximum of 25% times last salary prior to death, if death was duty related.
After retirement	In accordance with option selected	Monthly benefit equal to 50% of the pension participant was receiving on the day of participant's death is payable to legal spouse or minor children under age 18 if no eligible spouse of retired member.

Membership of the Pension Plans consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

	CERF	Police
Retirees and beneficiaries receiving benefits	25	12
Terminated members entitled to but not yet receiving benefits	1	-
Active plan members	<u>45</u>	<u>11</u>
Total	<u>71</u>	<u>23</u>
Number of participating employers	<u>1</u>	<u>1</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2011

Funding Policy

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

Employee Groups Covered	CERF	Police
Elected officials	\$8 ^{MONTH} 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, 2011 the combined City/Commonwealth contributions to the CERF and Police plans were \$91,485 and \$147,379, respectively, each of which exceeded the related 2011 MMO.

Annual Pension Cost and Net Pension Asset

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

	CERF	Police
Annual required contribution	\$ 140,351	\$ 87,184
Interest on net pension asset	(23,457)	(76,977)
Adjustment to annual required contribution	-	-
Annual pension cost	116,894	10,207
Contributions made	147,379	91,485
Increase in net pension asset	30,485	81,278
Net pension asset, beginning of year	335,105	109,961
Net pension asset, end of year	\$ 365,590	\$ 191,239

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2011

The annual required contribution ("ARC") for the current year was determined as part of the January 1, 2011 actuarial valuation, which used the following assumptions:

Actuarial Assumptions	CERF	Police
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Investment rate of return	7.0%	7.0%
Projected salary increase	4.0%	5.0%
Inflation rate	3.0%	3.0%
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	N/A	N/A

Trend Information

Plan and Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
City Employees Retirement Pension Fund			
12/31/11	\$ 116,894	>100 %	\$ (365,590)
12/31/10	(1,309)	>100	(335,105)
12/31/09	(4,811)	>100	(194,698)
Police Pension Fund			
12/31/11	\$ 10,207	>100 %	\$ (191,239)
12/31/10	45,615	>100	(109,960)
12/31/09	33,089	>100	(70,817)

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, the most recent actuarial valuation date, was as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (Asset) (c)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio Of Unfunded Liability To Annual Covered Payroll ((b-a)/c)
Police Pension Fund	\$ 4,549,639	\$ 4,417,256	\$ (132,383)	103.0 %	\$ 647,361	N/A %
City Employees Retirement Pension Fund	4,476,383	4,500,489	24,106	99.5 %	1,544,320	1.6 %

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

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

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

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

Contributions

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

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

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

Concentrations

At December 31, 2011 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2011

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.

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 \$72,000 for the year ended December 31, 2011.

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	34,402
Adjustment to annual required contribution	<u>(74,378)</u>
Annual OPEB cost (expense)	438,092
Contributions made	<u>79,791</u>
Increase in net OPEB obligation	358,301
Net OPEB obligation at January 1, 2011	<u>860,041</u>
Net OPEB obligation at December 31, 2011	<u>\$ 1,218,342</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2011

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, 2011, 2010 and 2009 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 438,092	18.2 %	\$ 1,218,342
December 31, 2010	495,156	12.6 %	860,041
December 31, 2009	478,068	10.6 %	427,212

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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

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 10.0% for 2011, 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. Thirteen years remain at December 31, 2011.

13. Fund Balance Classification

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

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Restricted for:				
Capital Projects	\$ -	\$ 1,375,735	\$ -	\$ 1,375,735
Street Programs	-	-	74,395	74,395
Recreation	-	-	47,453	47,453
Economic Development	-	-	318,214	318,214
Total	<u>\$ -</u>	<u>\$ 1,375,735</u>	<u>\$ 440,062</u>	<u>\$ 1,815,797</u>
Assigned for,				
Flood Protection	<u>\$ 96,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,847</u>

14. 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

15. 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, 2011, the City purchased \$1,007,305 in water filtration services from the Water Filtration Authority.

The City also guaranteed certain debt of the Central Clinton County Water Filtration Authority (Note 17).

16. 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.

17. Contingent Liabilities

Grant Programs

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

Environmental

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

Guarantee of Debt

The City has guaranteed 40% of a promissory note which the Water Filtration Authority entered into with the Pennsylvania Infrastructure Investment Authority in November 1993 (See Note 17). At December 31, 2011, the outstanding balance on this promissory note amounted to \$1,025,266; the City is potentially liable for 40% of this balance, or \$410,106. This note matures in December 2012.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

18. Adoption of New Accounting Principles

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during its year ended December 31, 2011. The City's Capital Escrow Fund does not meet the criteria to be reported as a Special Revenue Fund and was included in the City's Capital Projects Fund. The effect of this adoption was to increase the City's Capital Projects Fund and decrease the Nonmajor Governmental Funds fund balance by \$485,033 at January 1, 2011.

