

# **City of Lock Haven, Pennsylvania**

Financial Statements and  
Supplementary Information

December 31, 2016



**BAKER TILLY**

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# City of Lock Haven, Pennsylvania

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# City of Lock Haven, Pennsylvania

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## **Required Supplementary Information (Unaudited)**

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## **Independent Auditors' Report**

Honorable Members of City Council  
City of Lock Haven, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability and related ratios on page 54, schedule of employer contributions - Police Pension Fund on page 55, schedule of employer contributions - City Employees Retirement Fund on page 56, schedule of investment returns - pension trust funds on page 57, and schedule of other post-employment benefit plan funding progress on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018, 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Williamsport, Pennsylvania  
January 29, 2018

**City of Lock Haven, Pennsylvania**

 Statement of Net Position  
 December 31, 2016

	<b>Primary Government</b>			<b>Component Unit - Flood Protection Authority</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,309,337	\$ 2,032,173	\$ 4,341,510	\$ 1,769
Restricted cash	-	218,502	218,502	-
Receivables (net of allowance for uncollectibles):				
Taxes	424,493	-	424,493	-
Loans	314,902	-	314,902	-
Other	13,995	888,241	902,236	-
Internal balances	347,116	(347,116)	-	-
Due from other governments	52,802	10,212	63,014	-
Prepaid expenses and other assets	167,631	5,846	173,477	-
Total current assets	<u>3,630,276</u>	<u>2,807,858</u>	<u>6,438,134</u>	<u>1,769</u>
Capital assets:				
Public utility systems (including equipment)	-	46,346,670	46,346,670	84,590,355
Land and improvements	5,847,701	3,396,506	9,244,207	-
Infrastructure and infrastructure in progress	5,609,999	-	5,609,999	-
Buildings	3,933,041	-	3,933,041	-
Vehicles, equipment and furniture	4,594,251	987,806	5,582,057	-
Construction in progress	174,500	1,769	176,269	-
Less: accumulated depreciation	(9,235,604)	(12,958,032)	(22,193,636)	(15,226,264)
Total capital assets	<u>10,923,888</u>	<u>37,774,719</u>	<u>48,698,607</u>	<u>69,364,091</u>
<b>Deferred Outflows of Resources - Pension</b>	<u>481,413</u>	<u>217,364</u>	<u>698,777</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>15,035,577</u>	<u>40,799,941</u>	<u>55,835,518</u>	<u>69,365,860</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	167,829	81,347	249,176	-
Construction contracts, including retainage payable	-	2,014,518	2,014,518	-
Unearned revenue	322,451	2,527	324,978	-
Long-term liabilities:				
Due within one year,				
Bonds and notes payable	121,662	1,028,321	1,149,983	-
Due in more than one year:				
Bonds and notes payable	2,211,402	21,253,296	23,464,698	-
Compensated absences	116,461	51,010	167,471	-
Net pension liability	564,527	276,709	841,236	-
Other postemployment benefit obligation	4,385,870	-	4,385,870	-
Total liabilities	<u>7,890,202</u>	<u>24,707,728</u>	<u>32,597,930</u>	<u>-</u>
<b>Deferred Inflows of Resources - Pension</b>	<u>58,846</u>	<u>27,996</u>	<u>86,842</u>	<u>-</u>
<b>Net Position (Deficit)</b>				
Net investment in capital assets	8,590,824	13,697,086	22,287,910	69,364,091
Restricted for:				
Capital projects	640,053	-	640,053	-
Program purposes	86,312	-	86,312	-
Unrestricted	(2,230,660)	2,367,131	136,471	1,769
Total net position	<u>\$ 7,086,529</u>	<u>\$ 16,064,217</u>	<u>\$ 23,150,746</u>	<u>\$ 69,365,860</u>

See notes to financial statements

**City of Lock Haven, Pennsylvania**

Statement of Activities

Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue And Changes In Net Position			Component Unit Flood Protection Authority
		Charges for Services	Operating Grants And Contributions	Capital Grants And Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>								
Governmental activities:								
General government	\$ 1,020,479	\$ 331,090	\$ 386,849	\$ 161,086	\$ (141,454)		\$ (141,454)	
Public safety	2,236,863	140,016	-	-	(2,096,847)		(2,096,847)	
Public works	645,344	47,215	329,178	71,759	(197,192)		(197,192)	
Health, welfare and sanitation	26,649	-	10,862	-	(15,787)		(15,787)	
Culture and recreation	183,320	-	-	-	(183,320)		(183,320)	
Buildings and property	269,645	-	-	-	(269,645)		(269,645)	
Interest and fees on long-term debt	68,167	-	-	-	(68,167)		(68,167)	
Employee benefits and insurance	1,568,578	-	293,101	-	(1,275,477)		(1,275,477)	
Other	9,790	-	-	-	(9,790)		(9,790)	
Unallocated depreciation	806,275	-	-	-	(806,275)		(806,275)	
Total governmental activities	6,835,110	518,321	1,019,990	232,845	(5,063,954)		(5,063,954)	
Business-type activities:								
Public utility services, Water	1,607,825	1,784,765	-	225,871		\$ 402,811	402,811	
Public utility services, Sanitary sewer	3,552,677	2,455,920	-	-		(1,096,757)	(1,096,757)	
William T. Piper Memorial Airport	451,753	303,127	-	-		(148,626)	(148,626)	
Total business-type activities	5,612,255	4,543,812	-	225,871		(842,572)	(842,572)	
Total primary government	\$ 12,447,365	\$ 5,062,133	\$ 1,019,990	\$ 458,716	(5,063,954)	(842,572)	(5,906,526)	
<b>Component Unit</b>								
Lock Haven Area Flood Protection Authority	\$ 847,100	\$ -	\$ -	\$ -				\$ (847,100)
<b>General Revenues</b>								
Property taxes					2,599,170	-	2,599,170	-
Earned income taxes					528,518	-	528,518	-
Other					352,232	-	352,232	-
Grants and contributions not restricted to specific programs					712,903	-	712,903	-
Unrestricted investment earnings					3,999	11,625	15,624	-
Miscellaneous					221,610	63,260	284,870	-
Transfers					(37,410)	37,410	-	-
Total general revenues					4,381,022	112,295	4,493,317	-
<b>Change in Net Position</b>					(682,932)	(730,277)	(1,413,209)	(847,100)
<b>Net Position - Beginning</b>					7,769,461	16,794,494	24,563,955	70,212,960
<b>Net Position, Ending</b>					\$ 7,086,529	\$ 16,064,217	\$ 23,150,746	\$ 69,365,860

See notes to financial statements

# City of Lock Haven, Pennsylvania

Balance Sheet  
Governmental Funds  
December 31, 2016

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 739,464	\$ 1,569,814	\$ 2,309,278
Receivables:			
Taxes	424,493	-	424,493
Loans	-	315,049	315,049
Other governments	10,863	41,792	52,655
Due from other funds	72,724	425,125	497,849
Prepaid expenses	167,631	-	167,631
	<u>1,415,175</u>	<u>2,351,780</u>	<u>3,766,955</u>
Total assets	<u>\$ 1,415,175</u>	<u>\$ 2,351,780</u>	<u>\$ 3,766,955</u>
<b>Liabilities, Deferred Inflow of Resources and Fund Balances</b>			
Liabilities:			
Vouchers (accounts) payable	\$ 79,870	\$ 10,310	\$ 90,180
Accrued liabilities	72,862	4,787	77,649
Due to other funds	149,522	1,211	150,733
Unearned revenue	7,401	315,049	322,450
	<u>309,655</u>	<u>331,357</u>	<u>641,012</u>
Total liabilities	<u>309,655</u>	<u>331,357</u>	<u>641,012</u>
Deferred Inflow of Resources,			
Deferred tax revenue	<u>347,187</u>	<u>-</u>	<u>347,187</u>
Fund balances:			
Nonspendable	167,631	-	167,631
Restricted	-	1,132,539	1,132,539
Assigned	-	853,287	853,287
Unassigned	590,702	34,597	625,299
	<u>758,333</u>	<u>2,020,423</u>	<u>2,778,756</u>
Total fund balances	<u>758,333</u>	<u>2,020,423</u>	<u>2,778,756</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,415,175</u>	<u>\$ 2,351,780</u>	<u>\$ 3,766,955</u>

See notes to financial statements

## City of Lock Haven, Pennsylvania

Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
December 31, 2016

**Total Fund Balance, Governmental Funds** \$ 2,778,756

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

Capital assets used in governmental activities are not current  
financial resources and therefore are not reported in the  
fund financial statements, but are reported in the governmental  
activities of the statement of net position. 10,923,888

Some of the City's taxes will be collected after year-end, but  
are not available soon enough to pay for the current period's  
expenditures, and therefore are reported as a deferred inflow of  
resources in the funds. 347,187

Deferred outflows related to the net pension liability  
are not reported in the governmental funds, however  
are reported in the statement of net position. 481,413

Internal service funds are used by management to charge the  
costs of certain activities to individual funds. The assets  
and liabilities of the internal service fund are included in the  
governmental activities of the statement of net position. 14,050

Deferred inflows related to the net pension liability  
are not reported in the governmental funds, however  
are reported in the statement of net position. (58,846)

Long-term liabilities applicable to the City's governmental activities  
are not due and payable in the current period and accordingly,  
are not reported as fund liabilities. All liabilities, both current and long-term,  
are reported in the statement of net position. Balances at December 31,  
2016 are:

Bonds and notes payable	(2,333,061)
Other postemployment benefit obligation	(4,385,870)
Net pension liability	(564,527)
Compensated absences	(116,461)

