

# **City Of Lock Haven, Pennsylvania**

Basic Financial Statements  
For the Year Ended December 31, 2009  
&  
Independent Auditors' Report  
&  
Required Supplementary Information  
&  
Additional Information  
&  
Single Audit Reports

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City"), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lock Haven Area Flood Protection Authority (the "Flood Protection Authority"), which represent 100% of the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Flood Protection Authority, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania, as of December 31, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009.

The City has not presented Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedule of Funding Progress - Pension Trust Funds on page 52, Schedule of Employer Contributions - Pension Trust Funds on page 53 and Note to Required Supplementary Information - Pension Trust Funds on page 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards on pages 55 - 56 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "ParenteBeard LLC".

Williamsport, Pennsylvania  
September 21, 2010

## CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

	PRIMARY GOVERNMENT			Component Unit
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	Flood Protection Authority
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 1,780,629	\$ 81,145	\$ 1,861,774	\$ 10,213
Restricted cash	-	5,451,511	5,451,511	-
Receivables (net of allowance for uncollectibles):				
Taxes	449,472	-	449,472	-
Loans	461,281	-	461,281	-
Other	1,460	494,966	496,426	-
Internal balances	196,820	(196,820)	-	-
Due from other governments	70,262	35,900	106,162	-
Other current assets	-	5,128	5,128	-
Total current assets	<u>2,959,924</u>	<u>5,871,830</u>	<u>8,831,754</u>	<u>10,213</u>
Capital assets:				
Utility systems (including equipment)	-	15,970,759	15,970,759	-
Land and improvements	5,002,944	1,241,701	6,244,645	-
Infrastructure and infrastructure in progress	2,259,651	-	2,259,651	84,590,355
Buildings	3,867,833	-	3,867,833	-
Equipment and furniture	2,937,935	557,257	3,495,192	-
Other capital assets	6,704	116,592	123,296	-
Less: accumulated depreciation	<u>(5,023,499)</u>	<u>(7,571,839)</u>	<u>(12,595,338)</u>	<u>(9,304,935)</u>
Total capital assets	<u>9,051,568</u>	<u>10,314,470</u>	<u>19,366,038</u>	<u>75,285,420</u>
Deferred charges	<u>30,604</u>	<u>84,891</u>	<u>115,495</u>	<u>-</u>
TOTAL	<u>12,042,096</u>	<u>16,271,191</u>	<u>28,313,287</u>	<u>75,295,633</u>
<b>LIABILITIES:</b>				
Accounts payable and accrued expenses	236,456	139,044	375,500	406
Due to other governments	-	750	750	-
Deferred revenues	495,931	3,875	499,806	-
Long-term liabilities:				
Due within one year,				
Bonds and note payable	242,329	6,352,932	6,595,261	-
Due in more than one year:				
Bonds and note payable	2,224,114	6,051,281	8,275,395	-
Compensated absences	154,898	63,804	218,702	-
Other postemployment benefit obligation	<u>427,212</u>	<u>-</u>	<u>427,212</u>	<u>-</u>
TOTAL	<u>3,780,940</u>	<u>12,611,686</u>	<u>16,392,626</u>	<u>406</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	6,615,729	3,205,530	9,821,259	75,285,420
Restricted for:				
Capital projects	575,948	-	575,948	-
Program purposes	61,407	-	61,407	-
Unrestricted	<u>1,008,072</u>	<u>453,975</u>	<u>1,462,047</u>	<u>9,807</u>
TOTAL	<u>\$ 8,261,156</u>	<u>\$ 3,659,505</u>	<u>\$ 11,920,661</u>	<u>\$ 75,295,227</u>

See Notes to Financial Statements

CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009

FUNCTIONS/PROGRAMS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS					
	PRIMARY GOVERNMENT			FLOOD PROTECTION AUTHORITY		
	EXPENSES	CHARGES FOR SERVICES	PROGRAM REVENUE	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
General government	\$ 744,477	\$ 285,160	\$ 430,375	\$ (28,942)	\$ (28,942)	\$ (28,942)
Public safety	1,658,035	159,668	-	(1,498,367)	(1,498,367)	(1,498,367)
Public works	932,557	34,903	627,147	207,978	207,978	207,978
Health, welfare and sanitation	27,917	-	10,833	(17,084)	(17,084)	(17,084)
Culture and recreation	231,334	-	15,000	(216,334)	(216,334)	(216,334)
Building and property	240,276	-	-	(240,276)	(240,276)	(240,276)
Interest on long-term debt	34,855	-	-	(34,855)	(34,855)	(34,855)
Employee benefits and insurance	756,936	-	-	(756,936)	(756,936)	(756,936)
Other	4,010	-	-	(4,010)	(4,010)	(4,010)
Unallocated depreciation	443,308	-	-	(443,308)	(443,308)	(443,308)
Total governmental activities	5,073,705	479,731	1,083,355	(3,032,134)	(3,032,134)	(3,032,134)
<b>Business-type activities:</b>						
Utility services - Water	1,828,312	1,179,273	-	344,637	(304,402)	(304,402)
Utility services - Sanitary sewer	1,645,480	1,788,492	-	-	143,012	143,012
William T. Piper Memorial Airport	446,942	243,525	-	398,733	195,316	195,316
Total business-type activities	3,920,734	3,211,290	-	743,370	33,926	33,926
<b>TOTAL</b>	<b>\$ 8,994,439</b>	<b>\$ 3,691,021</b>	<b>\$ 1,083,355</b>	<b>(3,032,134)</b>	<b>33,926</b>	<b>(2,998,208)</b>
<b>COMPONENT UNIT:</b>						
Lock Haven Area Flood Protection Authority	\$ 853,295	\$ -	\$ 9,000	\$ -	\$ -	\$ (844,295)
<b>GENERAL REVENUES:</b>						
Taxes				2,716,286	-	2,716,286
Grants and contributions not restricted to specific programs				145,806	-	145,806
Unrestricted investment earnings				3,569	18,002	21,571
Miscellaneous				226,942	88,657	315,599
Gain on sale of asset				-	27,377	27,377
Transfers				(38,343)	38,343	-
Total general revenues				3,054,260	172,379	3,226,639
Change in net assets				22,126	206,305	228,431
Net assets - beginning				8,239,030	3,453,200	11,692,230
Net assets, ending				\$ 8,261,156	\$ 3,659,505	\$ 11,920,661

See Notes to Financial Statements

## CITY OF LOCK HAVEN, PENNSYLVANIA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

	GENERAL FUND	CAPITAL PROJECTS	2007 CDBG	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 635,190	\$ 226,523	\$ -	\$ 903,797	\$ 1,765,510
Receivables:					
Taxes	449,472	-	-	-	449,472
Loans	-	-	-	461,281	461,281
Other governments	10,073	-	10,587	49,602	70,262
Due from other funds	<u>110,540</u>	<u>-</u>	<u>-</u>	<u>210,051</u>	<u>320,591</u>
<b>TOTAL</b>	<b><u>\$ 1,205,275</u></b>	<b><u>\$ 226,523</u></b>	<b><u>\$ 10,587</u></b>	<b><u>\$ 1,624,731</u></b>	<b><u>\$ 3,067,116</u></b>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
Vouchers payable	\$ 47,895	\$ 14,001	\$ 4,382	\$ 73,213	\$ 139,491
Accrued liabilities	86,124	-	-	2,984	89,108
Due to other funds	108,380	-	6,205	9,187	123,772
Deferred revenue	<u>316,570</u>	<u>-</u>	<u>-</u>	<u>495,931</u>	<u>812,501</u>
<b>Total liabilities</b>	<b><u>558,969</u></b>	<b><u>14,001</u></b>	<b><u>10,587</u></b>	<b><u>581,315</u></b>	<b><u>1,164,872</u></b>
Fund balances:					
Unreserved, designated:					
Recreation	-	-	-	39,883	39,883
Flood protection	-	-	-	89,261	89,261
Streets	-	-	-	30,552	30,552
Curbs and sidewalks	-	-	-	73,015	73,015
Other designations	-	-	-	519,931	519,931
Reserved for:					
Capital projects	363,426	212,522	-	-	575,948
Economic development	-	-	-	290,774	290,774
Unreserved, undesignated	<u>282,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>282,880</u>
<b>Total fund balances</b>	<b><u>646,306</u></b>	<b><u>212,522</u></b>	<b><u>-</u></b>	<b><u>1,043,416</u></b>	<b><u>1,902,244</u></b>
<b>TOTAL</b>	<b><u>\$ 1,205,275</u></b>	<b><u>\$ 226,523</u></b>	<b><u>\$ 10,587</u></b>	<b><u>\$ 1,624,731</u></b>	<b><u>\$ 3,067,116</u></b>

