



City of Lock Haven, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2017

City of Lock Haven, Pennsylvania

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Independent Auditors' Report

Honorable Members of City Council
City of Lock Haven, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2017 to conform to accounting principles generally accepted in the United States of America. The City expanded its note disclosures and required supplementary information related to its Police Death Benefit other postemployment benefit plan (a trusted plan). Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability and related ratios on page 54, schedule of employer contributions - Police Pension Fund on page 55, schedule of employer contributions - City Employees Retirement Fund on page 56, schedule of investment returns - pension trust funds on page 57, schedule of other post-employment benefit plan funding progress on page 58, schedule of changes in net OPEB liability and related ratios – OPEB trust fund on page 59, and schedule of investment returns – OPEB trust fund on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
February 8, 2019

City of Lock Haven, Pennsylvania

Statement of Net Position
December 31, 2017

	Primary Government			Component Unit - Flood Protection Authority
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,713,933	\$ 2,157,403	\$ 3,871,336	\$ 768
Restricted cash	-	235,627	235,627	-
Receivables (net of allowance for uncollectibles):				
Taxes	475,591	-	475,591	-
Loans	276,020	-	276,020	-
Other	4,553	754,727	759,280	2,400
Internal balances	287,954	(287,954)	-	-
Due from other governments	31,967	10,211	42,178	-
Prepaid expenses and other assets	156,717	91,531	248,248	-
Total current assets	<u>2,946,735</u>	<u>2,961,545</u>	<u>5,908,280</u>	<u>3,168</u>
Capital assets:				
Public utility systems (including equipment)	-	46,716,888	46,716,888	84,590,355
Land and improvements	5,847,701	3,396,506	9,244,207	-
Infrastructure and infrastructure in progress	6,376,664	-	6,376,664	-
Buildings	3,933,041	-	3,933,041	-
Vehicles, equipment and furniture	4,840,754	990,055	5,830,809	-
Construction in progress	193,993	1,770	195,763	-
Less: accumulated depreciation	(10,042,706)	(14,477,038)	(24,519,744)	(16,072,167)
Total capital assets	<u>11,149,447</u>	<u>36,628,181</u>	<u>47,777,628</u>	<u>68,518,188</u>
Deferred Outflows of Resources - Pension	<u>476,273</u>	<u>154,380</u>	<u>630,653</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>14,572,455</u>	<u>39,744,106</u>	<u>54,316,561</u>	<u>68,521,356</u>
Liabilities				
Accounts payable and accrued expenses	177,434	91,492	268,926	-
Due to other governments	-	69,012	69,012	-
Unearned revenue	285,468	2,527	287,995	-
Long-term liabilities:				
Due within one year,				
Bonds and notes payable	121,661	1,387,840	1,509,501	-
Due in more than one year:				
Bonds and notes payable	2,089,740	21,258,794	23,348,534	-
Compensated absences	77,078	60,104	137,182	-
Net pension liability (asset)	90,336	(10,297)	80,039	-
Other postemployment benefit obligation	5,018,696	-	5,018,696	-
Total liabilities	<u>7,860,413</u>	<u>22,859,472</u>	<u>30,719,885</u>	<u>-</u>
Deferred Inflows of Resources - Pension	<u>559,525</u>	<u>251,329</u>	<u>810,854</u>	<u>-</u>
Net Position (Deficit)				
Net investment in capital assets	8,938,046	14,217,174	23,155,220	68,518,188
Restricted for:				
Capital projects	535,487	235,627	771,114	-
Program purposes	576,705	-	576,705	-
Unrestricted	(3,897,721)	2,180,504	(1,717,217)	3,168
Total net position	<u>\$ 6,152,517</u>	<u>\$ 16,633,305</u>	<u>\$ 22,785,822</u>	<u>\$ 68,521,356</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Activities

Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue And Changes In Net Position			Component Unit Flood Protection Authority
		Charges for Services	Operating Grants And Contributions	Capital Grants And Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities:								
General government	\$ 833,913	\$ 442,029	\$ 150,951	\$ 121,029	\$ (119,904)		\$ (119,904)	
Public safety	2,083,608	189,696	13,120	-	(1,880,792)		(1,880,792)	
Public works	770,159	3,704	449,949	10,784	(305,722)		(305,722)	
Culture and recreation	174,294	-	-	-	(174,294)		(174,294)	
Buildings and property	322,992	-	-	-	(322,992)		(322,992)	
Interest and fees on long-term debt	54,680	-	-	-	(54,680)		(54,680)	
Employee benefits and insurance	1,542,471	-	294,524	-	(1,247,947)		(1,247,947)	
Other	974	-	-	-	(974)		(974)	
Unallocated depreciation	807,102	-	-	-	(807,102)		(807,102)	
Total governmental activities	6,590,193	635,429	908,544	131,813	(4,914,407)		(4,914,407)	
Business-type activities:								
Public utility services, Water	1,508,332	1,512,026	-	268,352		\$ 272,046	272,046	
Public utility services, Sanitary Sewer	3,470,789	2,749,362	-	432,712		(288,715)	(288,715)	
William T. Piper Memorial Airport	543,255	283,638	-	99,295		(160,322)	(160,322)	
Total business-type activities	5,522,376	4,545,026	-	800,359		(176,991)	(176,991)	
Total primary government	\$ 12,112,569	\$ 5,180,455	\$ 908,544	\$ 932,172	(4,914,407)	(176,991)	(5,091,398)	
Component Unit								
Lock Haven Area Flood Protection Authority	\$ 846,904	\$ 2,400	\$ -	\$ -				\$ (844,504)
General Revenues								
					2,611,125	-	2,611,125	-
					511,576	-	511,576	-
					318,446	-	318,446	-
					377,555	-	377,555	-
					10,515	7,726	18,241	-
					139,932	56,347	196,279	-
					-	88,795	88,795	-
					11,246	22,310	33,556	-
Total general revenues					3,980,395	175,178	4,155,573	-
Change in Net Position before Extraordinary Item								
					(934,012)	(1,813)	(935,825)	(844,504)
Extraordinary Item - Litigation proceeds								
					-	570,901	570,901	-
Change in Net Position after Extraordinary Item								
					(934,012)	569,088	(364,924)	(844,504)
Net Position - Beginning								
					7,086,529	16,064,217	23,150,746	69,365,860
Net Position, Ending								
					\$ 6,152,517	\$ 16,633,305	\$ 22,785,822	\$ 68,521,356

See notes to financial statements

City of Lock Haven, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2017

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 631,983	\$ 1,072,026	\$ 1,704,009
Receivables:			
Taxes	475,591	-	475,591
Loans	-	276,020	276,020
Other governments	26,479	5,488	31,967
Due from other funds	72,724	365,963	438,687
Prepaid expenses	156,717	-	156,717
	<u>1,363,494</u>	<u>1,719,497</u>	<u>3,082,991</u>
Total assets	<u>\$ 1,363,494</u>	<u>\$ 1,719,497</u>	<u>\$ 3,082,991</u>
Liabilities, Deferred Inflow of Resources and Fund Balances			
Liabilities:			
Vouchers (accounts) payable	\$ 31,131	\$ 5,925	\$ 37,056
Accrued liabilities	125,927	10,878	136,805
Due to other funds	149,522	1,211	150,733
Unearned revenue	7,401	278,067	285,468
	<u>313,981</u>	<u>296,081</u>	<u>610,062</u>
Total liabilities	<u>313,981</u>	<u>296,081</u>	<u>610,062</u>
Deferred Inflow of Resources, Unearned revenue - taxes	<u>378,630</u>	<u>-</u>	<u>378,630</u>
Fund balances:			
Nonspendable	156,717	-	156,717
Restricted	123	1,112,069	1,112,192
Assigned	-	353,681	353,681
Unassigned	514,043	(42,334)	471,709
	<u>670,883</u>	<u>1,423,416</u>	<u>2,094,299</u>
Total fund balances	<u>670,883</u>	<u>1,423,416</u>	<u>2,094,299</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,363,494</u>	<u>\$ 1,719,497</u>	<u>\$ 3,082,991</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
December 31, 2017