**Net Position of Governmental Activities  
in the Statement of Net Position**

**\$ 7,086,529**

**City of Lock Haven, Pennsylvania****Statement of Revenues, Expenditures and Changes in Fund Balances**

Governmental Funds

Year Ended December 31, 2016

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>			
Taxes	\$ 3,465,707	\$ -	\$ 3,465,707
Licenses and permits	106,531	-	106,531
Fines and forfeits	140,016	-	140,016
Interest, rents and royalties	10,238	4,598	14,836
Intergovernmental	927,509	970,301	1,897,810
Charges for service	127,450	44,688	172,138
Collections on loans	-	105,709	105,709
Miscellaneous	41,913	114,095	156,008
	<u>4,819,364</u>	<u>1,239,391</u>	<u>6,058,755</u>
Total revenues	<u>4,819,364</u>	<u>1,239,391</u>	<u>6,058,755</u>
<b>Expenditures</b>			
Current:			
General government	565,276	613,350	1,178,626
Employee benefits and insurance	1,407,652	17,174	1,424,826
Community and economic development	-	100,063	100,063
Public works, highways and streets	483,464	302,621	786,085
Health and sanitation	26,649	-	26,649
Public safety	1,643,603	10	1,643,613
Culture and recreation	129,703	70,157	199,860
Other	9,004	-	9,004
Capital outlay	786	135,759	136,545
Debt service	223,521	1,550	225,071
	<u>4,489,658</u>	<u>1,240,684</u>	<u>5,730,342</u>
Total expenditures	<u>4,489,658</u>	<u>1,240,684</u>	<u>5,730,342</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>329,706</u>	<u>(1,293)</u>	<u>328,413</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	92,675	120,641	213,316
Transfers out	(158,651)	(92,075)	(250,726)
	<u>(65,976)</u>	<u>28,566</u>	<u>(37,410)</u>
Total other financing sources (uses), net	<u>(65,976)</u>	<u>28,566</u>	<u>(37,410)</u>
<b>Changes in Fund Balances</b>	263,730	27,273	291,003
<b>Fund Balance, Beginning</b>	<u>494,603</u>	<u>1,993,150</u>	<u>2,487,753</u>
<b>Fund Balance, Ending</b>	<u>\$ 758,333</u>	<u>\$ 2,020,423</u>	<u>\$ 2,778,756</u>

See notes to financial statements

## City of Lock Haven, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended December 31, 2016

**Net Change in Fund Balances, Total Governmental Funds** \$ 291,003

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation expense, \$806,275 exceeded capital outlays \$450,290, in the current period. (355,985)

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, 2016. 14,215

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 2016, the following transactions factor into this reconciliation:

Issuance of long-term debt	(8,062)	
Retirement of principal of long-term debt	<u>164,979</u>	156,917

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 position, 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, 2016. (3,346)

Net pension liability is considered long-term in nature, and is not reported as a liability within the Funds. Such liability is, however, reported within the statement of net position, and changes in the liability is reflected within the statement of net position. This represents the change in pension liability and the deferred outflows and inflows related to the pension. (127,509)

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). (675,060)

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. 16,833

**Change in Net Position of Governmental Activities** \$ (682,932)

## City of Lock Haven, Pennsylvania

Statement of Revenues, Expenditures and  
Changes in Fund Balance - General Fund  
Budget and Actual  
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 3,311,134	\$ 3,257,394	\$ 3,465,707	\$ 208,313
Licenses and permits	105,308	97,400	106,531	9,131
Fines and forfeits	106,363	114,500	140,016	25,516
Interest, rents and royalties	7,621	9,800	10,238	438
Intergovernmental	690,029	522,152	927,509	405,357
Charges for services	147,925	148,158	127,450	(20,708)
Miscellaneous	20,823	7,000	41,913	34,913
Total revenues	<u>4,389,203</u>	<u>4,156,404</u>	<u>4,819,364</u>	<u>662,960</u>
<b>Expenditures</b>				
Current:				
General government	530,811	465,532	565,276	(99,744)
Employee benefits and insurance	1,424,298	1,478,371	1,407,652	70,719
Public safety	1,443,088	1,385,949	1,643,603	(257,654)
Public works - highways and streets	626,303	482,860	483,464	(604)
Health and sanitation	27,128	45,015	26,649	18,366
Culture and recreation	166,826	136,853	129,703	7,150
Other	5,982	136,847	9,004	127,843
Debt service	263,398	219,840	223,521	(3,681)
Capital outlay	-	2,500	786	1,714
Total expenditures	<u>4,487,834</u>	<u>4,353,767</u>	<u>4,489,658</u>	<u>(135,891)</u>
<b>(Deficiency) Excess of Revenues Over Expenditures</b>	<u>(98,631)</u>	<u>(197,363)</u>	<u>329,706</u>	<u>527,069</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of capital assets	13,564	7,000	-	(7,000)
Proceeds from long-term debt, net	108,794	-	-	-
Transfers in	600	600	92,675	92,075
Transfers out	(4,600)	(4,600)	(158,651)	(154,051)
Appropriated fund balance	136,794	194,363	-	(194,363)
Total other financing (uses) sources, net	<u>255,152</u>	<u>197,363</u>	<u>(65,976)</u>	<u>(263,339)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures After Other Financing Sources (Uses)</b>	<u>\$ 156,521</u>	<u>\$ -</u>	<u>\$ 263,730</u>	<u>\$ 263,730</u>

See notes to financial statements

**City of Lock Haven, Pennsylvania**

## Statement of Net Position

## Proprietary Funds

December 31, 2016

	Enterprise Funds			Total	Internal Service Fund
	Water	Sewer	Airport Operating		
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,345,452	\$ 686,720	\$ -	\$ 2,032,172	\$ 55
Other accounts receivable, (net of allowance)	312,797	521,371	54,073	888,241	13,995
Due from other funds	4,072	98,169	40,167	142,408	-
Due from other governments	5,000	-	5,211	10,211	-
Restricted cash	-	218,502	-	218,502	-
Other current assets	5,846	-	-	5,846	-
Total current assets	1,673,167	1,524,762	99,451	3,297,380	14,050
Capital assets:					
Public utility systems (including related equipment)	7,603,903	38,742,767	-	46,346,670	-
Land and improvements	-	500,000	2,896,506	3,396,506	-
Equipment and vehicles	211,939	22,645	753,221	987,805	-
Construction in progress	-	-	1,770	1,770	-
Less accumulated depreciation	(4,208,820)	(7,228,126)	(1,521,086)	(12,958,032)	-
Total capital assets, net	3,607,022	32,037,286	2,130,411	37,774,719	-
Total assets	5,280,189	33,562,048	2,229,862	41,072,099	14,050
<b>Deferred Outflows of Resources - Pension</b>	67,641	130,693	19,030	217,364	-
Total assets and deferred outflows of resources	\$ 5,347,830	\$ 33,692,741	\$ 2,248,892	\$ 41,289,463	\$ 14,050
<b>Liabilities</b>					
Current liabilities:					
Current portion of bonds and notes payable	\$ 204,469	\$ 791,735	\$ 32,117	\$ 1,028,321	\$ -
Vouchers (accounts) payable:					
Trade	12,446	32,666	975	46,087	-
Construction contracts, including retainage	-	2,014,518	-	2,014,518	-
Accrued liabilities	10,000	22,406	2,849	35,255	-
Due to other funds	85,743	6,490	397,291	489,524	-
Unearned revenue	-	-	2,527	2,527	-
Total current liabilities	312,658	2,867,815	435,759	3,616,232	-
Non-current liabilities:					
Compensated absences	9,260	30,900	10,850	51,010	-
Long-term portion of bonds and notes payable	2,883,406	18,280,290	89,604	21,253,300	-
Net pension liability	86,095	166,250	24,364	276,709	-
Total non-current liabilities	2,978,761	18,477,440	124,818	21,581,019	-
Total liabilities	3,291,419	21,345,255	560,577	25,197,251	-
<b>Deferred Inflows of Resources - Pension</b>	8,711	16,820	2,465	27,996	-
<b>Net Position</b>					
Net investment in capital assets	519,147	11,169,245	2,008,690	13,697,082	-
Unrestricted	1,528,553	1,161,421	(322,840)	2,367,134	14,050
Total net position	2,047,700	12,330,666	1,685,850	16,064,216	14,050
Total liabilities, deferred inflows of resources, and net position	\$ 5,347,830	\$ 33,692,741	\$ 2,248,892	\$ 41,289,463	\$ 14,050

See notes to financial statements

**City of Lock Haven, Pennsylvania**

Statement of Revenues, Expenses and Changes in Fund Net Position  
 Proprietary Funds  
 Year Ended December 31, 2016

	Enterprise Funds			Internal Service Funds	
	Water	Sewer	Airport Operating Total		
<b>Revenues</b>					
Charges for services	\$ 1,784,765	\$ 2,455,920	\$ 303,342	\$ 4,544,027	\$ 116,643
<b>Operating Expenses</b>					
Personnel services	470,944	986,073	139,685	1,596,702	-
Utilities (including water filtration costs)	673,758	284,262	24,021	982,041	-
Depreciation	316,166	1,034,986	171,734	1,522,886	-
Materials, supplies and maintenance	34,559	178,660	88,129	301,348	99,811
Administrative expense	45,327	591,614	5,323	642,264	-
Sludge disposal	-	114,265	-	114,265	-
Insurance	2,263	60,871	13,835	76,969	-
Miscellaneous	12,543	11,313	5,908	29,764	-
Total operating expenses	1,555,560	3,262,044	448,635	5,266,239	99,811
Operating income (loss)	229,205	(806,124)	(145,293)	(722,212)	16,832
<b>Non-Operating Revenues (Expenses)</b>					
Subsidies from other governments:					
Local	225,871	-	-	225,871	-
Interest income	8,016	3,608	-	11,624	1
Rental income	13,592	49,669	-	63,261	-
Interest expense	(52,796)	(228,602)	(1,864)	(283,262)	-
Debt issuance costs	-	(61,500)	(1,469)	(62,969)	-
Total non-operating revenues, net	194,683	(236,825)	(3,333)	(45,475)	1
<b>Income (Loss) Before Other Financing Sources</b>	423,888	(1,042,949)	(148,626)	(767,687)	16,833
<b>Other Financing Sources</b>					
Transfers in	50,161	19,594	-	69,755	-
Transfers out	-	(30,980)	(1,365)	(32,345)	-
<b>Net Income (Loss)</b>	474,049	(1,054,335)	(149,991)	(730,277)	16,833
<b>Net Position, Beginning</b>	1,573,651	13,385,001	1,835,841	16,794,493	(2,783)
<b>Net Position, Ending</b>	\$ 2,047,700	\$ 12,330,666	\$ 1,685,850	\$ 16,064,216	\$ 14,050