In addition, the City's Levee Escrow, River Dam, and Downtown Streetscape Funds, formerly reported as special revenue funds within the Nonmajor Governmental Funds, were included in the City's General Fund, as they do not meet criteria to be reported as special revenue funds. The effect of this adoption was to increase the General Fund's fund balance and decrease the Nonmajor Governmental Funds fund balance by \$84,803 at January 1, 2011.

19. Pending Changes in Accounting Principles

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.

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 of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2011

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City is required to adopt Statement No. 65 for its calendar year 2013 financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. This statement addresses certain technical corrections to resolve conflicting guidance related to accounting for risk financing activities and the treatment of leases with scheduled rent increases. To the extent applicable, the City is required to adopt Statement No. 66 for its calendar year 2013 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.

20. Subsequent Events

In January 2012, the City was notified of receipt of a PennVEST Loan/Grant Award to fund construction of a new Sewage Treatment Plant. The Loan, in the amount of \$18,074,732, bears interest at 1% per annum, is interest only for the period of construction (not to exceed 36 months from award date) and then requires monthly principal and interest payments of \$58,135 for 30 years. The grant is for \$10,000,000.

The City also has a \$4,000,000 grant through the Commonwealth Finance Authority's Pennsylvania H2O program to be used to fund construction of a new Sewage Treatment Plant.

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Funding Progress - Pension Trust Funds
 Year Ended December 31, 2011
 (Unaudited)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (Asset)	Funded Ratio (a)/(b)	Annual Covered Payroll	Ratio of Unfunded Liability to Annual Covered Payroll
City Employees Retirement Fund						
January 1, 2011	\$ 4,476,383	\$ 4,500,489	\$ 24,106	99.5%	\$ 1,544,320	1.6%
January 1, 2009	3,790,120	3,800,602	10,482	99.7%	1,395,136	0.8%
January 1, 2007	4,011,159	3,404,242	(606,917)	117.8%	1,426,255	N/A
Police Pension Fund						
January 1, 2011	\$ 4,549,639	\$ 4,417,256	\$ (132,383)	103.0%	\$ 647,361	N/A
January 1, 2009	4,139,188	3,866,755	(272,433)	107.0%	631,043	N/A
January 1, 2007	4,595,664	3,565,871	(1,029,793)	128.9%	616,735	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, 2011

(Unaudited)

Year Ended December 31,	Police Pension Fund		City Employees Retirement Pension Fund	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2011	\$ 87,184	105 %	\$ 140,351	105 %
2010	50,572	168 %	12,320	1,129 %
2009	37,722	100 %	7,926	100 %
2008	40,011	103 %	10,313	103 %
2007	64,540	100 %	42,987	100 %
2006	56,187	100 %	37,529	100 %
2005	122,539	100 %	95,812	100 %
2004	110,428	102 %	88,807	102 %
2003	23,690	100 %	80,447 (1)	100 %
2002	12,606	114 %	69,627	114 %

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

City of Lock Haven, Pennsylvania

Note to Required Supplementary Information – Pension Trust Funds

December 31, 2011

(Unaudited)

Actuarial Assumptions

The following actuarial assumptions were used in the January 1, 2011 actuarial valuation, the most recent actuarial valuation:

Actuarial Assumption	City Employees Retirement Fund	Police Pension Fund
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Investment rate of return	7.0%	7.0%
Projected salary increase	4.0%	5.0%
Consumer Price Index	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, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identification Number	Federal CFDA Number	Program Amount	Total Received for the Year	Accrued (Deferred) Revenue January 1, 2011	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue December 31, 2011
U.S. Department of Housing and Urban Development, Passed through Pennsylvania Department of Community and Economic Development:								
CDBG - State - Administered Small Cities Program Cluster:								
Community Development Block Grant State's Program (2007 Allotment)	C000029620	14.228	\$ 348,829	\$ 71,711	\$ 9,885	\$ 61,826	\$ 61,826	\$ -
Community Development Block Grant State's Program (2008 Allotment)	C000034132	14.228	340,091	71,251	5,296	65,955	65,955	-
Community Development Block Grant State's Program (2009 Allotment)	C000045881	14.228	344,807	324,763	7,440	317,323	317,323	-
Community Development Block Grant State's Program (2010 Allotment)	C000049976	14.228	370,457	83,385	-	85,885	85,885	2,500
Community Development Block Grant Revolving Loan Program Income	(N/A)	14.228	(N/A)	1,275	(20,479)	31,999	31,999	10,245
Total CDBG - State Administered Small Cities Program Cluster				552,385	2,142	562,988	562,988	12,745
HOME Program - Home Investment Partnerships Program	C000029944	14.239	500,000	95,641	4,041	92,472	92,472	872
Total U.S. Department of Housing and Urban Development				648,026	6,183	655,460	655,460	13,617
U.S. General Services Administration, Passed through Pennsylvania Department of General Services, Federal Surplus Program	(N/A)	39.003	(N/A)	21,521	-	21,521	21,521	-