See Notes to Financial Statements



**CITY OF LOCK HAVEN, PENNSYLVANIA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

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TOTAL FUND BALANCE, GOVERNMENTAL FUNDS	\$ 1,902,244
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Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets.	9,051,568
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Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.	316,572
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Deferred financing cost related to issuance of debt are deferred and amortized over life of the debt in statement of activities.	30,604
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets.	8,721
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at December 31, 2009 are:

Bonds and notes payable	(2,466,443)
Compensated absences	(154,898)
Other Postemployment Benefit obligation	<u>(427,212)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS	<u>\$ 8,261,156</u>
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See Notes to Financial Statements

## CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	GENERAL FUND	CAPITAL PROJECTS	2007 CDBG	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 2,534,715	\$ -	\$ -	\$ -	\$ 2,534,715
Licenses and permits	60,650	-	-	-	60,650
Fines and forfeits	159,668	-	-	-	159,668
Interest, rents and royalties	436	1,570	-	1,551	3,557
Intergovernmental	239,559	39,310	638,836	805,714	1,723,419
Charges for service	118,044	-	-	34,907	152,951
Collections on loans	-	-	-	84,745	84,745
Miscellaneous	62,975	-	-	86,872	149,847
Total revenues	<u>3,176,047</u>	<u>40,880</u>	<u>638,836</u>	<u>1,013,789</u>	<u>4,869,552</u>
EXPENDITURES:					
Current:					
General government	274,460	-	-	295,489	569,949
Employee benefits and insurance	746,047	-	12,997	29,124	788,168
Building and property	239,183	-	-	-	239,183
Community and economic development	-	-	625,839	195,973	821,812
Public works - highways and streets	311,204	-	-	160,792	471,996
Health and sanitation	27,917	-	-	-	27,917
Public safety	1,259,874	-	-	141	1,260,015
Culture and recreation	160,009	-	-	77,463	237,472
Other	4,000	-	-	60,027	64,027
Capital outlay	-	265,852	-	189,453	455,305
Debt service	195,967	-	-	-	195,967
Total expenditures	<u>3,218,661</u>	<u>265,852</u>	<u>638,836</u>	<u>1,008,462</u>	<u>5,131,811</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(42,614)</u>	<u>(224,972)</u>	<u>-</u>	<u>5,327</u>	<u>(262,259)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from the sale of capital assets	3,541	-	-	-	3,541
Proceeds from long-term debt, net	1,309,312	1,132,201	-	-	2,441,513
Payments to refunding bond escrow agent	(964,453)	(1,107,738)	-	-	(2,072,191)
Transfers in	64,463	-	-	6,100	70,563
Transfers out	(6,100)	(62,806)	-	(40,000)	(108,906)
Total other financing (uses) sources, net	<u>406,763</u>	<u>(38,343)</u>	<u>-</u>	<u>(33,900)</u>	<u>334,520</u>
CHANGE IN FUND BALANCES	364,149	(263,315)	-	(28,573)	72,261
FUND BALANCE, BEGINNING	<u>282,157</u>	<u>475,837</u>	<u>-</u>	<u>1,071,989</u>	<u>1,829,983</u>
FUND BALANCE, ENDING	<u>\$ 646,306</u>	<u>\$ 212,522</u>	<u>\$ -</u>	<u>\$ 1,043,416</u>	<u>\$ 1,902,244</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  
FOR THE YEAR ENDED DECEMBER 31, 2009**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 72,261

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays, \$849,302 exceeded depreciation, \$443,308, in the current period. 405,994

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, 2009. 181,566

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 2009, the following transactions factor into this reconciliation:

Issuance of long-term debt	(2,466,443)	
Bond issuance costs capitalized	24,930	
Retirement of principal of long-term debt	161,112	
Refunding of long-term debt	2,072,191	
Amortization of issuance costs	<u>(1,039)</u>	
		(209,249)

Certain compensated absences payable are considered long-term in nature, and are not reported as liabilities within the funds. Such liabilities are, however, reported within the statement of net assets, and changes in these liabilities are reflected within the statement of activities. This amount represents the change in long-term compensated absences payable for the year ended December 31, 2009. 1,630

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). (427,212)

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. (2,864)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 22,126

See Notes to Financial Statements

## CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GENERAL FUND  
BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2009

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	ADJUSTMENTS	ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL	GAAP BASIS	BUDGETARY BASIS	BUDGETARY BASIS	WITH FINAL BUDGET
<b>REVENUES:</b>						
Taxes	\$ 2,431,400	\$ 2,431,400	\$ 2,534,715	\$ (39,606)	\$ 2,495,109	\$ 63,709
Licenses and permits	59,200	59,200	60,650	(25)	60,625	1,425
Fines and forfeits	141,500	141,500	159,668	-	159,668	18,168
Interest, rents and royalties	4,000	4,000	436	-	436	(3,564)
Intergovernmental	237,628	257,528	239,559	(27,308)	212,251	(45,277)
Charges for services	95,957	100,957	118,044	(3,705)	114,339	13,382
Miscellaneous	91,330	91,330	62,975	39,932	102,907	11,577
Total revenues	<u>3,061,015</u>	<u>3,085,915</u>	<u>3,176,047</u>	<u>(30,712)</u>	<u>3,145,335</u>	<u>59,420</u>
<b>EXPENDITURES:</b>						
Current:						
General government	267,866	268,266	274,460	(582)	273,878	(5,612)
Employee benefits and insurance	835,863	835,863	746,047	(1,383)	744,664	91,199
Public safety	1,201,362	1,213,362	1,259,874	(5,680)	1,254,194	(40,832)
Public works - highways and streets	270,315	270,315	311,204	(5,840)	305,364	(35,049)
Building and property	277,451	277,451	239,183	(510)	238,673	38,778
Health and sanitation	32,000	32,000	27,917	(49)	27,868	4,132
Culture and recreation	131,788	151,688	160,009	(375)	159,634	(7,946)
Other	20,699	13,299	4,000	-	4,000	9,299
Debt service:						
Principal	278,747	278,747	156,675	-	156,675	122,072
Interest and other charges	-	-	39,292	-	39,292	(39,292)
Total expenditures	<u>3,316,091</u>	<u>3,340,991</u>	<u>3,218,661</u>	<u>(14,419)</u>	<u>3,204,242</u>	<u>136,749</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(255,076)</u>	<u>(255,076)</u>	<u>(42,614)</u>	<u>(16,293)</u>	<u>(58,907)</u>	<u>196,169</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Proceeds from the sale of capital assets	1,000	1,000	3,541	-	3,541	2,541
Proceeds from long-term debt, net	-	-	1,309,312	(1,309,312)	-	-
Payments to refunding bond escrow agent	-	-	(964,453)	964,453	-	-
Transfers in	-	-	64,463	(64,463)	-	-
Transfers out	(6,100)	(6,100)	(6,100)	-	(6,100)	-
Appropriated fund balance	260,176	260,176	-	-	-	(260,176)
Total other financing (uses) sources, net	<u>255,076</u>	<u>255,076</u>	<u>406,763</u>	<u>(409,322)</u>	<u>(2,559)</u>	<u>(257,635)</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364,149</u>	<u>\$ (425,615)</u>	<u>\$ (61,466)</u>	<u>\$ (61,466)</u>