Total Fund Balance, Governmental Funds \$ 2,094,299

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

Capital assets used in governmental activities are not current
financial resources and therefore are not reported in the
fund financial statements, but are reported in the statement
of net position. 11,149,447

Some of the City's taxes will be collected after year-end, but
are not available soon enough to pay for the current period's
expenditures, and therefore are reported as a deferred inflow of
resources in the funds. 378,630

Deferred outflows related to the net pension liability
are not reported in the governmental funds, however
are reported in the statement of net position. 476,273

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
statement of net position. 10,904

Deferred inflows related to the net pension liability
are not reported in the governmental funds, however
are reported in the statement of net position. (559,525)

Long-term liabilities applicable to the City's governmental activities
are not due and payable in the current period and accordingly,
are not reported as fund liabilities. All liabilities, both current and long-term,
are reported in the statement of net position. Balances at December 31,
2017 are:

Bonds and notes payable	(2,211,401)
Other postemployment benefit obligation	(5,018,696)
Net pension liability	(90,336)
Compensated absences	(77,078)

Net Position of Governmental Activities
in the Statement of Net Position \$ 6,152,517

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended December 31, 2017

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues			
Taxes	\$ 3,409,704	\$ -	\$ 3,409,704
Licenses and permits	103,361	-	103,361
Fines and forfeits	174,792	-	174,792
Interest, rents and royalties	12,829	10,644	23,473
Intergovernmental	703,313	742,267	1,445,580
Charges for service	177,922	-	177,922
Collections on loans	-	80,461	80,461
Miscellaneous	14,862	74,822	89,684
	<u>4,596,783</u>	<u>908,194</u>	<u>5,504,977</u>
Total revenues			
Expenditures			
Current:			
General government	579,763	458,401	1,038,164
Employee benefits and insurance	1,496,704	6,456	1,503,160
Community and economic development	-	33,390	33,390
Public works, highways and streets	626,022	819,975	1,445,997
Public safety	1,581,978	-	1,581,978
Culture and recreation	125,413	69,932	195,345
Other	8,767	-	8,767
Capital outlay	194,305	23,230	217,535
Debt service	176,342	-	176,342
	<u>4,789,294</u>	<u>1,411,384</u>	<u>6,200,678</u>
Total expenditures			
Deficiency of Revenues Over Expenditures	<u>(192,511)</u>	<u>(503,190)</u>	<u>(695,701)</u>
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets	11,244	-	11,244
Transfers in	98,417	4,000	102,417
Transfers out	(4,600)	(97,817)	(102,417)
	<u>105,061</u>	<u>(93,817)</u>	<u>11,244</u>
Total other financing sources (uses), net			
Changes in Fund Balances	(87,450)	(597,007)	(684,457)
Fund Balance, Beginning	<u>758,333</u>	<u>2,020,423</u>	<u>2,778,756</u>
Fund Balance, Ending	<u>\$ 670,883</u>	<u>\$ 1,423,416</u>	<u>\$ 2,094,299</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2017

Net Change in Fund Balances, Total Governmental Funds \$ (684,457)

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' estimate useful lives as depreciation expense for the period. This is the amount by which capital outlays \$1,032,661 exceeded depreciation expense \$807,102, in the current period. 225,559

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, 2017. 31,446

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. During 2017, the following transactions factor into this reconciliation:

Retirement of principal of long-term debt 121,663

Certain compensated absences payable are considered long-term in nature, and are not reported as liabilities within the funds. Such liabilities are, however, reported within the statement of net position, and changes in these liabilities are reflected within the statement of activities. This amount represents the change in long-term compensated absences payable for the year ended December 31, 2017. 39,383

Net pension liability is considered long-term in nature, and is not reported as a liability within the Funds. Such liability is, however, reported within the statement of net position, and changes in the liability is reflected within the statement of net position. This represents the change in pension liability and the deferred outflows and inflows related to the pension. (31,628)

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). (632,832)

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. (3,146)

Change in Net Position of Governmental Activities \$ (934,012)