See notes to financial statements

**City of Lock Haven, Pennsylvania**

## Statement Of Cash Flows

## Proprietary Funds

Year Ended December 31, 2016

	Business-Type Activities			Totals	Governmental Activities
	Water Fund	Sewer Fund	Operating Fund		Internal Service Inventory Fund
<b>Cash Flows from Operating Activities</b>					
Cash received from users	\$ 1,781,308	\$ 2,187,418	\$ 301,259	\$ 4,269,985	\$ 106,421
Cash payments to employees for services	(464,451)	(992,268)	(143,911)	(1,600,630)	-
Cash paid to suppliers for goods and services	(787,847)	(1,212,284)	(127,893)	(2,128,024)	(106,367)
Net cash provided by (used in) operating activities	529,010	(17,134)	29,455	541,331	54
<b>Cash Flows from Non-Capital Financing Activities</b>					
Operating subsidies and transfers from (to) other funds	50,161	(11,386)	(1,365)	37,410	-
<b>Cash Flows Provided by Investing Activities</b>					
Rental income	13,592	49,669	-	63,261	-
Earnings on investments	8,016	3,608	-	11,624	1
Net cash provided by investing activities	21,608	53,277	-	74,885	1
<b>Cash Flows from Capital and Related Financing Activities</b>					
Payments for capital acquisitions	(29,960)	(40,742)	-	(70,702)	-
Capital subsidies from other governments	225,871	374	-	226,245	-
Principal payments on long-term debt	(200,256)	(4,766,766)	(119,155)	(5,086,177)	-
Proceeds from long term debt	-	2,978,895	94,398	3,073,293	-
Interest paid	(52,796)	(228,602)	(1,864)	(283,262)	-
Debt issuance costs	-	(61,500)	(1,469)	(62,969)	-
Net cash used in capital and related financing activities	(57,141)	(2,118,341)	(28,090)	(2,203,572)	-
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	543,638	(2,093,584)	-	(1,549,946)	55
<b>Cash and Cash Equivalents, Beginning</b>	801,814	2,998,806	-	3,800,620	-
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 1,345,452</u>	<u>\$ 905,222</u>	<u>\$ -</u>	<u>\$ 2,250,674</u>	<u>\$ 55</u>
<b>Displayed as:</b>					
Cash and cash equivalents	\$ 1,345,452	\$ 686,720	\$ -	\$ 2,032,172	\$ 55
Restricted cash	-	218,502	-	218,502	-
Total	<u>\$ 1,345,452</u>	<u>\$ 905,222</u>	<u>\$ -</u>	<u>\$ 2,250,674</u>	<u>\$ 55</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>					
Operating income (loss)	\$ 229,205	\$ (806,124)	\$ (145,293)	\$ (722,212)	\$ 16,832
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	316,166	1,034,986	171,734	1,522,886	-
Changes in assets and liabilities:					
Accounts receivable, other	3,605	(267,123)	(24,789)	(288,307)	(172)
Due from/to other governments and funds	-	-	22,707	22,707	(10,050)
Other current assets	(980)	-	-	(980)	-
Deferred outflow of resources - pension	18,847	35,206	6,328	60,381	-
Vouchers payable	(38,243)	(6,571)	(1,093)	(45,907)	(6,556)
Unearned revenue	-	(4,800)	-	(4,800)	-
Net pension liability	(2,095)	(2,959)	(1,504)	(6,558)	-
Accrued and other liabilities	1,925	(969)	1,285	2,241	-
Deferred inflow of resources - pension	580	1,220	80	1,880	-
<b>Net Cash Provided by (Used In) Operating Activities</b>	<u>\$ 529,010</u>	<u>\$ (17,134)</u>	<u>\$ 29,455</u>	<u>\$ 541,331</u>	<u>\$ 54</u>
<b>Supplemental Disclosure of Non-Cash Capital and Related Financing Activities</b>					
Capital assets in contracts and retainage payable	<u>\$ -</u>	<u>\$ 2,014,518</u>	<u>\$ -</u>	<u>\$ 2,014,518</u>	<u>\$ -</u>

See notes to financial statements

# City of Lock Haven, Pennsylvania

## Statement of Fiduciary Net Position

December 31, 2016

	<b>Pension and OPEB Trust Funds</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 181,104
Accrued interest receivable	28,145
Other receivables	53,794
	<hr/>
Total	263,043
	<hr/>
Investments:	
Fixed income securities	4,332,151
Equity securities	6,322,683
Mutual funds	1,140,798
	<hr/>
Total investments	11,795,632
	<hr/>
Total assets	\$ 12,058,675
	<hr/> <hr/>
<b>Liabilities</b>	
Benefits payable	\$ 24,710
<b>Net Position</b>	
Held in trust for benefits and other purposes	12,033,965
	<hr/>
Total liabilities and net position	\$ 12,058,675
	<hr/> <hr/>

See notes to financial statements

## City of Lock Haven, Pennsylvania

### Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2016

	<b>Pension and OPEB Trust Funds</b>
<b>Additions</b>	
Contributions:	
Commonwealth of Pennsylvania	\$ 293,102
Employees	97,982
City	3,691
Other	100
	<hr/>
Total contributions	394,875
	<hr/>
Investment earnings:	
Net increase in fair value of investments	567,108
Interest and dividends	284,890
	<hr/>
Total investment earnings	851,998
	<hr/>
Total additions	1,246,873
	<hr/>
<b>Deductions</b>	
Benefits	651,303
Other	109,720
	<hr/>
Total deductions	761,023
	<hr/>
<b>Change In Net Position</b>	485,850
	<hr/>
<b>Net Position, Beginning</b>	11,548,115
	<hr/>
<b>Net Position, Ending</b>	<u>\$ 12,033,965</u>

See notes to financial statements

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements

December 31, 2016

## 1. Summary of Significant Accounting Policies

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

### Reporting Entity

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

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

The financial reporting entity includes all of the services provided by the City to residents and businesses within its boundaries. Municipal services provided include public safety (police, fire, emergency management and protective inspection), community development, street construction and maintenance, recreation, public works, library and general administration. In evaluating the City as a primary government in accordance with Governmental Accounting Standards Board ("GASB") Statement Nos. 14, 39 and 61, management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the City to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship.

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, 2016

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

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

### Government-Wide and Fund Financial Statements

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

# City of Lock Haven, Pennsylvania

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## Notes to Financial Statements

December 31, 2016

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

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 365 days of the end of the current fiscal period with the exception of property taxes, which must be received within 60 days of year-end to be deemed available.

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

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

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

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

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements  
December 31, 2016

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. The General Fund is always considered a major fund.

### **Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to specified purposes. Special Revenue Funds reported as nonmajor funds by the City include:

- The Rural Business Enterprise Grant Fund accounts for revenues used to provide support to various projects and programs benefiting local businesses.
- The Off Street Parking Fund accounts for revenues and expenditures related to operation, maintenance, fines and enforcement as related to off-street parking lots.
- The Recreation Fund accounts for the public contributions and event revenues used to provide recreational activities for City residents.
- The Interchange Fund accounts for revenues and expenditures for maintenance and electricity related to street lighting for the U.S. Route 220 Interchange.
- The Triangle Park and Hoberman Project Funds account for public contributions used for equipment purchases and improvements for those two parks.
- The Highway Aid Fund accounts for liquid fuel tax revenues used for building, improving and maintaining City streets.

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

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### Notes to Financial Statements

December 31, 2016

- The Rehabilitation/Sidewalk Fund accounts for the operations of the City's Housing Rehabilitation Program, which is funded in part by federal funds whose use is restricted for the provision of specified home rehabilitation services to eligible City residents.
- The CDBG Funds account for the operations of the City's Community Development Block Grant program, which are funded with federal funds passed through the Commonwealth of Pennsylvania and whose use is restricted for the provision of community services under four specific federal criteria.
- The Hoberman Park Fund accounts for certain recreational activities conducted at the Hoberman Park Playground.
- The Housing Home Program Fund accounts for federal HOME revenues used to provide assistance to low to moderate income homeowners for housing repairs to meet minimum building code requirements.
- The Owner Occupied Housing Fund accounts for housing assistance to low income families.
- The New Communities Main Street Fund accounts for certain City revitalization projects.
- The Road Turn-back Fund accounts for proceeds from the Commonwealth for future maintenance and improvements to certain roads received from the Commonwealth.

### **Capital Projects Fund**

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

### **Proprietary Funds**

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

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

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

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

## Fiduciary Funds

### Pension and OPEB Trust Funds

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

## New Accounting Principles

The City adopted GASB Statement No. 72, *Fair Value Measurement and Application*, for the year ended December 31, 2016. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements and to provide guidance for applying fair value of certain investments and disclosures related to all fair value measurements. The City implemented the accounting and reporting requirements of GASB No. 72 as of January 1, 2016. This implementation did not materially change the City's accounting and reporting policies, but did expand the level of disclosure required.

The City adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, for the year ended December 31, 2016. The primary objective of this statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles ("GAAP"). This statement reduces the GAAP hierarchy to two categories of authoritative literature and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The City implemented the accounting and reporting requirements of GASB No. 76 as of January 1, 2016. This implementation did not materially change the City's accounting and reporting policies.

The City adopted GASB issued Statement No. 77, *Tax Abatement Disclosures*, for the year ended December 31, 2016. The objective of this Statement is to provide financial statement users with additional information regarding limitations on a government's ability to raise resources, including those resulting from government programs that include the use of tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose certain information about those agreements. The City has not entered into any tax abatement agreements that are material, individually or in the aggregate, to the financial statements, as such no additional disclosures were required as a result of this adoption.

The City adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, for the year ended December 31, 2016. This standard permits qualifying external investment pools to measure pool investments, which function similarly to private sector money market funds, at amortized cost. The statement also establishes additional disclosure requirements, which includes information about any limitations or restrictions on participant withdrawals, for both the pool and its participants. The City implemented the accounting and reporting requirements of GASB No. 79 as of January 1, 2016. This implementation did not materially change the City's accounting and reporting policies.