See Notes to Financial Statements

## CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009

	ENTERPRISE FUNDS				INTERNAL SERVICE FUND
	WATER	SEWER	AIRPORT OPERATING	TOTAL	
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ -	\$ 81,145	\$ -	\$ 81,145	\$ 15,119
Other accounts receivable, (net of allowance)	246,699	222,915	25,352	494,966	1,459
Due from other funds	4,072	37,375	50,945	92,392	-
Due from other governments	5,000	4,644	26,256	35,900	-
Restricted cash	-	5,451,511	-	5,451,511	-
Bond issuance costs	28,358	35,926	20,607	84,891	-
Other current assets	5,128	-	-	5,128	-
Total current assets	289,257	5,833,516	123,160	6,245,933	16,578
Capital assets:					
Utility systems (including related equipment)	7,393,935	8,576,824	-	15,970,759	-
Land and improvements	-	-	1,241,701	1,241,701	-
Equipment	-	-	557,257	557,257	-
Construction in progress	-	114,822	1,770	116,592	-
Less accumulated depreciation	(2,201,290)	(4,860,253)	(510,296)	(7,571,839)	-
Total capital assets, net	5,192,645	3,831,393	1,290,432	10,314,470	-
TOTAL	\$ 5,481,902	\$ 9,664,909	\$ 1,413,592	\$ 16,560,403	\$ 16,578
LIABILITIES:					
Current liabilities:					
Current portion of bonds payable	\$ 30,936	\$ 6,077,698	\$ 14,037	\$ 6,122,671	\$ -
Current portion of notes payable	99,046	131,215	-	230,261	-
Vouchers payable	34,126	44,326	16,639	95,091	7,857
Accrued liabilities	11,665	28,843	3,445	43,953	-
Due to other funds	47,284	27,925	214,002	289,211	-
Deferred revenue	-	2,400	1,475	3,875	-
Total current liabilities	223,057	6,312,407	249,598	6,785,062	7,857
Non-current liabilities:					
Compensated absences	23,128	36,653	4,023	63,804	-
Long-term portion of bonds payable	283,934	178,118	128,835	590,887	-
Long-term portion of notes payable	3,696,538	1,763,857	-	5,460,395	-
Payable to other governments	750	-	-	750	-
Total non-current liabilities	4,004,350	1,978,628	132,858	6,115,836	-
Total liabilities	4,227,407	8,291,035	382,456	12,900,898	7,857
NET ASSETS:					
Invested in capital assets, net of related debt	1,082,191	975,779	1,147,560	3,205,530	-
Unrestricted	172,304	398,095	(116,424)	453,975	8,721
Total net assets	1,254,495	1,373,874	1,031,136	3,659,505	8,721
TOTAL	\$ 5,481,902	\$ 9,664,909	\$ 1,413,592	\$ 16,560,403	\$ 16,578

See Notes to Financial Statements

## CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	WATER	SEWER	AIRPORT OPERATING	TOTAL	
REVENUES,					
Charges for services	\$ 1,179,273	\$ 1,788,492	\$ 243,525	\$ 3,211,290	\$ 79,500
OPERATING EXPENSES:					
Personnel services	329,654	723,699	93,032	1,146,385	-
Utilities (including water filtration costs)	1,047,304	134,958	33,487	1,215,749	-
Depreciation	273,952	291,055	86,113	651,120	-
Materials, supplies and maintenance	339	143,540	206,684	350,563	82,379
Administrative expense	34,493	108,372	1,803	144,668	-
Sludge disposal	-	91,660	-	91,660	-
Insurance	8,736	37,115	11,162	57,013	-
Miscellaneous	287	13,245	2,800	16,332	-
Total operating expenses	1,694,765	1,543,644	435,081	3,673,490	82,379
Operating (loss) income	(515,492)	244,848	(191,556)	(462,200)	(2,879)
NON-OPERATING REVENUES (EXPENSES):					
Subsidies from other governments:					
State	-	-	398,733	398,733	-
Local	344,637	-	-	344,637	-
Interest income	9,333	8,669	-	18,002	15
Rental income	5,644	83,013	-	88,657	-
Proceeds from sale of assets	24,894	2,136	347	27,377	-
Interest expense	(133,547)	(101,836)	(11,861)	(247,244)	-
Total non-operating revenues (expenses)	250,961	(8,018)	387,219	630,162	15
INCOME (LOSS) BEFORE TRANSFERS	(264,531)	236,830	195,663	167,962	(2,864)
OTHER FINANCING SOURCES,					
Transfers in	-	-	308,658	308,658	-
Transfers out	-	-	(270,315)	(270,315)	-
Total other financing sources	-	-	38,343	38,343	-
NET INCOME (LOSS)	(264,531)	236,830	234,006	206,305	(2,864)
NET ASSETS, BEGINNING	1,519,026	1,137,044	797,130	3,453,200	11,585
NET ASSETS, ENDING	\$ 1,254,495	\$ 1,373,874	\$ 1,031,136	\$ 3,659,505	\$ 8,721

See Notes to Financial Statements

## CITY OF LOCK HAVEN, PENNSYLVANIA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-Type Activities			Totals	Governmental Activities
	Water Fund	Sewer Fund	Airport Operating Fund		Internal Service Inventory Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from users	\$ 1,266,212	\$ 1,726,210	\$ 179,973	\$ 3,172,395	\$ 81,491
Cash payments to employees for services	(309,634)	(716,741)	(92,422)	(1,118,797)	-
Cash paid to suppliers for goods and services	(1,182,616)	(553,732)	(262,870)	(1,999,218)	(80,327)
Net cash (used in) provided by operating activities	(226,038)	455,737	(175,319)	54,380	1,164
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:					
Rental income	5,644	83,013	-	88,657	-
Earnings on investments	9,333	8,669	-	18,002	15
Net cash provided by investing activities	14,977	91,682	-	106,659	15
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments for capital acquisitions	(3,837)	(117,072)	(270,316)	(391,225)	-
Capital subsidies from other governments	344,637	-	398,733	743,370	-
Principal payments on long-term debt	(873,793)	(300,005)	(385)	(1,174,183)	-
Payments to refunding bond escrow agents	(794,483)	(770,630)	(122,414)	(1,687,527)	-
Proceeds from long term debt	852,998	6,255,815	142,872	7,251,685	-
Proceeds (payments) from interim inter-fund borrowings	-	-	38,343	38,343	-
Interest paid	(133,547)	(101,836)	(11,861)	(247,244)	-
Sale of assets	24,894	2,136	347	27,377	-
Net cash provided by (used in) capital and related financing activities	(583,131)	4,968,408	175,319	4,560,596	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(794,192)	5,515,827	-	4,721,635	1,179
CASH AND CASH EQUIVALENTS, BEGINNING	794,192	16,829	-	811,021	13,940
CASH AND CASH EQUIVALENTS, ENDING	\$ -	\$ 5,532,656	\$ -	\$ 5,532,656	\$ 15,119
DISPLAYED AS:					
Cash and cash equivalents	\$ -	\$ 81,145	\$ -	\$ 81,145	\$ 15,119
Restricted cash	-	5,451,511	-	5,451,511	-
Total	\$ -	\$ 5,532,656	\$ -	\$ 5,532,656	\$ 15,119
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	\$ (515,492)	\$ 244,848	\$ (191,556)	\$ (462,200)	\$ (2,879)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	273,952	291,055	86,113	651,120	-
Changes in assets and liabilities:					
Accounts receivable, other	29,471	(28,187)	3,806	5,090	1,991
Due from/to other governments and funds	57,468	(34,895)	(68,358)	(45,785)	-
Other current assets	673	-	-	673	-
Deferred charges	(17,730)	(29,018)	(19,907)	(66,655)	-
Vouchers payable	(57,317)	4,176	12,973	(40,168)	2,052
Deferred revenue	-	800	1,000	1,800	-
Accrued and other liabilities	2,937	6,958	610	10,505	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (226,038)	\$ 455,737	\$ (175,319)	\$ 54,380	\$ 1,164

See Notes to Financial Statements

**CITY OF LOCK HAVEN, PENNSYLVANIA**

**STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2009**

	PENSION TRUST FUNDS	AGENCY FUND - PAYROLL
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 108,312	\$ 27,387
Contributions receivable	10,425	-
Total	<u>118,737</u>	<u>27,387</u>
Investments:		
Fixed income securities	2,920,977	-
Equity securities	3,995,567	-
Mutual funds	<u>1,107,331</u>	<u>-</u>
Total investments	<u>8,023,875</u>	<u>-</u>
<b>TOTAL</b>	<u><b>\$ 8,142,612</b></u>	<u><b>\$ 27,387</b></u>
<b>LIABILITIES,</b>		
Due to other taxing units		<u>\$ 27,387</u>
<b>NET ASSETS,</b>		
Held in trust for benefits and other purposes	<u>\$ 8,142,612</u>	<u>-</u>
<b>TOTAL</b>	<u><b>\$ 8,142,612</b></u>	<u><b>\$ 27,387</b></u>

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See Notes to Financial Statements



# CITY OF LOCK HAVEN, PENNSYLVANIA

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2009

	PENSION TRUST FUNDS
<hr/>	
ADDITIONS:	
Contributions:	
Employees	\$ 87,900
Commonwealth of Pennsylvania	43,188
City	2,860
Other	<u>664</u>
Total contributions	<u>134,612</u>
Investment earnings:	
Net increase in fair value of investments	1,415,876
Interest and dividends	<u>203,325</u>
Total investment earnings	<u>1,619,201</u>
Total additions	<u>1,753,813</u>
DEDUCTIONS:	
Benefits	260,270
Other	<u>59,232</u>
Total deductions	<u>319,502</u>
CHANGE IN NET ASSETS	1,434,311
NET ASSETS, Beginning	<u>6,708,301</u>
NET ASSETS, Ending	<u>\$ 8,142,612</u>

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See Notes to Financial Statements

# **CITY OF LOCK HAVEN, PENNSYLVANIA**

## **NOTES TO FINANCIAL STATEMENTS**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **REPORTING ENTITY**

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

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

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

The City is financially accountable for:

- 1.) Organizations that make up the legal municipal entity;
- 2.) Legally separate organizations if the City Council appoints a voting majority of the organizations' governing bodies and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burden on, the City.