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Revenues, Expenditures and
Changes in Fund Balance - General Fund
Budget and Actual
Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,160,738	\$ 3,160,738	\$ 3,409,704	\$ 248,966
Licenses and permits	97,650	97,650	103,361	5,711
Fines and forfeits	120,000	120,000	174,792	54,792
Interest, rents and royalties	9,799	9,799	12,829	3,030
Intergovernmental	690,946	853,398	703,313	(150,085)
Charges for services	196,787	196,787	177,922	(18,865)
Miscellaneous	7,550	7,550	14,862	7,312
Total revenues	4,283,470	4,445,922	4,596,783	150,861
Expenditures				
Current:				
General government	485,045	647,497	579,763	67,734
Employee benefits and insurance	1,533,043	1,533,043	1,496,704	36,339
Public safety	1,521,594	1,521,594	1,581,978	(60,384)
Public works - highways and streets	485,151	485,151	626,022	(140,871)
Health and sanitation	600	600	-	600
Culture and recreation	144,250	144,250	125,413	18,837
Other	14,000	14,000	8,767	5,233
Debt service	177,605	177,605	176,342	1,263
Capital outlay	239,530	239,530	194,305	45,225
Total expenditures	4,600,818	4,763,270	4,789,294	(26,024)
(Deficiency) Excess of Revenues Over Expenditures				
	(317,348)	(317,348)	(192,511)	124,837
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	1,000	1,000	11,244	10,244
Proceeds from long-term debt, net	15,978	15,978	-	(15,978)
Transfers in	600	600	98,417	97,817
Transfers out	(4,600)	(4,600)	(4,600)	-
Appropriated fund balance	304,370	304,370	-	(304,370)
Total other financing (uses) sources, net	317,348	317,348	105,061	(212,287)
Excess (Deficiency) of Revenues Over Expenditures After Other Financing Sources (Uses)				
	\$ -	\$ -	\$ (87,450)	\$ (87,450)

See notes to financial statements

City of Lock Haven, Pennsylvania

 Statement of Net Position
 Proprietary Funds
 December 31, 2017

	Enterprise Funds			Total	Internal Service Fund
	Water	Sewer	Airport Operating		
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,648,320	\$ 509,084	\$ -	\$ 2,157,404	\$ 9,924
Restricted cash	-	235,627	-	235,627	-
Other accounts receivable, (net of allowance)	325,826	362,258	66,643	754,727	4,553
Due from other funds	4,072	98,169	40,167	142,408	-
Due from other governments	5,000	-	5,211	10,211	-
Other current assets	50,201	38,602	2,728	91,531	-
Total current assets	2,033,419	1,243,740	114,749	3,391,908	14,477
Net pension asset	3,433	6,022	842	10,297	-
Capital assets:					
Public utility systems (including related equipment)	7,672,687	39,044,201	-	46,716,888	-
Land and improvements	-	500,000	2,896,506	3,396,506	-
Equipment and vehicles	211,939	24,895	753,221	990,055	-
Construction in progress	-	-	1,770	1,770	-
Less accumulated depreciation	(4,524,912)	(8,257,470)	(1,694,656)	(14,477,038)	-
Total capital assets, net	3,359,714	31,311,626	1,956,841	36,628,181	-
Total assets	5,396,566	32,561,388	2,072,432	40,030,386	14,477
Deferred Outflows of Resources - Pension	53,431	88,986	11,963	154,380	-
Total assets and deferred outflows of resources	\$ 5,449,997	\$ 32,650,374	\$ 2,084,395	\$ 40,184,766	\$ 14,477
Liabilities					
Current liabilities:					
Current portion of bonds and notes payable	\$ 207,304	\$ 1,148,996	\$ 31,540	\$ 1,387,840	\$ -
Vouchers (accounts) payable	7,643	30,642	522	38,807	3,573
Accrued liabilities	18,837	30,162	3,687	52,686	-
Due to other funds	85,743	6,490	338,129	430,362	-
Due to other governments	-	69,012	-	69,012	-
Unearned revenue	-	-	2,527	2,527	-
Total current liabilities	319,527	1,285,302	376,405	1,981,234	3,573
Non-current liabilities:					
Compensated absences	10,673	34,377	15,054	60,104	-
Long-term portion of bonds and notes payable	2,676,102	18,524,628	58,064	21,258,794	-
Total non-current liabilities	2,686,775	18,559,005	73,118	21,318,898	-
Total liabilities	3,006,302	19,844,307	449,523	23,300,132	3,573
Deferred Inflows of Resources - Pension	83,799	146,982	20,548	251,329	-
Net Position (Deficit)					
Net investment in capital assets	476,308	11,873,629	1,867,237	14,217,174	-
Restricted	-	235,627	-	235,627	-
Unrestricted	1,883,588	549,829	(252,913)	2,180,504	10,904
Total net position	2,359,896	12,659,085	1,614,324	16,633,305	10,904
Total liabilities, deferred inflows of resources, and net position	\$ 5,449,997	\$ 32,650,374	\$ 2,084,395	\$ 40,184,766	\$ 14,477