# **City of Lock Haven, Pennsylvania**

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Notes to Financial Statements

December 31, 2016

## **Cash Equivalents**

The City considers highly liquid short-term instruments purchased with a maturity of three months or less (excluding certain short-term instruments which are classified as investments) to be cash equivalents.

## **Investments**

Investments of the City Employee Retirement, Police Retirement, and Police Death pension plans are stated at fair value for both reporting and actuarial purposes. Investment purchases are recorded as of the trade date. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are generally reported at cost, which is not expected to be materially different from fair value.

## **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, 2016 amounted to \$123,120. The allowance for doubtful accounts related to the Water, Sewer, and Airport proprietary funds amounted to \$23,032, \$18,996, and \$1,338, respectively, as of December 31, 2016.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

### Capital Assets

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

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

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

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

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

### Liabilities for Compensated Absences

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

### Unearned Revenues

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

At December 31, 2016, the General, Non-major Governmental and Airport Operating Funds had unearned revenues of \$7,401, \$315,049 and \$2,527, respectively.

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements  
December 31, 2016

## Deferred Outflows/Inflows of Resources

In additions to assets, the City will sometimes report a separate section for deferred outflows (inflows) of resources. This separate financial statement element represents a consumption (acquisition) of net position that applies to a future period and so will not be recognized as an outflow (inflow) of resources until that time.

## Governmental Fund Balance Classifications/Policies and Procedures

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

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

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

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

# City of Lock Haven, Pennsylvania

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## Notes to Financial Statements

December 31, 2016

### **Pension Plans**

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

### **OPEB Plan**

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

### **Use of Estimates**

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

## **2. Budgetary Procedures and Budgetary Accounting**

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

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

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

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which annual budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is presented on page 9 of the accompanying financial statements. During 2016, the City had no major special revenue funds.

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements  
December 31, 2016

### 3. Cash, Cash Equivalents, and Investments

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

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

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

#### Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2016, the aggregate bank balance of bank deposits was \$4,941,396, of which \$500,000 was covered by federal depository insurance and \$181,104 was covered by SIPC insurance. The uninsured remaining bank deposits of \$4,260,292 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 \$4,750,277 at December 31, 2016.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

### Investments - Pension Trust Funds

As of December 31, 2016, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Equity securities	N/A	\$ 6,322,683
Corporate bonds	Average of 5 years	1,346,465
Government bonds	Average of 5 years	54,867
Certificates of deposit	Average of 4 years	495,109
Mutual funds	N/A	1,140,798
U.S. Treasury securities	Average of 7 years	945,150
Government mortgage pools	Average of 23 years	797,934
Corp. mortgage/asset backed securities	Average of 13 years	672,440
Government asset backed securities	Average of 2 years	<u>20,186</u>
Total		<u>\$ 11,795,632</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, 2016, 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, 2016, the City's credit quality distribution of securities as a percentage of total fixed income investments is as follows:

Corporate bonds	BBB- to AAA	31.1 %
Government bonds	AA+	1.3
Certificates of deposit	AA+ to AAA	11.4
U.S. Treasury securities	AA+	21.8
Government mortgage pools	AA+ to AAA	18.4
Corp. mortgage/asset backed securities	AA+ to AAA	15.5
Government asset backed securities	AA	<u>.5</u>
Total fixed income		<u>100.00 %</u>

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements

December 31, 2016

The City's investment policy limits investments as follows:

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

## **Concentration of Credit Risk**

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

## **Interest Rate Risk**

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

## **Foreign Currency Risk**

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

## **Restricted Cash**

The City's Sewer Fund reports the unspent bond proceeds for future capital activity as restricted cash. At December 31, 2016, the unspent bond proceeds amounted to \$218,502.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

### Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of December 31, 2016:

	December 31, 2016			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investment by fair value level</b>				
Fixed income:				
Corporate bonds	\$ 1,346,465	\$ -	\$ 1,346,465	\$ -
Government bonds	54,867	-	54,867	-
Certificates of deposit	495,109	-	495,109	-
U.S. treasury securities	945,150	-	945,150	-
Government mortgage pools	797,934	-	797,934	-
Corporate mortgage/asset backed securities	672,440	-	672,440	-
Government asset backed securities	20,186	-	20,186	-
Common stocks:				
Industrials	836,257	836,257	-	-
Consumer discretionary	920,279	920,279	-	-
Health care	809,701	809,701	-	-
Financials	974,931	974,931	-	-
Materials	73,647	73,647	-	-
Information technology	1,711,212	1,711,212	-	-
Telecommunications services	113,087	113,087	-	-
Energy	482,409	482,409	-	-
Consumer staples	313,400	313,400	-	-
Utilities	87,760	87,760	-	-
Other equity mutual funds	1,140,798	1,140,798	-	-
Total investments	<u>\$ 11,795,632</u>	<u>\$ 7,463,481</u>	<u>\$ 4,332,151</u>	<u>\$ -</u>

The valuation methods for recurring fair value measurements are as follows:

- Equity securities, mutual funds and fixed income securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.
- Fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

### 4. Property Taxes

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

The assessed value at January 1, 2016, upon which the 2016 levy was based, was \$279,569,900 of taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2016 were 91% of the tax levy.

The City is permitted by the Third Class City Code to levy taxes up to 30 mills (\$30 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 26.32 mills and the millage on improvements as levied is 5.42 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, 2016 were:

General Governmental Services	9.01 mills
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The City has a tax margin of 20.99 mills (30.00 mills limit less 9.01 mills for general government = 20.99 mills).

### 5. Due from Other Governments

The amount reported in the City's various governmental and proprietary funds at December 31, 2016 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 10,863	\$ 10,863
Other Nonmajor Governmental Funds	-	39,577	2,215	41,792
Water Fund	-	-	5,000	5,000
Airport Fund	5,211	-	-	5,211
Total	<u>\$ 5,211</u>	<u>\$ 39,577</u>	<u>\$ 18,078</u>	<u>\$ 62,866</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 2016.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2016

## 6. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2016 is as follows:

	Balance January 1, 2016	Acquisitions	Disposals	Transfers	Balance December 31, 2016
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,564,307	\$ -	\$ -	\$ -	\$ 3,564,307
Construction in progress	955,524	-	-	(781,024)	174,500
Total capital assets, not being depreciated	4,519,831	-	-	(781,024)	3,738,807
Capital assets, being depreciated:					
Land improvements	2,283,394	-	-	-	2,283,394
Buildings and improvements	3,933,041	-	-	-	3,933,041
Furniture and equipment	3,124,373	-	-	-	3,124,373
Vehicles	1,339,355	130,523	-	-	1,469,878
Infrastructure	4,509,208	319,767	-	781,024	5,609,999
Total capital assets, being depreciated	15,189,371	450,290	-	781,024	16,420,685
Less accumulated depreciation:					
Land improvements	(1,471,940)	(106,229)	-	-	(1,578,169)
Buildings and improvements	(2,573,329)	(109,629)	-	-	(2,682,958)
Furniture and equipment	(1,936,494)	(138,640)	-	-	(2,075,134)
Vehicles	(903,118)	(124,637)	-	-	(1,027,755)
Infrastructure	(1,544,448)	(327,140)	-	-	(1,871,588)
Total accumulated depreciation	(8,429,329)	(806,275)	-	-	(9,235,604)
Total capital assets, being depreciated	6,760,042	(355,985)	-	781,024	7,185,081
Governmental activities, net	\$ 11,279,873	\$ (355,985)	\$ -	\$ -	\$ 10,923,888

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

	Balance January 1, 2016	Acquisitions	Disposals	Transfers	Balance December 31, 2016
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 669,000	\$ -	\$ -	\$ -	\$ 669,000
Construction in process	1,770	-	-	-	1,770
Total capital assets, not being depreciated	670,770	-	-	-	670,770
Capital assets, being depreciated:					
Utility system	46,293,101	51,319	-	-	46,344,420
Land improvements	2,727,506	-	-	-	2,727,506
Equipment and vehicles	990,055	-	-	-	990,055
Total capital assets, being depreciated	50,010,662	51,319	-	-	50,061,981
Less accumulated depreciation:					
Utility system	(10,007,800)	(1,314,389)	-	-	(11,322,189)
Land improvements	(823,406)	(136,375)	-	-	(959,781)
Equipment and vehicles	(603,939)	(72,123)	-	-	(676,062)
Total accumulated depreciation	(11,435,145)	(1,522,887)	-	-	(12,958,032)
Business-type activities capital assets, net	\$ 39,246,287	\$ (1,471,568)	\$ -	\$ -	\$ 37,774,719

Governmental activity depreciation expense, which amounted to \$806,275 for the year ended December 31, 2016, was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$316,166, \$1,034,986, and \$171,734 for the year ended December 31, 2016, was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

	Balance January 1, 2016	Additions	Disposals	Balance December 31, 2016
Component - Unit				
Flood Protection Authority:				
Land improvements	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(14,380,360)	(845,904)	-	(15,226,264)
Component unit - capital asset, net	\$ 70,209,995	\$ (845,904)	\$ -	\$ 69,364,091

# City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2016

## 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, 2016 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 72,724	\$ 149,522
Non-major Governmental Funds	425,125	1,211
Enterprise Funds:		
Water Fund	4,072	85,743
Sewer Fund	98,169	6,490
Airport Fund	40,167	397,291
	<u>          </u>	<u>          </u>
Total	<u>\$ 640,257</u>	<u>\$ 640,257</u>

### Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2016 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 92,675	\$ 158,651
Non-major Governmental Funds	120,641	92,075
Enterprise Funds:		
Water Fund	50,161	-
Sewer Fund	19,594	30,980
Airport Fund	-	1,365
	<u>          </u>	<u>          </u>
Total	<u>\$ 283,071</u>	<u>\$ 283,071</u>