- a.) **Imposition of Will** – Exists if the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization.
  - b.) **Financial Benefit or Burden** – Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
- 3.) Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the City.

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

**Blended Component Unit**

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

**Brief Description of Activities and Relationship to the City**

The City Authority's board members are appointed by City Council. A continuing financial relationship exists between these parties in that the City is leasing the water and sewer systems from the City Authority.

**Discretely Presented Component Unit**

The Lock Haven Area Flood Protection Authority (the "Flood Protection Authority") was created for the purpose of implementing the Lock Haven Flood Protection Project and accomplishing the related duties of the "local sponsor."

**Brief Description of Activities and Relationship to the City**

The Flood Protection Authority's board, consisting of seven (7) members, is appointed by City Council (five appointments) and the Woodward Township Board of Supervisors (two appointments).

## **GOVERNMENT – WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

## **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

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

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for utility services (water and sewer). Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

## **GOVERNMENTAL FUNDS**

### **General Fund**

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

### **Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to specified purposes. The major Special Revenue Fund reported by the City is the 2007 CDBG Fund. This fund does not adopt an annual operating budget; rather, a multi-year budget that coincides with the federally mandated period of availability of program funds is used. Special Revenue Funds reported as nonmajor funds by the City include:

- The Rural Business Enterprise Grant Fund accounts for revenues used to provide support to various projects and programs benefiting local businesses.
- The Off Street Parking Fund accounts for revenues and expenditures related to parking fines and enforcement as related to off-street parking lots.
- The Recreation Fund accounts for the public contributions and event revenues used to provide recreational activities for City residents.
- The Interchange Fund accounts for revenues and expenditures for maintenance and electricity for the U.S. Route 220 Interchange.
- The Triangle Park and Hoberman Project Funds account for public contributions used for equipment purchases and improvements for those two parks.
- The Levee Escrow Fund accumulates funds allocated from the General Fund for future maintenance of the levee.
- The River Dam Fund accumulates funds allocated from the General Fund for maintenance of the City's Susquehanna River Dam.

- The Highway Aid Fund accounts for liquid fuel tax revenues used for building, improving and maintaining City streets.
- The Rehabilitation/Sidewalk Fund and the HCD/MMR Funds account for the operations of the City's Housing Rehabilitation Program, which is funded in part by federal funds whose use is restricted for the provision of specified home rehabilitation services to eligible City residents.
- The Federal Enterprise Program Fund accounts for revenues used to provide support to various projects and programs benefiting City residents.
- The CDBG Funds account for the operations of the City's Community Development and Block Grant program, which is funded with federal funds passed through the Commonwealth of Pennsylvania and whose use is restricted for the provision of community services under four specific federal criteria.
- The 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 Capital Escrow Fund accounts for financial resources and certain public contributions to be used for future City capital projects and related expenditures.
- The Owner Occupied Housing Fund accounts for housing assistance to low income families.
- The New Communities Main Street Fund and the Downtown Streetscape Fund account for certain City revitalization projects.

#### **Capital Projects Fund**

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

## **PROPRIETARY FUNDS**

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

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

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

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

## **FIDUCIARY FUNDS**

### **Pension Trust Funds**

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

### **Agency Funds**

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

## **CASH EQUIVALENTS**

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



## **INVESTMENTS**

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

## **RECEIVABLES 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.

### **TRADE AND PROPERTY TAX RECEIVABLES**

All receivables are report 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, 2009 amounted to approximately \$94,000. The allowance for doubtful accounts related to the Water, Sewer, and Airport proprietary funds amounted to approximately \$17,000, \$15,000, and \$600, respectively as of December 31, 2009.

## **CAPITAL ASSETS**

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

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

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

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

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <u>ACTIVITIES</u>
Buildings and improvements	40 years	40 years
Machinery and equipment	5-30 years	5-30 years
Vehicles	8 years	8 years
Infrastructure	10-65 years	-

#### **LIABILITIES FOR COMPENSATED ABSENCES**

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

#### **DEFERRED REVENUES**

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

At December 31, 2009, the General, Non-major Governmental, Sewer and Airport Operating Funds had deferred revenues of \$316,570, \$495,931, \$2,400, and \$1,475, respectively.

#### **PENSION PLANS**

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

## USE OF ESTIMATES

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

## NEW ACCOUNTING PRINCIPLE

In 2009, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). GASB 45 establishes standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, where applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g., life insurance) when provided separately from a pension plan. The approach followed in the statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer, (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) provides information useful in assessing potential demands on the employer's future cash flows.

GASB 45 requires the City to recognize a liability for the actuarial determined net other post-employment benefits obligation "OPEB" in the statement of net assets. The net OPEB liability in the year of adoption is calculated as the annual OPEB cost, less contributions made during the year, if any. This statement also requires calculation and disclosure of the actuarial accrued liability "AAL", the plan assets (if any), and the funded status of the AAL.

Changes to the net OPEB will be recognized through a change in unrestricted net assets based on the annual OPEB cost, interest on the net OPEB, and adjustments to the ARC. The annual OPEB cost includes amortization of the unfunded AAL, which is being amortized using a level dollar method over a 15 year period, beginning January 1, 2009.

The City has implemented the recognition and disclosure requirements of GASB No. 45 as of December 31, 2009. The incremental effects of adopting GASB No. 45 on individual line items in the accompanying statement of net assets were to increase non-current liabilities and total liabilities and to increase expenses (primarily in the Public Safety function) by \$427,212.

## **2. BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING**

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

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

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

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which *annual* budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is presented on page 11 of the accompanying financial statements. During 2009, the City had no major special revenue funds that adopted an annual budget.

## **3. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

- A. United States Treasury bills.
- B. Short-term obligations of the United States government or its agencies or instrumentalities.
- C. Savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC").

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

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

#### **DEPOSITS**

***Custodial credit risk*** is the risk that in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2009, the aggregate bank balance of bank deposits was \$7,466,331, of which \$750,000 was covered by federal depository insurance and the uninsured remaining bank deposits of \$6,608,019 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 \$8,260,433 at December 31, 2009.

### **INVESTMENTS - PENSION TRUST FUNDS**

As of December 31, 2009, the City had the following investments:

<u>INVESTMENT</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
Equity securities	N/A	\$3,995,567
Government bonds	Average of 11 years	1,331,408
Mutual funds	N/A	1,107,331
Corporate bonds	Average of 6 years	679,347
U.S. Treasury securities	Average of 4 years	606,908
Corp. mortgage/asset backed securities	Average of 23 years	202,630
Government asset backed securities	Average of 25 years	<u>100,684</u>
Total		<u><u>\$8,023,875</u></u>

### **CREDIT RATINGS**

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

Government bonds	AAA	45.58%
Corporate bonds	BAA to AAA	23.26%
U.S. Treasury securities	AAA	20.78%
Corp. mortgage/asset backed securities	A to AAA	6.94%
Government asset backed securities	AAA	<u>3.44%</u>
Total fixed income		<u><u>100%</u></u>

The City's investment policy limits investments as follows:

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

### **INTEREST RATE RISK**

As a means of limiting its exposure to fair-value losses arising from interest rates, the City's investment policy outlines an asset mix the investment manager must adhere to so as to achieve desired investment returns.

### **CUSTODIAL CREDIT RISK**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2009, all of the City's Pension Trust Fund investments were held by Charles Schwab and were insured by SIPC up to \$500,000 per account.

### **RESTRICTED CASH**

The City's Sewer Fund reports the unspent bond proceeds for future capital activity as restricted cash. At December 31, 2009, the unspent bond proceeds amounted to \$5,451,511.