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

Year Ended December 31, 2017

	Enterprise Funds			Total	Internal Service Funds
	Water	Sewer	Airport Operating		
Revenues					
Charges for services	\$ 1,512,026	\$ 2,749,362	\$ 283,638	\$ 4,545,026	\$ 108,560
Operating Expenses					
Personnel services	507,488	912,100	102,560	1,522,148	-
Depreciation	316,092	1,029,344	173,570	1,519,006	-
Utilities (including water filtration costs)	555,577	282,553	26,572	864,702	-
Administrative expense	69,621	566,835	1,990	638,446	-
Materials, supplies and maintenance	10,938	315,266	222,265	548,469	111,706
Sludge disposal	-	84,403	-	84,403	-
Insurance	9,544	55,439	13,078	78,061	-
Miscellaneous	7,984	13,097	1,641	22,722	-
Nutrient credit purchase	-	565	-	565	-
Total operating expenses	1,477,244	3,259,602	541,676	5,278,522	111,706
Operating income (loss)	34,782	(510,240)	(258,038)	(733,496)	(3,146)
Non-Operating Revenues (Expenses)					
Subsidies from other governments:					
State	-	432,712	99,295	532,007	-
Local	268,352	-	-	268,352	-
Refund of prior year expenses	-	-	88,795	88,795	-
Interest income	4,815	2,911	-	7,726	-
Rental income	13,197	43,150	-	56,347	-
Gain on sale of materials	22,139	171	-	22,310	-
Interest expense	(31,089)	(211,186)	(1,578)	(243,853)	-
Total non-operating revenues, net	277,414	267,758	186,512	731,684	-
Net Income (Loss) before Extraordinary Item	312,196	(242,482)	(71,526)	(1,812)	(3,146)
Extraordinary Item - Litigation proceeds	-	570,901	-	570,901	-
Net Income (Loss) after Extraordinary Item	312,196	328,419	(71,526)	569,089	(3,146)
Net Position, Beginning	2,047,700	12,330,666	1,685,850	16,064,216	14,050
Net Position, Ending	\$ 2,359,896	\$ 12,659,085	\$ 1,614,324	\$ 16,633,305	\$ 10,904