During the year ended December 31, 2016, the City made a transfer from its General Fund for the purposes of funding an annual allocation to its Interchange Fund for \$4,000. In addition, the General Fund made transfers to its Capital Projects Fund in the amount of \$86,467 to fund streetscape renovation projects and to its Off Street Parking Fund in the amount of \$15,095 to fund improvements.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2016

## 8. Long-Term Debt

As of December 31, 2016, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at January 1, 2016	Additions	Retirements	Balance at December 31, 2016	Current Portion
PennVEST Note Payable - Sewer Fund	1.156 %	\$ 2,638,730	\$ 1,205,620	\$ -	\$ 129,109	\$ 1,076,511	\$ 130,609
PennVEST Note Payable - Water Fund	1.00 %	6,122,000	2,941,702	-	117,175	2,824,527	118,353
2009 General Obligation Bond, Series A	2.65 - 3.50 %	3,715,000	1,305,000	-	1,305,000	-	-
PennVEST Note Payable - Sewer Fund	1.00 %	18,074,732	15,561,121	-	544,510	15,016,611	550,021
2013 General Obligation Bond	2.46 - 5.50 %	2,118,000	2,112,000	-	10,000	2,102,000	36,000
2014 General Obligation Note - Sewer Fund	1.97 %	6,000,000	3,659,018	-	3,659,018	-	-
2016 General Obligation Bond, Series A	1.61 - 4.65 %	3,430,000	-	2,645,581	-	2,645,581	-
2016 General Obligation Note, Series B	1.40 %	2,125,000	-	949,451	-	949,451	315,000
2016 General Obligation Note, Series C	1.40 %	2,530,000	-	-	-	-	-
Total, net			<u>\$ 26,784,461</u>	<u>\$ 3,595,032</u>	<u>\$ 5,764,812</u>	<u>\$ 24,614,681</u>	<u>\$ 1,149,983</u>

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental Activities Bonds and Notes Payable	\$ 121,662	\$ 2,211,402	\$ 2,333,064
Business-Type Activities Bonds and Notes Payable	1,028,321	21,253,296	22,281,617
Total	<u>\$ 1,149,983</u>	<u>\$ 23,464,698</u>	<u>\$ 24,614,681</u>

### PennVEST - Note Payable - Sewer Fund

In 2004, the City entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority ("PennVEST") with an original balance of \$2,638,730, due in monthly installments of \$11,864 including principal and interest at 1.156% per annum through maturity during November 2024. The proceeds of the note were used to finance a portion of the cost of renovations to the City's sewage treatment facility. The note is secured by the City's pledge of all gross receipts and revenues of the system and a lien position thereto.

# City of Lock Haven, Pennsylvania

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## Notes to Financial Statements

December 31, 2016

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

In 2008, the City entered into a loan agreement with PennVEST with a maximum balance of \$6,122,000 (only \$4,140,427 was drawn as of 12/31/16), due in monthly installments of \$12,171, including principal and interest at 1% per annum through maturity in July 2027. The proceeds drawn on the note to date were used to finance the City's Ohi Dam Grouting Project. The note is secured by the City's pledge of all gross receipts and revenues of the water system and a lien position thereto.

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

In 2009, the City issued a \$3,715,000 General Obligation Bond, Series A of 2009, bearing interest at rates ranging from 2.65% to 3.50% per annum, maturing on dates ranging from November 1, 2013 to November 1, 2019. The proceeds from the bonds were used to (1) currently refund the City's General Obligation Bonds, Series of 2002, the City's General Obligation Note, Series B of 2007 and a portion of the City's General Obligation Note, Series A of 2007; (2) to finance various capital projects of the City; and (3) to pay the costs of issuing the bonds. Of the \$3,715,000, \$1,475,632 was allocated to governmental activities and \$2,239,368 was allocated to proprietary funds. The outstanding balance for this bond was satisfied in 2016 by the City's issuance of its General Obligation Note, Series B of 2016. The change in total debt service payments and net economic gain (loss) resulting from this refunding were not material.

### **PennVEST - Note Payable - Sewer Fund**

In 2012, the City entered into a loan agreement with PennVEST with a maximum balance of \$18,074,732 (only \$16,388,698 was drawn as of 12/31/16), due in monthly installments of \$58,135, including principal and interest at 1% per annum through maturity in July 2044. (If the City does not draw any further funds on this loan, final maturity would be during 2022.) The proceeds drawn on the note to date were used to finance the City's sewer system capital improvement project. The note is secured by the City's pledge of all gross receipts and revenues of the sewer system and a lien position thereto.

### **General Obligation Bond, Series of 2013**

In 2013, the City issued a \$2,118,000 General Obligation Bond, Series of 2013, bearing interest at a fixed rate of 2.46% per annum through November 1, 2028, then at a monthly variable rate equal to the 30 day London Interbank Offering Rate (LIBOR) plus 2.24%, not to exceed 5.50% per annum, maturing on dates ranging from May 1, 2013 to November 1, 2033. The proceeds from this bond were used to provide funds toward a certain project consisting of, but not limited to (1) the purchase and acquisition of a certain building referred to as the "PennDOT buildings", and the furnishing of capital renovations and improvements thereto; (2) additional capital projects, including (a) main street lighting upgrades, (b) street repair and parking lot improvements, (c) airport projects and equipment, and (d) the purchase of fire-fighting equipment, various parks and streets department equipment and police department equipment and vehicle; (3) the current refunding of all of the outstanding principal amount of the City's General Obligation Note, Series of 2010, (4) payment of capitalized interest on the Bond; and, (5) to pay the costs of issuing the bonds. Of the \$2,118,000, \$2,068,000 was allocated to governmental activities and \$50,000 was allocated to proprietary funds. At December 31, 2016, the City had \$2,074,674 outstanding within its governmental activities and \$27,326 within its proprietary funds.

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

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Notes to Financial Statements

December 31, 2016

### **General Obligation Note, Series of 2014 - Sewer Fund**

In 2014, the City issued a \$6,000,000 General Obligation Note, Series of 2014, bearing interest at 1.97% per annum, maturing December 1, 2016. The proceeds from the issuance of the note were used to (1) currently refund the outstanding principal amount of the City's Series of 2011 General Obligation Bond; and (2) provide interim funding for and toward the sewer system capital improvement project. The City refinanced this Bond in the current with the issuance of its General Obligation Bond, Series A of 2016. The change in total debt service payments and net economic gain (loss) resulting from this refunding were not material.

### **General Obligation Bond, Series A of 2016**

In 2016, the City issued a General Obligation Bond with a maximum balance \$3,430,000 (only \$2,645,581 was drawn as of 12/31/16), bearing interest at 1.61% per annum through November 1, 2026, then at a rate of interest equal to the 60% of the Wall Street Journal Prime; provided that the variable rate shall not exceed 4.50% per annum, maturing on November 1, 2036. The proceeds from the issuance of the Bond were used to currently refund the outstanding principal amount of the City's Series of 2014 General Obligation Note.

### **General Obligation Note, Series B of 2016**

In 2016, the City entered into a loan agreement with a maximum balance \$2,125,000 (only \$949,451 was drawn as of 12/31/16). The proceeds of this note are available to the City on a revolving basis. This note is due in semi-annual installments of \$31,649, including principal and interest at 1.40% per annum through maturity in November 2026. The proceeds from the issuance of the note were used to currently refund the outstanding principal amount of the City's Series A of 2009 General Obligation Bond.

### **General Obligation Note, Series C of 2016**

In 2016, the City entered into a loan agreement with a maximum balance \$2,530,000. The proceeds of this note are available to the City on a revolving basis. No balance was drawn as of December 31, 2016. The note bears interest at 1.40% per annum through maturity in November 2026. The proceeds from this note will be used to provide interim financing for the completion of the improvements and upgrades to the City's wastewater treatment plant and to pay the costs of issuing the note.

The City's PennVEST Notes Payable are all guaranteed in full by the Lock Haven City Authority. Since inception, the City has met each of its monthly debt service payment requirements pertaining to these obligations.

Interest paid on these bonds and notes during the year ended December 31, 2016 amounted to \$342,184.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

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, 2016:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,149,983	\$ 293,693	\$ 1,443,676
2018	1,160,214	281,129	1,441,343
2019	1,175,982	267,485	1,443,467
2020	1,066,935	253,617	1,320,552
2021	1,080,425	240,034	1,320,459
2022-2026	5,557,542	1,109,171	6,666,713
2027-2031	5,534,132	801,355	6,335,487
2032-2036	4,771,827	301,810	5,073,637
2037-2041	3,117,641	64,778	3,182,419
Total	<u>\$ 24,614,681</u>	<u>\$ 3,613,072</u>	<u>\$ 28,227,753</u>

### 9. Compensated Absences

The changes in the City's compensated absences in 2016 are summarized as follows:

Governmental Activities	
Balance, January 1, 2016	\$ 113,117
Increase	23,851
Decrease	<u>(20,507)</u>
Balance, December 31, 2016	<u>\$ 116,461</u>
Business Type Activities	
Balance, January 1, 2016	\$ 51,580
Increase	9,049
Decrease	<u>(9,619)</u>
Balance, December 31, 2016	<u>\$ 51,010</u>

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements  
December 31, 2016

## 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, 2016, the City transferred \$35,741 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.