### **COMPONENT UNIT – FLOOD PROTECTION AUTHORITY**

#### **CASH**

At December 31, 2009 the carrying amount and bank balance of the Flood Protection Authority's deposits were \$10,213, all of which was covered by federal depository insurance.

## **4. PROPERTY TAXES**

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

The assessed value at January 1, 2009, upon which the 2009 levy was based, was \$276,010,500 for taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2009 were 90% of the tax levy.

CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

The City is permitted by the Third Class City Code to levy taxes up to \$25 per \$1,000 of assessed valuation for general governmental services. The tax rate to finance general governmental services for the year ended December 31, 2009 was 19.21 mills per \$1,000. In addition, the City has also levied a real estate tax for the purpose of funding the operations of a dike/levee system; this levy amounted to 1.13 mills per \$1,000 for the year ended December 31, 2009. Accordingly, the City has a tax margin of 4.66 per \$1,000 (25.00 limit less 19.21 general government less 1.13 dike/levee equals \$25.00). The City is also permitted to levy an annual tax sufficient to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act; for the year ended December 31, 2009, this levy amounted to 1.65 mills per \$1,000.

## 5. DUE FROM OTHER GOVERNMENTS

The amount reported in the City's various governmental and proprietary funds at December 31, 2009 as due from other governments is summarized below:

	<u>FEDERAL</u>	<u>STATE</u>	<u>LOCAL</u>	<u>TOTAL</u>
General Fund			\$10,073	\$ 10,073
2007 CDBG Fund	\$ 3,337	\$7,250		10,587
Other Nonmajor Governmental Funds	49,602			49,602
Water Fund			5,000	5,000
Sewer Fund			4,644	4,644
Airport Fund	<u>26,256</u>	<u>      </u>	<u>      </u>	<u>26,256</u>
Total	<u>\$79,195</u>	<u>\$7,250</u>	<u>\$19,717</u>	<u>\$106,162</u>

Amounts due from federal and state governments are primarily grants receivable from the federal government or Commonwealth of Pennsylvania related to the City's various federal and state grant programs. Amounts due from local governments are primarily reimbursements for intergovernmental services performed during 2009.

## 6. CAPITAL ASSETS

	BALANCE JANUARY 1, 2009	ACQUISITIONS	DISPOSALS	TRANSFERS	BALANCE DECEMBER 31, 2009
<b>Governmental activities:</b>					
Capital assets, not being depreciated,					
Land	<u>\$ 3,411,307</u>				<u>\$3,411,307</u>



CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

	BALANCE JANUARY 1, 2009	ACQUISITIONS	DISPOSALS	TRANSFERS	BALANCE DECEMBER 31, 2009
Capital assets, being depreciated:					
Land improvements	1,591,637				1,591,637
Buildings and improvements	3,867,833				3,867,833
Furniture and equipment	2,134,620	\$ 76,491			2,211,111
Transportation	720,324	6,500			726,824
Infrastructure	1,500,044	759,607			2,259,651
Construction in process	-	6,704			6,704
Total capital assets, being depreciated	9,814,458	\$ 849,302	\$ ( - )	\$ -	10,663,760
Less accumulated depreciation:					
Land improvements	(1,015,520)	(71,560)			(1,087,080)
Buildings and improvements	(1,803,704)	(108,944)			(1,912,648)
Furniture and equipment	(1,167,203)	(104,307)			(1,271,510)
Transportation	(521,360)	(33,489)			(554,849)
Infrastructure	(72,404)	(125,008)			(197,412)
Total accumulated depreciation	(4,580,191)	(443,308)			(5,023,499)
Total capital assets, being depreciated	5,234,267	405,994			5,640,261
Governmental activities, net	\$ 8,645,574	\$ 405,994	\$ -	\$ -	\$ 9,051,568
<b>Business – type activities:</b>					
Capital assets, being depreciated:					
Utility system	\$15,964,672	\$ 6,087			\$15,970,759
Land and improvements	1,072,700	169,001			1,241,701
Machinery and equipment	406,767	99,545			506,312
Vehicles	50,945				50,945
Construction in process		116,592			116,592
Total cost	17,495,084	391,225			17,886,309
Less accumulated depreciation:					
Utility system	(6,496,535)	(565,008)			(7,061,543)
Land and improvements	(178,040)	(53,635)			(231,675)
Machinery and equipment	(195,198)	(32,478)			(227,676)
Vehicles	(50,945)				(50,945)
Total accumulated depreciation	(6,920,718)	(651,121)			(7,571,839)
Business-type activities capital assets, net	\$10,574,366	\$ (259,896)	\$ -	\$ -	\$10,314,470

CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

Component – Unit	BALANCE JANUARY 1, 2009	ADDITIONS	DISPOSALS	BALANCE DECEMBER 31, 2009
<b>Flood Protection Authority:</b>				
Land improvements	\$84,590,355			\$84,590,355
Accumulated depreciation	<u>(8,459,032)</u>	<u>\$(845,903)</u>	<u>          </u>	<u>(9,304,935)</u>
Component unit capital asset, net	<u>\$76,131,323</u>	<u>\$(845,903)</u>	<u>\$      -</u>	<u>\$75,285,420</u>

Governmental activity depreciation expense, which amounted to \$443,308 for the year ended December 31, 2009 was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$273,952, \$291,055, and \$86,113 for the year ended December 31, 2009 was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

## 7. INTERFUND BALANCES AND ACTIVITY

### BALANCES DUE TO/FROM OTHER FUNDS

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

Individual fund receivable and payable amounts at December 31, 2009 were as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$110,540	\$(108,380)
2007 CDBG Fund	-	(6,205)
Non-major Funds	210,051	(9,187)
Enterprise Funds	<u>92,392</u>	<u>(289,211)</u>
Total	<u>\$412,983</u>	<u>\$(412,983)</u>

**TRANSFERS TO/FROM OTHER FUNDS**

Interfund transfers for the year ended December 31, 2009 were as follows:

	<u>IN</u>	<u>OUT</u>
General Fund	\$ 64,463	\$ (6,100)
Capital Projects Fund	-	(62,806)
Non-major Funds	6,100	(40,000)
Enterprise Funds	<u>308,658</u>	<u>(270,315)</u>
Total	<u>\$379,221</u>	<u>\$(379,221)</u>

During the year ended December 31, 2009 the City made transfers from its General Fund for the purposes of funding annual allocations to its Interchange \$(2,500), River Dam \$(600), and Levee Escrow \$(3,000) Non-major Funds. The City made transfers of \$24,463 and \$38,343 from its Capital Projects Fund to its General Fund and Airport Fund, respectively, which represents the transfer of proceeds from the issuance of long-term debt. The Enterprise Fund transfer represents an annually budgeted transfer of \$40,000 from the Capital Escrow Fund to the General Fund (pursuant to an agreement between the City and International Paper).

CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

## 8. LONG-TERM DEBT

As of December 31, 2009, the City's long-term debt consisted of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Balance at 1/1/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 12/31/09</u>	<u>Current Portion</u>
2002 General Obligation Bonds	4.00 - 4.35%	\$4,405,000	\$ 1,760,000	\$ -	\$(1,760,000)	\$ -	\$ -
PennVEST Note Payable - Sewer Fund	1.156%	2,638,730	2,003,374	-	(126,062)	1,877,312	126,267
2007 General Obligation Note, Series A	3.85%	6,030,000	1,404,246	3,128	(1,407,374)	-	-
2007 General Obligation Note, Series B	4.38%	1,605,000	1,594,142	-	(1,594,142)	-	-
DCED Note Payable	2.00%	25,000	22,611	-	(4,851)	17,760	4,948
PennVEST Note Payable - Water Fund	1.00%	6,122,000	3,463,168	-	(202,584)	3,260,584	99,046
2009 General Obligation Bond, Series A	1.00 - 3.50%	3,715,000	-	3,715,000	-	3,715,000	365,000
2009 General Obligation Bond, Series B	1.50%	6,000,000	-	6,000,000	-	6,000,000	6,000,000
Total, net			<u>\$10,247,541</u>	<u>\$9,718,128</u>	<u>\$(5,095,013)</u>	<u>\$14,870,656</u>	<u>\$6,595,261</u>

Amounts are reported in the accompanying financial statements as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Governmental Activity Bonds & Notes Payable	\$ 242,329	\$2,224,114	\$ 2,466,443
Business-Type Activity Bonds & Notes Payable	<u>6,352,932</u>	<u>6,051,281</u>	<u>12,404,213</u>
Total	<u>\$6,595,261</u>	<u>\$8,275,395</u>	<u>\$14,870,656</u>

Specific information on each debt instrument is as follows:

**GENERAL OBLIGATION BOND, SERIES OF 2002 (REFUNDED IN 2009)**

In 2002, the City issued a \$4,405,000 General Obligation Bond, Series of 2002, bearing interest at rates ranging from 1.60% to 4.35% per annum, maturing May 1, 2013. The proceeds from the sale of the bonds were used to (1) currently refund the outstanding General Obligation Bonds, Series of 1997, (2) currently refund the General Obligation Note, Series of 2000, (3) to finance various capital improvements and purchases, and (4) to pay the costs of issuing and insuring the bonds. This bond series was refunded during 2009 by the City's General Obligation Bond, Series A of 2009. This refunding reduced the City's total debt service payments over the next four years by approximately \$20,000, resulting in a net economic gain of approximately \$19,000.