See notes to financial statements

City of Lock Haven, Pennsylvania

 Statement Of Cash Flows
 Proprietary Funds
 Year Ended December 31, 2017

	Business-Type Activities			Totals	Governmental Activities Internal Service Inventory Fund
	Water Fund	Sewer Fund	Airport Fund		
Cash Flows from Operating Activities					
Cash received from users	\$ 1,498,997	\$ 2,977,487	\$ 211,906	\$ 4,688,390	\$ 118,002
Cash payments to employees for services	(541,823)	(901,270)	(100,301)	(1,543,394)	-
Cash paid to suppliers for goods and services	(658,467)	(1,358,784)	(266,000)	(2,283,251)	(108,133)
Net cash provided by (used in) operating activities	298,707	717,433	(154,395)	861,745	9,869
Cash Flows from Investing Activities					
Refund of prior year expenses	-	-	88,795	88,795	-
Rental income	13,197	43,150	-	56,347	-
Earnings on investments	4,815	2,911	-	7,726	-
Net cash provided by investing activities	18,012	46,061	88,795	152,868	-
Cash Flows from Capital and Related Financing Activities					
Payments for capital acquisitions	(68,784)	(1,747,301)	-	(1,816,085)	-
Capital subsidies from other governments	268,352	432,712	99,295	800,359	-
Principal payments on long-term debt	(204,469)	(2,498,689)	(32,117)	(2,735,275)	-
Proceeds from long term debt	-	3,100,288	-	3,100,288	-
Interest paid	(31,089)	(211,186)	(1,578)	(243,853)	-
Proceeds from sale of assets	22,139	171	-	22,310	-
Net cash (used in) provided by capital and related financing activities	(13,851)	(924,005)	65,600	(872,256)	-
Increase (Decrease) in Cash and Cash Equivalents	302,868	(160,511)	-	142,357	9,869
Cash and Cash Equivalents, Beginning	1,345,452	905,222	-	2,250,674	55
Cash and Cash Equivalents, Ending	\$ 1,648,320	\$ 744,711	\$ -	\$ 2,393,031	\$ 9,924
Displayed as:					
Cash and cash equivalents	\$ 1,648,320	\$ 509,084	\$ -	\$ 2,157,404	\$ 9,924
Restricted cash	-	235,627	-	235,627	-
Total	\$ 1,648,320	\$ 744,711	\$ -	\$ 2,393,031	\$ 9,924
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities					
Operating income (loss)	\$ 34,782	\$ (510,240)	\$ (258,038)	\$ (733,496)	\$ (3,146)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	316,092	1,029,344	173,570	1,519,006	-
Changes in assets and liabilities:					
Accounts receivable, other	(13,029)	159,113	(12,570)	133,514	9,442
Due from/to other governments and funds	-	69,012	(59,162)	9,850	-
Other current assets	(44,355)	(38,602)	(2,728)	(85,685)	-
Deferred outflow of resources - pension	14,210	41,707	7,067	62,984	-
Vouchers payable	(4,803)	(2,024)	(454)	(7,281)	3,573
Unearned revenue	-	-	-	-	-
Net pension liability	(89,528)	(172,272)	(25,206)	(287,006)	-
Accrued and other liabilities	10,250	11,233	5,043	26,526	-
Deferred inflow of resources - pension	75,088	130,162	18,083	223,333	-
Net Cash Provided by (Used In) Operating Activities	\$ 298,707	\$ 717,433	\$ (154,395)	\$ 861,745	\$ 9,869

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2017

	Pension and OPEB Trust Funds
Assets	
Cash and cash equivalents	\$ 243,916
Accrued interest receivable	28,316
Other receivables	<u>27,610</u>
Total	<u>299,842</u>
Investments:	
Fixed income securities	4,072,746
Equity securities	7,287,269
Mutual funds	<u>1,688,366</u>
Total investments	<u>13,048,381</u>
Total assets	<u><u>\$ 13,348,223</u></u>
Liabilities	
Benefits payable	\$ 13,436
Net Position	
Restricted for pensions and postemployment benefits other than pensions	<u>13,334,787</u>
Total liabilities and net position	<u><u>\$ 13,348,223</u></u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2017

	Pension and OPEB Trust Funds
Additions	
Contributions:	
Commonwealth of Pennsylvania	\$ 294,524
Employees	112,199
Other	11,110
City	7,589
	<hr/>
Total contributions	425,422
	<hr/>
Investment earnings:	
Net increase in fair value of investments	1,325,382
Interest and dividends	305,603
	<hr/>
Total investment earnings	1,630,985
	<hr/>
Total additions	2,056,407
	<hr/>
Deductions	
Benefits	662,703
Other	92,882
	<hr/>
Total deductions	755,585
	<hr/>
Change In Net Position	1,300,822
	<hr/>
Net Position, Beginning	12,033,965
	<hr/>
Net Position, Ending	<u><u>\$ 13,334,787</u></u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

The City is financially accountable for:

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

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

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

Government-Wide and Fund Financial Statements

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

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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