Employer contributions to the Plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

<b>Combining Statement of Fiduciary Net Position</b>					
	<b>Police Pension</b>	<b>City Employees Retirement Fund</b>	<b>Total Pension</b>	<b>Police Death Benefit - OPEB*</b>	<b>Total Pension/ OPEB</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 55,868	\$ 123,035	\$ 178,903	\$ 2,201	\$ 181,104
Accrued interest receivable	11,980	13,849	25,829	2,316	28,145
Other receivables	45,071	8,723	53,794	-	53,794
<b>Total</b>	<b>112,919</b>	<b>145,607</b>	<b>258,526</b>	<b>4,517</b>	<b>263,043</b>
<b>Investments:</b>					
Fixed income securities	1,940,322	2,311,999	4,252,321	79,830	4,332,151
Equity securities	2,924,387	3,398,296	6,322,683	-	6,322,683
Mutual funds	473,408	565,744	1,039,152	101,646	1,140,798
<b>Total investments</b>	<b>5,338,117</b>	<b>6,276,039</b>	<b>11,614,156</b>	<b>181,476</b>	<b>11,795,632</b>
<b>Total</b>	<b>\$ 5,451,036</b>	<b>\$ 6,421,646</b>	<b>\$ 11,872,682</b>	<b>\$ 185,993</b>	<b>\$ 12,058,675</b>
<b>Liabilities,</b>					
Benefits payable	\$ -	\$ 24,710	\$ 24,710	\$ -	\$ 24,710
<b>Net Position,</b>					
Held in trust for pension benefits	5,451,036	6,396,936	11,847,972	185,993	12,033,965
<b>Total liabilities and net position</b>	<b>\$ 5,451,036</b>	<b>\$ 6,421,646</b>	<b>\$ 11,872,682</b>	<b>\$ 185,993</b>	<b>\$ 12,058,675</b>

\* See Note 12.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

Combining Statement of Fiduciary Net Position					
	Police Pension	City Employees Retirement Fund	Total Pension	Police Death Benefit - OPEB*	Total Pension/ OPEB
Additions:					
Contributions:					
Employees	\$ 11,316	\$ 86,666	\$ 97,982	\$ -	\$ 97,982
Commonwealth of Pennsylvania	182,525	110,577	293,102	-	293,102
Other	-	100	100	-	100
City	-	-	-	3,691	3,691
Total contributions	<u>193,841</u>	<u>197,343</u>	<u>391,184</u>	<u>3,691</u>	<u>394,875</u>
Investment earnings:					
Net increase in fair value of investments	252,488	317,081	569,569	(2,461)	567,108
Interest and dividends	<u>127,737</u>	<u>148,873</u>	<u>276,610</u>	<u>8,280</u>	<u>284,890</u>
Total investment earnings	<u>380,225</u>	<u>465,954</u>	<u>846,179</u>	<u>5,819</u>	<u>851,998</u>
Total additions	<u>574,066</u>	<u>663,297</u>	<u>1,237,363</u>	<u>9,510</u>	<u>1,246,873</u>
Deductions					
Benefits	404,728	243,735	648,463	2,840	651,303
Other	<u>44,812</u>	<u>64,196</u>	<u>109,008</u>	<u>712</u>	<u>109,720</u>
Total deductions	<u>449,540</u>	<u>307,931</u>	<u>757,471</u>	<u>3,552</u>	<u>761,023</u>
Change in net position	124,526	355,366	479,892	5,958	485,850
Net Position, beginning	<u>5,326,510</u>	<u>6,041,570</u>	<u>11,368,080</u>	<u>180,035</u>	<u>11,548,115</u>
Net Position, ending	<u>\$ 5,451,036</u>	<u>\$ 6,396,936</u>	<u>\$ 11,847,972</u>	<u>\$ 185,993</u>	<u>\$ 12,033,965</u>

\* See Note 12.

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

As of December 31, 2016, the City reported the following amounts in the accompanying financial statements related to the CERF and Police Plans:

	<u>CERF</u>	<u>Police</u>	<u>Total</u>
Deferred Outflows of Resources	\$ 431,671	\$ 267,106	\$ 698,777
Net Pension Liability	550,330	290,906	841,236
Deferred Inflows of Resources	55,711	31,131	86,842

As of December 31, 2016, the City reported the following amounts in the accompanying financial statements related to its participation in the above Plans:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Deferred Outflows of Resources	\$ 481,413	\$ 217,364	\$ 698,777
Net Pension Liability	564,527	276,709	841,236
Deferred Inflows of Resources	58,846	27,996	86,842

At December 31, 2016, the date of the latest valuation, employees covered by the Plans consisted of the following:

	<u>CERF</u>	<u>Police</u>
Retirees and beneficiaries receiving benefits	31	18
Terminated employees entitled to benefits but not yet receiving them	1	-
Active plan participants	41	14
Total	<u>73</u>	<u>32</u>
Number of participating employers	<u>1</u>	<u>1</u>

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

### Benefits Provided

The pension plans provide retirement, disability and death benefits as outlined in the following table:

	<u>CERF</u>	<u>Police</u>
Employee groups covered	All non-uniformed employees, also, elected officials and City police officers hired prior to 1/1/1978	All City police officers
Legislative body governing plan and responsible for management of plan assets	Council of the City of Lock Haven	Council of the City of Lock Haven
Normal retirement age	65	50
Years of service requirement prior to retirement	10	20 (Vested at 12 years)
Monthly retirement benefits	Will receive monthly benefit based on the following: (1) Elected officials received \$7 times years of service as an elected official; (2) City employees receive 1.8% of average monthly earnings in the highest 5 consecutive years of the 10 years immediately preceding retirement or termination times years of service; and (3) Police officers hired prior to 1/1/1978, will receive monthly benefit equal to \$3 times years of service	Will receive annual benefit equal to 50% of the highest one years' W-2 earnings during the last 3 years of service preceding retirement
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100
Disability benefits, Eligibility	None	Service related injury or illness
Monthly disability benefits	None	2.5% of final monthly compensation times years of completed service, not to exceed 50%

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2016

	<u>CERF</u>	<u>Police</u>
Death benefits - Spouse: Before retirement	Refund of employee contributions without interest	Monthly benefit equal to years of service times 1.25%, up to a maximum of 25% times last salary prior to death, if death was duty related. The surviving spouse of an officer who is at or past normal retirement age and who dies shall receive 50% of the benefit the officer would have been eligible for if he had retired on date of death.
After retirement	In accordance with option selected	Monthly benefit equal to 50% of the pension participant was receiving on the day of participant's death is payable to legal spouse or minor children under age 18 if no eligible spouse of retired member.

## Funding Policy and Contributions

The contribution requirements of the Authority 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 made based on a minimum municipal obligation ("MMO"), as determined in connection with the Pension Plan's biennial actuarial obligation. The MMO includes the normal cost, estimated administrative expenses and an amortization of the actuarial accrued liability (if any), less member contributions (if any) and a credit equal to 10% of the actuarial present value of assets over the actuarial accrued liability. The Authority must fund any financial requirement established by the MMO that exceeds state/member contributions. The annual required contribution was determined based on the most recent annual actuarial valuation dated January 1, 2016. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 6.5% per year compounded annually; (b) no projected salary increases; and (c) no postretirement benefit increases. The rate of return includes an inflation component of 3%. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2016

## Deposits and Investments

The Plans allow funds to be invested pursuant to a strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of asset classes, as approved by the Authority Board, and established the following target allocation across asset categories:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	40 %	1.5 %
Large cap domestic	60	6.0

The long-term expected rate of return on the Plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation for the 2016 measurement period are listed in the table above.

## Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return (loss) on pension plan investments, net of Plan investment expense, was 6.8% for the CERF plan and 6.2% for the Police Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## Net Pension Liability

The City's net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The components of the net pension liability of the Plan as of December 31, 2016 were as follows:

	<u>CERF</u>	<u>Police</u>
Total pension liability	\$ 6,947,266	\$ 5,741,942
Plan fiduciary net position	<u>6,396,936</u>	<u>5,451,036</u>
Plan net position liability (asset)	<u>\$ 550,330</u>	<u>\$ 290,906</u>
Plan fiduciary net position as a percentage of total pension liability	<u>92.08%</u>	<u>94.93%</u>

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

### Changes in the Net Pension Liability

The changes in the City's CERF Plan net pension liability during the year ended December 31, 2016 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2016	\$ 6,619,848	\$ 6,051,108	\$ 568,740
Changes for the year:			
Service cost	140,324	-	140,324
Interest cost	430,829	-	430,829
Differences between expected and actual experience	-	-	-
Changes of benefit terms	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	110,577	(110,577)
Contributions - members	-	86,666	(86,666)
Net investment income	-	407,095	(407,095)
Benefit payments, including refunds	(243,735)	(243,735)	-
Administrative expense	-	(14,775)	14,775
Net changes	327,418	345,828	(18,410)
Balance at December 31, 2016	<u>\$ 6,947,266</u>	<u>\$ 6,396,936</u>	<u>\$ 550,330</u>

The changes in the City's Police Plan net pension liability during the year ended December 31, 2016 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2016	\$ 5,634,997	\$ 5,349,747	\$ 285,250
Changes for the year:			
Service cost	149,903	-	149,903
Interest cost	361,769	-	361,769
Differences between expected and actual experience	-	-	-
Changes of benefit terms	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	182,625	(182,625)
Contributions - members	-	11,216	(11,216)
Net investment income	-	327,091	(327,091)
Benefit payments, including refunds	(404,727)	(404,727)	-
Administrative expense	-	(14,916)	14,916
Net changes	106,945	101,289	5,656
Balance at December 31, 2016	<u>\$ 5,741,942</u>	<u>\$ 5,451,036</u>	<u>\$ 290,906</u>

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2016

The schedule of changes in the employer's net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information related to the funded status of the Plans.

#### Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of January 1, 2016 using the following actuarial methods and assumptions:

	<u>CERF</u>	<u>Police</u>
Actuarial valuation date	January 1, 2015	January 1, 2015
Actuarial cost method	Entry-age normal	Entry-age normal
Actuarial assumptions:		
Projected salary increases	4.00%	4.00 - 10.12%
Inflation	2.75%	2.75%
Interest rate	7.00%	7.00%
Asset valuation method	Market	Market

Mortality rates were based on the RP-2000 Mortality Table. The actuarial assumptions used in the January 1, 2016 valuation were based upon a study of plan experience, provisions in the current collective bargaining agreement, and future expectations.