**PENNVEST - NOTE PAYABLE - SEWER FUND**

In 2004, the City entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority ("PennVEST") with an original balance of \$2,638,730, due in monthly installments of \$12,135, including principal and interest at 1% per annum through November 2009; thereafter, in installments of \$12,275 including principal and interest at 1.156% per annum through maturity during November 2024. The proceeds of the note were used to finance a portion of the cost of renovations to the sewage treatment facility. The note is secured by the City's pledge of all gross receipts and revenues of the system and a lien position thereto.

**GENERAL OBLIGATION NOTE, SERIES A OF 2007 (REFUNDED IN 2009)**

In 2007, the City issued, as interim financing, a \$6,030,000, General Obligation Note, Series A of 2007 bearing interest at 3.85% per annum maturing September 27, 2009. The proceeds from the issuance of the note were used to finance (1) the grouting project at Ohl Dam, including any temporary water supply system costs and (2) to pay the costs of issuing the note. This note series was refunded during 2009 by the City's General Obligation Bonds, Series A and B of 2009. This refunding extended the maturity date of this debt and increased the City's total debt service payments by approximately \$76,000, resulting in a net economic loss of approximately \$67,000.

**GENERAL OBLIGATION NOTE, SERIES B OF 2007 (REFUNDED IN 2009)**

In 2007, the City issued a \$1,605,000, General Obligation Note, Series B of 2007 bearing interest at 4.38% per annum, maturing September 27, 2019. The proceeds from the issuance of the note were used to (1) finance various City capital projects and (2) pay the cost of issuing the Note. This note series was refunded during 2009 by the City's General Obligation Bond, Series A of 2009. This refunding reduced the City's total debt service payments over the next ten years by approximately \$92,000, resulting in a net economic gain of approximately \$75,000.

**GENERAL OBLIGATION NOTE – DCED**

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

**PENNVEST - NOTE PAYABLE - WATER FUND**

In 2008, the City entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority ("PennVEST") with an original potential balance of \$6,122,000 (only \$3,569,922 was drawn as of 12/31/09), due in monthly installments of \$19,691, including principal and interest at 1% per annum through maturity during July 2038. The proceeds drawn on the note to date were used to finance the City's Ohi Dam Grouting Project. The note is secured by the City's pledge of all gross receipts and revenues of the water system and a lien position thereto.

**GENERAL OBLIGATION BOND, SERIES A OF 2009**

In 2009, the City issued a \$3,715,000 General Obligation Bond, Series A of 2009, bearing interest at rates ranging from 1.00% to 3.50% per annum, maturing on dates ranging from November 1, 2013 to November 1, 2019. The proceeds from the bonds were used to (1) currently refund the City's General Obligation Bonds, Series of 2002, General Obligation Note, Series B of 2007 and a portion of the General Obligation Note, Series A of 2007; (2) to finance various capital projects of the City; and (3) to pay the costs of issuing the bonds.

**GENERAL OBLIGATION BOND, SERIES B OF 2009**

In 2009, the City issued, as interim financing, a \$6,000,000 General Obligation Bond, Series of B 2009, bearing interest at 1.5% per annum, maturing December 22, 2010. The proceeds from the sale of the bonds were used to (1) currently refund a portion of the City's General Obligation Note, Series A of 2007; (2) to finance various capital projects of the City; and (3) to pay the costs of issuing the bonds. The City anticipates refinancing the balance of this note through PennVEST financing in 2010.

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, 2009:

<u>YEARS ENDING DECEMBER 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 6,595,261	\$ 218,746	\$ 6,814,007
2011	617,823	134,379	752,202
2012	635,416	124,088	759,504
2013	685,396	113,475	798,871
2014	635,327	101,910	737,237
2015-2019	2,930,787	329,456	3,260,243
2020-2024	1,104,919	109,927	1,214,846
2025-2029	587,017	68,978	655,995
2030-2034	617,101	38,894	655,995
2035-2039	<u>461,609</u>	<u>8,512</u>	<u>470,121</u>
Total	<u>\$14,870,656</u>	<u>\$1,248,365</u>	<u>\$16,119,021</u>

**9. COMPENSATED ABSENCES**

The changes in the City's compensated absences in 2009 are summarized as follows:

**GOVERNMENTAL ACTIVITIES**

Balance, January 1, 2009	\$156,526
Increase	9,394
Decrease	<u>(11,022)</u>
Balance, December 31, 2009	<u>\$154,898</u>

**BUSINESS TYPE ACTIVITIES**

Balance, January 1, 2009	\$57,005
Increase	6,799
Decrease	<u>(     - )</u>
Balance, December 31, 2009	<u>\$63,804</u>

**10. WATER AND SEWER FUND LEASES**

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

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

During the year ended December 31, 2009, the City transferred \$25,940 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.



CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**

	POLICE PENSION	POLICE DEATH BENEFIT	CITY EMPLOYEES RETIREMENT FUND	TOTAL
ASSETS:				
Cash and cash equivalents	\$ 57,805	\$ 3,000	\$ 47,507	\$ 108,312
Contributions receivable	<u>2,278</u>	<u>-</u>	<u>8,147</u>	<u>10,425</u>
Total	<u>60,083</u>	<u>3,000</u>	<u>55,243</u>	<u>118,737</u>
Investments:				
Fixed income securities	1,488,297	48,007	1,384,673	2,920,977
Equity securities	1,933,993	52,394	2,009,180	3,995,567
Mutual funds	<u>635,354</u>	<u>18,153</u>	<u>453,824</u>	<u>1,107,331</u>
Total Investments	<u>4,057,644</u>	<u>118,554</u>	<u>3,847,677</u>	<u>8,023,875</u>
TOTAL	<u>\$4,117,727</u>	<u>\$121,554</u>	<u>\$3,903,331</u>	<u>\$8,142,612</u>
NET ASSETS,				
Held in trust for pension benefits	<u>\$4,117,727</u>	<u>\$121,554</u>	<u>\$3,903,331</u>	<u>\$8,142,612</u>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

	POLICE PENSION	POLICE DEATH BENEFIT	CITY EMPLOYEES RETIREMENT FUND	TOTAL
ADDITIONS:				
Contributions:				
Employees	\$ 3,100	\$ -	\$ 84,800	\$ 87,900
Commonwealth of Pennsylvania	35,673	-	7,515	43,188
City	2,049	400	411	2,860
Other	<u>382</u>	<u>-</u>	<u>282</u>	<u>664</u>
Total contributions	<u>41,204</u>	<u>400</u>	<u>93,008</u>	<u>134,612</u>

CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

	POLICE PENSION	POLICE DEATH BENEFIT	CITY EMPLOYEES RETIREMENT FUND	TOTAL
Investment earnings:				
Net increase in fair value of investments	719,810	15,625	680,441	1,415,876
Interest and dividends	<u>100,300</u>	<u>5,613</u>	<u>97,412</u>	<u>203,325</u>
Total investment earnings	<u>820,110</u>	<u>21,238</u>	<u>777,853</u>	<u>1,619,201</u>
Total additions	<u>861,314</u>	<u>21,638</u>	<u>870,861</u>	<u>1,753,813</u>
DEDUCTIONS:				
Benefits	161,511	-	98,759	260,270
Other	<u>31,399</u>	<u>629</u>	<u>27,204</u>	<u>59,232</u>
Total deductions	<u>192,910</u>	<u>629</u>	<u>125,963</u>	<u>319,502</u>
CHANGE IN NET ASSETS	668,404	21,009	744,898	1,434,311
NET ASSETS, beginning	<u>3,449,323</u>	<u>100,545</u>	<u>3,158,433</u>	<u>6,708,301</u>
NET ASSETS, ending	<u>\$4,117,727</u>	<u>\$121,554</u>	<u>\$3,903,331</u>	<u>\$8,142,612</u>