City of Lock Haven, Pennsylvania
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Entity Identification Number	Federal CFDA Number	Program Amount	Total Received for the Year	Accrued (Deferred) Revenue January 1, 2011	Revenue Recognized	Expenditures	(Deferred) Revenue December 31, 2011
U.S. Department of Transportation, Passed through Pennsylvania Department of Transportation:								
Airport Action Plan - Update Airport Layout Plan	7880131084	20.106	\$ 249,635	\$ 54,856	\$ 18,256	\$ 38,425	\$ 38,425	\$ 1,825
Replace Airport Beacon	7880131091	20.106	77,349	66,578	56,081	11,906	11,906	1,409
Acquire Snow Removal Equipment	7880131100	20.106	115,168	-	-	2,367	2,367	2,367
Rehab RW 9/27, Phase I Design	7880131110	20.106	53,770	-	-	3,974	3,974	3,974
Total U.S. Department of Transportation				<u>121,434</u>	<u>74,337</u>	<u>56,672</u>	<u>56,672</u>	<u>9,575</u>
Environmental Protection Agency, Passed through the Pennsylvania Department of Environmental Protection, ARRA - PA Conservation Works Program	4100051185	81.041	206,689	82,818	67,746	15,072	15,072	-
U.S. Department of Justice, JAG Program Cluster								
ARRA/Byrne Justice Assistance Program - Police Hiring	2009-AJ-01-20862	16.803	100,000	24,712	-	38,401	38,401	13,689
ARRA/Edward Byrne Memorial Justice Assistance Grant Program	2009-SB-B9-20998	16.804	11,344	11,344	-	11,344	11,344	-
Byrne Justice Assistance Program - Law Enforcement Interoperability and Communication (pass thru to County)	2009-JG-0621472	16.738	N/A	10,718	-	10,718	10,718	-
Total U.S. Department of Justice, JAG Program Cluster				<u>46,774</u>	<u>-</u>	<u>60,463</u>	<u>60,463</u>	<u>13,689</u>
Total Federal Financial Assistance				<u>\$ 920,573</u>	<u>\$ 148,266</u>	<u>\$ 809,188</u>	<u>\$ 809,188</u>	<u>\$ 36,881</u>

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, 2011, and have issued our report thereon dated September 25, 2012. 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 auditor. 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. Our report also disclosed that the City adopted GASB Statement No. 54 in 2011. 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-02 and 2011-03 that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 25, 2012.

The City's response 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 25, 2012

**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 the City's major federal program for the year ended December 31, 2011. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local 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 its major federal program for the year ended December 31, 2011.

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 25, 2012

City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

 X yes _____ none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of 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?

_____ yes X no

Identification of major programs:

CFDA Number(s)

14.228

Name of Federal Program or Cluster

Community Development Block
Grants/State's Program

Dollar threshold used to distinguish Between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

City Of Lock Haven, Pennsylvania

Schedule Of Findings And Questioned Costs
Year Ended December 31, 2011

Section II - Financial Statement Findings

Finding No.

Finding/Noncompliance

2011-01

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

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

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

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

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

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

**Views of
Responsible
Officials and
Planned Corrective**

Actions: See corrective action plan.

City Of Lock Haven, Pennsylvania

Schedule Of Findings And Questioned Costs
Year Ended December 31, 2011

Finding No.

Finding/Noncompliance

2011-02

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 assistance with adjusting:

- Various receivable/payable accounts;
- Proprietary Fund capital assets;
- Proprietary Fund compensated absences liability;
- Proprietary Fund long term debt liability;
- Conversion of financial statements from fund basis to government wide basis and from cash to accrual basis;
- beginning fund balances for prior year activity;
- Federal Grant Program receivables/deferred revenue; and,
- Deferred financing costs for amortization.

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

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

Cause: You have asked us to provide these accounting services because, like many smaller local governments, you have determined that your internal accounting personnel may not be sufficiently experienced to handle these areas, and you have determined it is cost beneficial for you to utilize 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.

City Of Lock Haven, Pennsylvania

Schedule Of Findings And Questioned Costs
Year Ended December 31, 2011

Finding No.

Finding/Noncompliance

2011-03

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

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

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

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

Cause: Lack of oversight.

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

**Views of
Responsible
Officials and
Planned Corrective**

Actions: See corrective action plan.

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – Summary Schedule Of Prior Year Audit Findings

Prior year findings 2010-01 and 2010-02, which both related to internal control over financial reporting, are repeated as current year findings 2011-01 and 2011-02, respectively. See below for prior year findings 2010-03 and 2010-04, which were not repeated in the current year.

City Of Lock Haven, Pennsylvania

Schedule Of Findings And Questioned Costs
Year Ended December 31, 2011

Finding No.

Finding/Noncompliance

2010-03

**Internal Control over Financial Reporting –
Financial Statements – Significant Deficiency**

Condition: 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.

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.

Resolution: During 2011, the City redistributed its accounting duties and incorporated more oversight of the Controller and Treasurer, who in conjunction with the City Manager collectively possess the requisite knowledge and skills to prepare the financial statements.

2010-04

**Internal Control over Financial Reporting –
Financial Statements – Significant Deficiency**

Condition: 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.

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

Resolution: During 2011, the City prepared cash reconciliations for its accounts on a monthly basis.