#### Discount Rate

The discount rate used to measure the total pension liability for the Plans was 6.50%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

#### Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City Employees Retirement Plan calculated using the discount rate of 6.50% as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1 percentage point lower (5.50%) or 1 percentage point higher (7.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (7.50%)</u>
Net pension liability (asset) - CERF	\$ 1,348,918	\$ 550,330	\$ (129,378)
Net pension liability (asset) - Police	1,002,008	290,906	(296,387)

# City of Lock Haven, Pennsylvania

## Notes to Financial Statements

December 31, 2016

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2016, the City recognized pension expense of \$476,417. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience CERF Plan	\$ -	\$ 42,572
Differences between expected and actual experience Police Plan	-	31,131
Changes in assumptions - CERF Plan	177,921	-
Changes in assumptions - Police Plan	24,977	-
Difference between projected and actual earnings on investments - CERF Plan	253,750	13,139
Difference between projected and actual earnings on investments - Police Plan	242,129	-
Total	<u>\$ 698,777</u>	<u>\$ 86,842</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>CERF</u>	<u>Police</u>	<u>Total</u>
Years ending December 31:			
2017	\$ 112,775	\$ 78,978	\$ 191,753
2018	112,775	78,978	191,753
2019	112,775	78,978	191,753
2020	28,192	1,524	29,716
2021	9,443	(918)	8,525
Thereafter	-	(1,565)	(1,565)

## 12. Postemployment Benefits

### Plan Description

The City provides and administers other postretirement benefits, consisting of health-care benefits for retired employees who are participants in the City's police pension plan. Currently, 10 retirees meet those eligibility requirements. Such benefits are provided in accordance with the police union contract. City Ordinance No. 926 amended the City's police pension plan to add a one-time early retirement window for the period from December 1, 2013 through December 31, 2015. During this window, eligible retirees are also provided with health-care benefits beginning no sooner than normal retirement without the early retirement window. The costs of such insurance coverage for retirees are primarily funded through annual appropriations from the City's General Fund, except for officers retiring after December 31, 2013, who are required to contribute \$40/month towards the cost of coverage.

# City of Lock Haven, Pennsylvania

Notes to Financial Statements  
December 31, 2016

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 \$169,000 for the year ended December 31, 2016.

## 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	\$ 1,016,487
Interest on net OPEB obligation	148,432
Adjustment to annual required contribution	<u>(320,918)</u>
Annual OPEB cost (expense)	844,001
Contributions made	<u>168,941</u>
Increase in net OPEB obligation	675,060
Net OPEB obligation at January 1, 2016	<u>3,710,810</u>
Net OPEB obligation at December 31, 2016	<u>\$ 4,385,870</u>

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

## City of Lock Haven, Pennsylvania

### Notes to Financial Statements

December 31, 2016

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, 2016, 2015, and 2014 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2016	\$ 844,001	20.0 %	\$ 4,385,870
December 31, 2015	878,146	16.4	3,710,810
December 31, 2014	736,618	21.9	2,976,245

### Funded Status and Funding Progress

The funded status of the plan as of December 31, 2015, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 8,072,367
Actuarial value of plan assets	<u>173,476</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,898,891</u>
Funded ratio (actuarial value of plan assets/UAAL)	2.1%
Estimated annual covered payroll	\$ 792,288
UAAL as a percentage of covered payroll	99.7%

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, 2016

In the December 31, 2015, actuarial valuation, the Entry Age Normal Method was used. Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

The actuarial assumptions included a 4% investment rate of return, which is the expected rate to be earned on the City's deposits and investments, an annual healthcare cost trend rate of 8% for 2015, with the rate decreasing by decrements to an ultimate rate of 4% in 2058 and later, and a constant 5% increase per year for Medicare Part B and 4% increase in dental premiums. The UAAL is being amortized as a level dollar over a fifteen year open period. Nine years remain at December 31, 2015.

### 13. Fund Balance Classification

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

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable for, Prepaid expenses	\$ 167,631	\$ -	\$ 167,631
Restricted for:			
Capital projects	\$ -	\$ 640,053	\$ 640,053
Street programs	-	7,566	7,566
Recreation	-	67,368	67,368
Economic development	-	417,552	417,552
Total	<u>\$ -</u>	<u>\$ 1,132,539</u>	<u>\$ 1,132,539</u>
Assigned for, Road maintenance	\$ -	\$ 853,287	\$ 853,287

# City of Lock Haven, Pennsylvania

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Notes to Financial Statements  
December 31, 2016

## 14. Jointly Governed Organization

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

During the year ended December 31, 2016, the City purchased \$505,309 in water filtration services from the Water Filtration Authority.

## 15. Related Organizations

The Redevelopment Authority of the City of Lock Haven, PA (the "Redevelopment Authority") was established by the City pursuant to the provisions of the Pennsylvania Urban Redevelopment Law, Act of 1945. The City's accountability for the Redevelopment Authority does not extend beyond making appointments to the board and as such the Redevelopment Authority is not considered a component unit of the City.

## 16. Commitments and Contingent Liabilities

### Grant Programs

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

### Environmental

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

### Contingencies

In the normal course of business, the City may be subject to pending and threatened lawsuits in which claims for monetary damage could be asserted. In management's opinion, the City's financial position and results of operations would not be materially affected by the outcome of such legal proceedings.

The City has elected to self-insure its employee medical insurance plan. The City has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the City for any medical costs over \$35,000 per covered individual per year. The City believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The City's liability for all asserted and estimated unasserted claims was \$82,258 at December 31, 2016. The City has a surplus deposit related to the plan in the amount of \$249,889 at December 31, 2016, resulting in a net prepaid expense of \$167,631. The cost of medical coverage for employees was approximately \$1,080,000 in 2016.

## Lock Haven City Authority

In October 2013, the Lock Haven City Authority (the "Authority") entered into a conservation easement with the Nature Conservancy, for purposes of ensuring that the Authority's watershed property (the "protected property") will be retained predominantly in its natural, scenic, forested and open space condition, free of additional forest fragmentation or additional development. The protected property may be used in connection with and in furtherance of programs related to carbon emissions and/or sequestration credits, nutrient and/or water quality credits, or habitat mitigation banks, or other similar offset, banking, mitigation or compensation programs (collectively, the "Forest Management Plan").

During the fiscal year ended October 31, 2016, the Authority recognized \$51,655 in carbon credit revenue, \$182,659 in timber sales, and incurred \$7,912 in forestry management and consulting expenses.

## 17. New Accounting Pronouncements

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and Required Supplementary Information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The City is required to adopt Statement No. 74 for its calendar 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide: Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability - the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

## City of Lock Haven, Pennsylvania

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### Notes to Financial Statements

December 31, 2016

Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The City is required to adopt Statement No. 75 for its calendar 2018 financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. The City is required to adopt Statement No. 80 for its calendar 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the classification of payments made by employers to satisfy employee contribution requirements. The City is required to adopt Statement No. 82 for its calendar 2017 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This Standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a statement of net position and statement of changes in net position will now be required. The City is required to adopt Statement No. 84 for its calendar 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). To the extent applicable, the City is required to adopt Statement No. 85 for its calendar 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City is required to adopt Statement No. 86 for its calendar 2018 financial statements.

## City of Lock Haven, Pennsylvania

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Notes to Financial Statements

December 31, 2016

In June 2017, the GASB issued Statement No. 87, *Leases*. The primary objective of this Statement is to enhance the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that all long-term leases (those with lease terms greater than 12 months) are financings of the right to use an underlying assets. The City is required to adopt Statement No. 87 for its calendar year 2020 financial statements.

City management is in the process of analyzing this pending change in accounting principles and the impact it will have on the financial reporting process.

### **18. Subsequent Event**

In September 2017, the City entered into a Settlement and Release Agreement ("Agreement") with certain contractors involved with the construction of its sewage treatment plant. Pursuant to the terms of the Agreement, the City paid \$2,318,202 and, in turn, received \$570,901. In doing so, all parties were released from the lawsuits and counter claims associated with disputes which arose following the completion of sewage treatment plant.

At December 31, 2016, the City had accrued \$2,014,518 in retainage payable associated with this project in its Sewer Fund.

**City of Lock Haven, Pennsylvania**

Required Supplementary Information  
 Schedule of Changes in Net Pension Liability and Related Ratios  
 Year Ended December 31, 2016  
 (Unaudited)

	<u>Police Pension Fund</u>	<u>City Employees Retirement Fund</u>	<u>Police Pension Fund</u>	<u>City Employees Retirement Fund</u>
	<u>2015</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>
<b>Total pension liability</b>				
Service cost	\$ 167,226	\$ 149,426	\$ 149,903	\$ 140,324
Interest changes of benefit terms	354,712	397,860	361,769	430,829
Differences between expected and actual experience	(40,423)	(62,327)	-	-
Changes in assumptions	32,433	260,629	-	-
Benefit payments, including refunds of member contributions	(368,357)	(212,166)	(404,727)	(243,735)
Net change in total pension liability	145,591	533,422	106,945	327,418
Total pension liability, beginning	5,489,406	6,086,426	5,634,997	6,619,848
Total pension liability, ending (a)	<u>\$ 5,634,997</u>	<u>\$ 6,619,848</u>	<u>\$ 5,741,942</u>	<u>\$ 6,947,266</u>
<b>Plan fiduciary net position</b>				
Employer contributions	\$ 191,163	\$ 81,381	\$ 182,625	\$ 110,577
Employee contributions	13,949	138,657	11,216	86,666
Other contributions	-	-	327,091	-
Net investment income	(32,582)	(28,143)	-	407,095
Benefits payments, including refunds of member contributions	(368,357)	(212,166)	(404,727)	(243,735)
Administration	(16,313)	(13,913)	(14,916)	(14,775)
Other	-	-	-	-
Net change in plan fiduciary net position	(212,140)	(34,184)	101,289	345,828
Plan fiduciary net position, beginning	5,561,887	6,085,292	5,349,747	6,051,108
Plan fiduciary net position, ending (b)	<u>\$ 5,349,747</u>	<u>\$ 6,051,108</u>	<u>\$ 5,451,036</u>	<u>\$ 6,396,936</u>
Net pension liability, ending (a) - (b)	<u>\$ 285,250</u>	<u>\$ 568,740</u>	<u>\$ 290,906</u>	<u>\$ 550,330</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<u>94.94%</u>	<u>91.41%</u>	<u>94.93%</u>	<u>92.08%</u>
Covered-employee payroll	\$ 792,288	\$ 1,550,266	\$ 755,035	\$ 1,644,670
<b>Net pension liability as a percentage of covered-employee payroll</b>	<u>36.0%</u>	<u>36.7%</u>	<u>38.5%</u>	<u>33.5%</u>

The City implemented GASB Statement No. 68 during its calendar year ended December 31, 2015. Information prior to fiscal year 2015 is not available.