Additional information related to each of the plans, as of January 1, 2009 (the date of the most recent actuarial valuation), is as follows:

	<u>CERF</u>	<u>Police</u>
Employee groups covered	All non-uniformed employees, also, elected officials and City police officers hired prior to 1/1/1978	All City police officers
Legislative body governing plan and responsible for management of plan assets	Council of the City of Lock Haven	Council of the City of Lock Haven
Normal retirement age	65	50
Years of service requirement prior to retirement	10	20 (Vested at 12 years)

CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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	<u>CERF</u>	<u>Police</u>
Monthly retirement benefits	Will receive monthly benefit based on the following: (1) Elected officials received \$7 times years of service as an elected official; (2) City employees receive 1.8% of average monthly earnings in the highest 5 consecutive of the last 10 years of services times years of service; and (3) Police officers hired prior to 1/1/1978, will receive monthly benefit equal to \$3 times years of service	Will receive annual benefit equal to 50% of the highest one years' W-2 earnings during the last 3 years of service preceding retirement
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100
Disability benefits: Eligibility	None	Service related injury or illness
Monthly disability benefits	None	2.5% of final monthly compensation times years of completed service, not to exceed 50%
Death benefits - Spouse: Before retirement	Refund of employee contributions without interest	Monthly benefit equal to years of service times 1.25%, up to a maximum of 25% times last salary prior to death, if death was duty related.
After retirement	In accordance with option selected	Monthly benefit equal to 50% of the pension participant was receiving on the day of participant's death is payable to legal spouse or minor children under age 18 if no eligible spouse of retired member.

Membership of the Plans consisted of the following at January 1, 2009, the date of the latest actuarial valuation:

	<u>CERF</u>	<u>Police</u>
Retirees and beneficiaries receiving benefits	26	10
Terminated members entitled to but not yet receiving benefits	1	-
Active plan members	<u>44</u>	<u>13</u>
Total	<u>71</u>	<u>23</u>
Number of participating employers	<u>1</u>	<u>1</u>

#### FUNDING POLICY

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

<u>Employee Groups Covered</u>	<u>CERF</u>	<u>Police</u>
Elected officials	\$8 times years of service	n/a
City employees	6% of pay	n/a
Police officers	\$3 per month	0.5% of compensation plus an additional \$12 per year for service increment

The contribution requirements of the City are determined in accordance with the Commonwealth of Pennsylvania's Municipal Pension Plan Funding and Recovery Act (Act 205 of 1984, [the "Act"]). The Act requires that annual contributions be based on a Minimum Municipal Obligation ("MMO"), as determined in connection with the Plans' biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions and a credit equal to ten percent of the excess (if any) of the actuarial present value of assets over the actuarial accrued liability.

The Commonwealth of Pennsylvania provides an allocation of funds that must be used for pension funding. The City must fund any financial requirement established by the MMO that exceeds state/member contributions.

CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2009, the combined City/Commonwealth contributions to the CERF and Police plans were \$7,515 and \$35,673, respectively, each of which was equal to the related 2009 MMO.

**ANNUAL PENSION COST AND NET PENSION ASSET**

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

	<u>CERF</u>	<u>Police</u>
Annual required contribution	\$ 7,926	\$37,722
Interest on net pension asset	(12,737)	(4,633)
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual pension cost	(4,811)	33,089
Contributions made	<u>7,926</u>	<u>37,722</u>
Increase in net pension asset	12,737	4,633
Net pension asset, beginning of year	<u>181,961</u>	<u>66,184</u>
Net pension asset, end of year	<u>\$194,698</u>	<u>\$70,817</u>

The annual required contribution ("ARC") for the current year was determined as part of the January 1, 2009 actuarial valuation, which used the following assumptions:

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

CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

TREND INFORMATION

<u>Plan and Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
City Employees Retirement Pension Fund			
12/31/09	\$ (4,811)	165%	\$(194,698)
12/31/08	(1,569)	678%	(181,961)
12/31/07	31,882	135%	(169,747)
Police Pension Fund			
12/31/09	\$33,089	114%	\$ (70,817)
12/31/08	35,482	116%	(66,188)
12/31/07	60,327	107%	(60,385)

**FUNDED STATUS AND FUNDING PROGRESS**

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

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

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

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **BASIS OF ACCOUNTING**

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

### **METHOD USED TO VALUE INVESTMENTS**

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

### **CONTRIBUTIONS**

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

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

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

### **CONCENTRATIONS**

At December 31, 2009 the individual Plans held no investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents five percent of individual Plan net assets.

## **12. POSTEMPLOYMENT BENEFITS**

### **PLAN DESCRIPTION**

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

### **FUNDING POLICY**

The contribution requirements of plan members and the City are established and may be amended through negotiations between the City and the respective unions. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retirees are currently not required to contribute to the plan. The City paid premiums of approximately \$50,856 for the year ended December 31, 2009.

### **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:



CITY OF LOCK HAVEN, PENNSYLVANIA  
NOTES TO FINANCIAL STATEMENTS

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Annual required contribution	\$478,068
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	478,068
Contributions made	<u>(50,856)</u>
Increase in net OPEB obligation	427,212
Net OPEB obligation at January 1, 2009	<u>-</u>
Net OPEB obligation at December 31, 2009	<u>\$427,212</u>

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

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

<u>YEAR ENDED</u>	<u>ANNUAL OPEB COST</u>	<u>PERCENTAGE OF ANNUAL OPEB COST CONTRIBUTED</u>	<u>NET OPEB OBLIGATION</u>
December 31, 2009	<u>\$478,068</u>	<u>10.6%</u>	<u>\$427,212</u>

**FUNDED STATUS AND FUNDING PROGRESS**

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

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

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

#### **ACTUARIAL METHODS AND ASSUMPTIONS**

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

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

The actuarial assumptions included a 4% investment rate of return, which is the expected rate to be earned on the City's deposits and investments, an annual healthcare cost trend rate of 11.0% for 2009, with the rate decreasing by 1% each year thereafter to an ultimate rate of 5.0% in 2029 and later, and a constant 5% increase per year for Medicare Part B and vision premiums. The UAAL is being amortized as a level dollar over a fifteen year open period.

### **13. LITIGATION**

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

#### **14. JOINTLY GOVERNED ORGANIZATION**

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

During the year ended December 31, 2009, the City purchased \$970,671 in water filtration services from the Water Filtration Authority.

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

#### **15. RELATED ORGANIZATIONS**

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

#### **16. CONTINGENT LIABILITIES**

##### **GRANT PROGRAMS**

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

##### **ENVIRONMENTAL**

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

## **GUARANTEE OF DEBT**

The City has guaranteed 40% of a promissory note which the Water Filtration Authority entered into with the Pennsylvania Infrastructure Investment Authority in November 1993 (See Note 14). At December 31, 2009, the outstanding balance on this promissory note amounted to \$3,032,029; the City is potentially liable for 40% of this balance, or \$1,212,812.

## **17. PENDING CHANGES IN ACCOUNTING PRINCIPLES**

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

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

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City is required to adopt Statement No. 54 for its calendar year 2011 financial statements.

In February 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes accounting and financial guidelines for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB 58 is effective for the City's calendar year 2010 financial statements.

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

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

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**CITY OF LOCK HAVEN, PENNSYLVANIA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS - PENSION TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(UNAUDITED)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (Asset)	Funded Ratio (a)/(b)	Annual Covered Payroll	Ratio of Unfunded Liability to Annual Covered Payroll
<u>CITY EMPLOYEES RETIREMENT FUND</u>						
January 1, 2009	\$3,790,120	\$3,800,602	\$ 10,482	99.7%	\$1,395,136	0.8%
January 1, 2007	4,011,159	3,404,242	(606,917)	117.8%	1,426,255	N/A
January 1, 2005	3,335,826	3,120,287	(215,539)	106.9%	1,395,216	N/A
<u>POLICE PENSION FUND</u>						
January 1, 2009	\$4,139,188	\$3,866,755	\$ (272,433)	107.0%	\$ 631,043	N/A
January 1, 2007	4,595,664	3,565,871	(1,029,793)	128.9%	616,735	N/A
January 1, 2005	4,036,055	3,263,507	(772,548)	123.7%	594,398	N/A

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

See Note to Required Supplementary Information

**CITY OF LOCK HAVEN, PENNSYLVANIA**

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(UNAUDITED)

YEAR ENDED DECEMBER 31,	POLICE PENSION FUND		CITY EMPLOYEES RETIREMENT PENSION FUND	
	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
2009	\$ 37,722	100%	\$ 7,926	100%
2008	40,011	103%	10,313	103%
2007	64,540	100%	42,987	100%
2006	56,187	100%	37,529	100%
2005	122,539	100%	95,812	100%
2004	110,428	102%	88,807	102%
2003	23,690	100%	80,447 (3)	100%
2002	12,606	114%	69,627	114%
2001	-	N/A	86,661	100%
2000	-	N/A	85,001	100%
1999	- (1)	N/A	13,867	527%
1998	- (2)	N/A	65,698	113%
1997	36,549	120%	76,676	120%
1996	35,520	121%	64,123	121%
1995	32,380	104%	60,118	145%
1994	27,252	92%	46,883	110%
1993	41,240	110%	53,044	115%

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

(2) - Although no contribution was required in 1998, the City contributed \$447.

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

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See Note to Required Supplementary Information

CITY OF LOCK HAVEN, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION TRUST FUNDS  
DECEMBER 31, 2009  
(UNAUDITED)

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**ACTUARIAL ASSUMPTIONS**

The following actuarial assumptions were used in the January 1, 2009 actuarial valuation, the most recent actuarial valuation:

<u>Actuarial assumption</u>	<u>City Employees Retirement Fund</u>	<u>Police Pension Fund</u>
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Investment rate of return	7.0%	7.0%
Projected salary increase	4.0%	5.0%
Consumer Price Index	3.0%	3.0%
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	N/A	N/A

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**CITY OF LOCK HAVEN, PENNSYLVANIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED		ACCRUED	
				(DEFERRED) REVENUE JANUARY 1, 2009	REVENUE RECOGNIZED	EXPENDITURES	(DEFERRED) REVENUE DECEMBER 31, 2009
				\$	\$	\$	\$
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. Passed through Pennsylvania Department of Community and Economic Development:							
Community Development Block Grant State's Program (2006 Allotment)	14.228	\$ 367,870	\$ 25,949	3,516	22,433	22,433	-
Community Development Block Grant State's Program (2007 Allotment)	14.228	348,829	131,614	6,330	128,621	128,621	3,337
Community Development Block Grant State's Program (2008 Allotment)	14.228	340,091	74,247	-	82,055	82,055	7,808
Community Development Block Grant Revolving Loan Program Income	14.228	(N/A)	45,399	9,064	1,685	1,685	(34,650)
HOME Program - Home Investment Partnerships Program (pass-through grantor number C000012762)	14.239	500,000	39,017	8,909	46,968	46,968	16,860
HOME Program - Home Investment Partnerships Program (pass-through grantor number C000029944)	14.239	500,000	212,113	3,812	224,923	224,923	16,622
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			528,339	31,631	506,685	506,685	9,977
U.S. GENERAL SERVICES ADMINISTRATION. Passed through Pennsylvania Department of General Services, Federal Surplus Program	39.003		5,215	-	5,215	5,215	-



CITY OF LOCK HAVEN, PENNSYLVANIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE JANUARY 1, 2009	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE DECEMBER 31, 2009
U.S. DEPARTMENT OF TRANSPORTATION, Passed through Pennsylvania Department of Transportation:							
Airport Action Plan - Update Airport Layout Plan (pass-through grantor number: 7880131084)	20.106	\$ 249,635	\$ 74,738	\$ -	\$ 100,994	\$ 100,994	\$ 26,256
Airport Action Plan - Acquire Land for Development Phase II (pass-through grantor number: 7880131081)	20.106	171,618	171,618	-	171,618	171,618	-
Transportation Enhancement Program - Bellefonte Ave Streetscape Phase I (pass-through grantor number: 02C980)	20.205	802,440	193,446	192,561	9,197	9,197 *	8,312
Transportation Enhancement Program - Bellefonte Ave Streetscape Phase II (pass-through grantor number: 02C948)	20.205	550,000	478,485	-	478,485	478,485 *	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			918,287	192,561	760,294	760,294	34,568
U.S. DEPARTMENT OF AGRICULTURE, Rural - Housing Preservation Grant	10.433	90,000	17,503	2,437	15,066	15,066	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, Passed through Pennsylvania Department of Community and Economic Development, Rural Enterprise Program - Program Income	93.585	(N/A)	30	-	30	30	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,469,374	\$ 226,629	\$ 1,287,290	\$ 1,287,290	\$ 44,545

\* Tested as a major program.

NOTES:  
This schedule includes the federal award activity of the City of Lock Haven, Pennsylvania, and is presented on the accrual basis of accounting.  
The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments  
and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the  
preparation of the financial statements.

See Notes to Financial Statements

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City"), as of and for the year ended December 31, 2009, and have issued our report thereon dated September 21, 2010. We did not audit the financial statements of the Lock Haven Area Flood Protection Authority (the "Flood Protection Authority"), which represent 100% of the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our report on the City's financial statements, insofar as it relates to the amounts included for the Flood Protection Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-4 and 2009-5 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 questioned costs as items 2009-1, 2009-2 and 2009-3 to be significant deficiencies.

#### COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to the management of the City in a separate letter dated September 21, 2010.

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

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

Williamsport, Pennsylvania  
September 21, 2010

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

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

**COMPLIANCE**

We have audited the compliance of the City of Lock Haven, Pennsylvania (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009.



## INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

A handwritten signature in black ink that reads "ParenteBeard LLC". The signature is written in a cursive, flowing style.

Williamsport, Pennsylvania  
September 21, 2010

**CITY OF LOCK HAVEN, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified?   X   yes        no

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

Noncompliance material to financial  
statements noted?

       yes   X   no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?        yes   X   no

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

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

UNQUALIFIED

Any audit findings disclosed that are  
required to be reported in accordance with  
section 510(a) of Circular A-133?

       yes   X   no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228  
20.205

Community Development Block Grant  
Transportation Enhancement Program

Dollar threshold used to distinguish

Between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

       yes   X   no

CITY OF LOCK HAVEN, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**FINDING NO.**

**FINDING/NONCOMPLIANCE**

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**2009-01**

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

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

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

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

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

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

**MANAGEMENT'S**

**RESPONSE:** See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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FINDING NO.

FINDING/NONCOMPLIANCE

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**2009-02**

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

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

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

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



CITY OF LOCK HAVEN, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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FINDING NO.

FINDING/NONCOMPLIANCE

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

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

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

**MANAGEMENT'S**

**RESPONSE:** See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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FINDING NO.

FINDING/NONCOMPLIANCE

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**2009-03**

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

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

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

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

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

**RECOMMENDATION:** We recommend that management remain actively involved in the financial reporting process that leads to the preparation of the financial statements and give consideration to performing the above tasks internally.

**MANAGEMENT'S**

**RESPONSE:** See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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FINDING NO.

FINDING/NONCOMPLIANCE

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**2009-04**

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

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

**CONDITION:** The City did not reconcile their General Obligation Note Series of 2007, General Obligation Bond Series of 2009, or Payroll cash accounts to the general ledger on a monthly basis during 2009.

**CAUSE:** Oversight.

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

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

**MANAGEMENT'S**

**RESPONSE:** See corrective action plan.

CITY OF LOCK HAVEN, PENNSYLVANIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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FINDING NO.

FINDING/NONCOMPLIANCE

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**2009-05**

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

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

**CONDITION:** At 12/31/09 the City was unable to identify the portion of their proprietary funds' accounts receivable that was individually attributable to water and sewer operations; rather, only a single total for all utility billings could be produced.

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

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

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

**MANAGEMENT'S**

**RESPONSE:** See corrective action plan.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

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**CITY OF LOCK HAVEN, PENNSYLVANIA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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Prior year findings 2008-1, 2008-2, 2008-3, 2008-5, and 2008-6, all of which related to internal control over financial reporting, are repeated as current year findings 2009-1, 2009-2, 2009-3, 2009-4 and 2009-5 respectively. See below for prior year finding 2008-4 which was not repeated in the current year.

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**FINDING NO.**

**FINDING/NONCOMPLIANCE**

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**2008-04**

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

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

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

**RESOLUTION:** The City made no significant software changes during 2009 and implemented an additional review process to the periodic utility billings to ensure accuracy.

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