**City of Lock Haven, Pennsylvania**

Required Supplementary Information  
 Schedule of Employer Contributions - Police Pension Fund  
 Year Ended December 31, 2016  
 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution <sup>(1)</sup>	\$ 64,540	\$ 40,011	\$ 37,722	\$ 50,572	\$ 140,351	\$ 156,821	\$ 155,503	\$ 145,654	\$ 191,163	\$ 182,213
Contributions in relation to the actuarially determined contribution	<u>64,540</u>	<u>41,280</u>	<u>37,722</u>	<u>84,106</u>	<u>147,379</u>	<u>156,821</u>	<u>155,503</u>	<u>152,210</u>	<u>191,163</u>	<u>182,625</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1,269)</u>	<u>\$ -</u>	<u>\$ (33,534)</u>	<u>\$ (7,028)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,556)</u>	<u>\$ -</u>	<u>\$ (412)</u>
Covered-employee payroll <sup>(2)</sup>	\$ 616,735	\$ 620,136	\$ 587,311	\$ 678,000	\$ 653,400	\$ 728,150	\$ 686,000	\$ 660,022	\$ 792,288	\$ 755,035
Contributions as a percentage of covered-employee payroll	10.46%	6.66%	6.42%	12.41%	22.56%	21.54%	22.67%	23.06%	24.13%	24.19%

**Notes to Schedule:**

Valuation date: Actuarially determined contributions are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	2.75%
Salary increases	4.00%
Investment rate of return	7.00%
Retirement age	Individual entry age
Mortality	IRS 2015 Static Combined Table for small plans

<sup>(1)</sup> - Equal to the Minimum Municipal Obligation (MMO) under Act 205 of 1984

<sup>(2)</sup> - Estimate of projected W-2 payroll for the preceding year as shown on the MMO worksheet.

**City of Lock Haven, Pennsylvania**

Required Supplementary Information  
 Schedule of Employer Contributions - City Employees Retirement Fund  
 Year Ended December 31, 2016  
 (Unaudited)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution <sup>(1)</sup>	\$ 42,987	\$ 10,313	\$ 7,926	\$ 12,320	\$ 87,184	\$ 90,931	\$ 86,957	\$ 91,331	\$ 138,657	\$ 110,388
Contributions in relation to the actuarially determined contribution	42,987	10,645	7,926	139,098	91,485	90,931	86,957	103,387	138,657	110,577
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (332)</u>	<u>\$ -</u>	<u>\$ (126,778)</u>	<u>\$ (4,301)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,056)</u>	<u>\$ -</u>	<u>\$ (189)</u>
Covered-employee payroll <sup>(2)</sup>	\$ 1,347,241	\$ 1,464,870	\$ 1,460,194	\$ 1,429,000	\$ 1,521,800	\$ 1,526,250	\$ 1,374,000	\$ 1,520,906	\$ 1,550,266	\$ 1,644,670
Contributions as a percentage of covered-employee payroll	3.19%	0.73%	0.54%	9.73%	6.01%	5.96%	6.33%	6.80%	8.94%	6.72%

**Notes to Schedule:**

Valuation date: Actuarially determined contributions are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	2.75%
Salary increases	4.00%
Investment rate of return	7.00%
Retirement age	Individual entry age
Mortality	IRS 2015 Static Combined Table for small plans

<sup>(1)</sup> - Equal to the Minimum Municipal Obligation (MMO) under Act 205 of 1984

<sup>(2)</sup> - Estimate of projected W-2 payroll for the preceding year as shown on the MMO worksheet.

## City of Lock Haven, Pennsylvania

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Required Supplementary Information  
Schedule of Investment Returns - Pension Trust Funds  
Year Ended December 31, 2016  
(Unaudited)

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Annual money-weighted rate of return (loss), net of investment expense</b>			
Police Pension Fund	6.5%	(0.5)%	6.2%
City Employees Retirement Fund	6.5%	(0.6)%	6.8%

The City implemented GASB Statement No. 67 during its calendar year ended December 31, 2014. Information prior to fiscal year 2014 is not available.

## City of Lock Haven, Pennsylvania

Required Supplementary Information

Schedule of Other Post-Employment Benefit Plan Funding Progress

Year Ended December 31, 2016

(Unaudited)

### Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Total Unfunded Actuarial Liability (Asset)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Annual Covered Payroll</b>	<b>Ratio of Unfunded Liability to Annual Covered Payroll</b>
December 31, 2015	\$ 173,476	\$ 8,072,367	\$ 7,898,891	2.1%	\$ 792,288	997.0%
December 31, 2012	146,916	6,564,915	6,417,999	2.2%	730,000	879.2%

See notes to financial statements

**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
with *Government Auditing Standards***

Honorable Members of City Council  
City of Lock Haven, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 29, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-001 and 2016-006 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-002 through 2016-005 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Responses to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Williamsport, Pennsylvania  
January 29, 2018

# City of Lock Haven, Pennsylvania

Schedule of Findings and Responses  
Year Ended December 31, 2016

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## Section II - Financial Statement Findings

### Finding No.

### Finding/Noncompliance

2016-001

#### **Internal Control over Financial Reporting - City Pooled Cash Account - Material Weakness**

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

**Condition/Context:** The City's pooled cash account balances within its general ledger system were not adequately reconciled to monthly issued bank statements during 2016. Further, the reconciliations were not performed on a timely, monthly basis, with most of the reconciliations being performed in the fall of 2017. This process was complicated due in part to the City's conversion to a new accounting system in 2016.

**Effect:** Cash account balances within the general ledger system, during 2016, did not reflect accurate reconciled balances.

**Cause:** The primary cause of this situation was a system conversion in 2016 from Munis to MIP; moreover, this process has not been prioritized by those involved.

**Recommendation:** City management should establish effective monthly procedures whereby the general ledger pooled cash account is reconciled to the bank statement in a timely manner.

**Views of  
Responsible  
Officials and  
Planned Corrective**

**Actions:** See corrective action plan.

# City of Lock Haven, Pennsylvania

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Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2016

## Finding No.

## Finding/Noncompliance

2016-002

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

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

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

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

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

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

### **Views of Responsible Officials and Planned Corrective**

**Actions:** See corrective action plan.

# City of Lock Haven, Pennsylvania

Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2016

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## Finding No.

## Finding/Noncompliance

2016-003

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

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

- Various receivable/payable accounts;
- Proprietary Fund capital assets and related financing activity; and,
- Conversion of financial statements from fund basis to government wide basis and from cash to accrual basis
- Various adjustments precipitated by the City's accounting system conversion in 2016 (see also finding 2016-006)

All such assistance was subject to City management supervision, review and approval.

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

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

**Cause:** You have asked us to provide these accounting services because, like many smaller local governments, you have determined that your internal accounting personnel may not have sufficient capacity to handle these areas, and you have determined it is cost beneficial for you to utilize a member of our team not involved with the audit process to supplement your internal resources.

**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

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Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2016

## Finding No.

## Finding/Noncompliance

2016-004

### **Internal Control Over Financial Reporting - Treasurer's Office Cash Receipts - Significant Deficiency**

**Criteria:** Internal control is a process which captures and records transactions, safeguards your assets and assures compliance with laws and regulations.

**Condition/Context:** The City collects fees, taxes and other payments within its Treasurer's office and maintains each form of payment in a separate, non-secured, cash drawer near the front of its office. In addition, the City's Treasurer's office has limited staff personnel, thereby creating opportunity for the drawer to be accessed by unauthorized individuals.

**Effect:** The City cannot be assured that the cash within the individual drawers are secure from theft.

**Cause:** Lack of oversight.

**Recommendation:** We recommend that the City equip the cash drawers within the Treasurer's office with a locking mechanism and establish a policy authorizing access to the drawers.

### **Views of Responsible Officials and Planned Corrective**

**Actions:** See corrective action plan.

# City of Lock Haven, Pennsylvania

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Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2016

## Finding No.

## Finding/Noncompliance

2016-005

### **Internal Control over Financial Reporting - Settlement of Due to/from Accounts - Significant Deficiency**

**Criteria:** Internal control is a process which captures and records transactions, safeguards assets and assures compliance with laws and regulations. A critical component of this internal control process includes periodic reconciliations of accounts to supporting documentation to prevent, or detect and correct errors or fraud.

**Condition/Context:** The City reports various amounts of interfund receivables (due from) and payables (due to) within its governmental fund financial statements. Such balances have accumulated over time and not been liquidated (settled).

**Effect:** As time goes by, the composition and original purpose of the interfund borrowing becomes more difficult to identify.

**Cause:** The City employs a limited number of accounting personnel who have not prioritized a periodic settling up of these balances.

**Recommendation:** We recommend that management evaluate these outstanding balances for collectability and liquidate (settle) the outstanding balances.

### **Views of Responsible Officials and Planned Corrective**

**Actions:** See corrective action plan.

# City of Lock Haven, Pennsylvania

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Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2016

## Finding No.

## Finding/Noncompliance

2016-006

### **Internal Control over Financial Reporting - Software System Conversion - Material Weakness**

**Criteria:** Effective internal control over financial reporting includes controls and procedures related to management information systems. A critical component of this internal control process includes controls surrounding change management and implementation of new software systems.

**Condition/Context:** They City transitioned from their Munis accounting software package, which had been used for many years, to an accounting software package provided by MIP during 2016. For a variety of reasons, including time and financial resources, there was limited evaluation and testing of the conversion process prior to the new system being placed in service.

**Effect:** The system conversion resulted in numerous unidentified balances and lacked a fully reconciled crosswalk from Munis to MIP. This resulted in a lack of reliable financial reporting until the system conversion issues were mostly resolved in late 2017.

**Cause:** Lack of time and resources.

**Recommendation:** Going forward, policies and procedures should be developed for the testing of new or modified software applications before being placed into service. This would limit the magnitude of required post-implementation corrections.

### **Views of Responsible Officials and Planned Corrective**

**Actions:** See corrective action plan.