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

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

Governmental Funds

General Fund

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

Special Revenue Funds

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

- The Rural Business Enterprise Grant Fund accounts for revenues used to provide support to various projects and programs benefiting local businesses.
- The Recreation Fund accounts for the public contributions and event revenues used to provide recreational activities for City residents.
- The Interchange Fund accounts for revenues and expenditures for maintenance and electricity related to street lighting for the U.S. Route 220 Interchange.
- The Triangle Park and Hoberman Project Funds account for public contributions used for equipment purchases and improvements for those two parks.
- The Highway Aid Fund accounts for liquid fuel tax revenues used for building, improving and maintaining City streets.
- The Rehabilitation/Sidewalk Fund accounts for the operations of the City's Housing Rehabilitation and sidewalk repair Programs, which are funded in part by federal funds whose use is restricted for the provision of specified home rehabilitation services to eligible City residents.
- The CDBG Funds account for the operations of the City's Community Development Block Grant program, which 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 Owner Occupied Housing Fund accounts for housing assistance to low income families.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

- The New Communities Main Street Fund accounts for certain City revitalization projects.
- The Road Turn-back Fund accounts for proceeds from the Commonwealth for future maintenance and improvements to certain roads received from the Commonwealth.

Capital Projects Fund

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

Proprietary Funds

Enterprise Funds - Water, Sewer, and Airport Operating Funds

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

Internal Service Fund - Inventory Fund

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

Fiduciary Funds

Pension and OPEB Trust Funds

Pension and Other Post-Employment Benefit ("OPEB") trust funds are used to report the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension or OPEB plans. The City maintains 2 single-employer defined benefit pension trust funds, the Police Pension Fund and the City Employees Retirement Fund. In addition, the City maintains 1 single-employer defined benefit OPEB trust fund, the Police Death Benefit Fund.

New Accounting Principles

The City adopted Governmental Accounting Standards Board ("GASB") Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for the activities of other postemployment benefit plans other than pensions that are administered through trusts and that meet certain criteria. This statement replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The effect of this adoption expanded other postemployment benefit plan note disclosures and added related required supplementary information tables.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

The City adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. The adoption of this Statement did not have a material impact on the City's financial statements.

The City adopted GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the classification of payments made by employers to satisfy employee contribution requirements. The effect of this adoption did not materially change the City's accounting and reporting policies.

Cash Equivalents

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

Investments

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

Receivables and Payables

Interfund Receivables and Payables

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

Trade and Property Tax Receivables

All receivables are reported at net realizable value. Amounts are written off when they are determined to be uncollectible based upon management's assessment of individual amounts. The allowance for doubtful accounts is estimated based upon a combination of the City's historical losses and a percentage of aged receivables. The allowance for uncollectible real estate and debt service taxes as of December 31, 2017 amounted to \$128,982. The allowance for doubtful accounts related to the Water, Sewer, and Airport proprietary funds amounted to \$23,032, \$30,268 and \$6,736, respectively, as of December 31, 2017.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

Capital Assets

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

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

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

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

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

Liabilities for Compensated Absences

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

Unearned Revenues

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

At December 31, 2017, the General, Non-major Governmental and Airport Operating Funds had unearned revenues of \$7,401, \$278,067 and \$2,527, respectively.

Deferred Outflows/Inflows of Resources

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

Governmental Fund Balance Classifications/Policies and Procedures

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

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

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

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

Pension Plans

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

OPEB Plan

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

Use of Estimates

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

2. Budgetary Procedures and Budgetary Accounting

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

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

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

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which annual budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is included in the accompanying financial statements. During 2017, the City had no major special revenue funds.

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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

- F. Pension or retirement funds may be invested by the City according to the "Prudent Man Rule" as defined by the Decedents, Estates, and Fiduciaries Act, 20 PAC.S.CH.73, which is referred to in the City Code.

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2017, the aggregate bank balance of bank deposits was \$4,702,517, of which \$500,000 was covered by federal depository insurance and \$243,916 was covered by SIPC insurance. The uninsured remaining bank deposits of \$3,958,601 were covered by pledged pools of assets maintained in accordance with Act 72 of the General Assembly that requires the institution pool collateral for all governmental deposits. The carrying amount of these bank deposits was \$4,350,879 at December 31, 2017.

Investments - Pension and OPEB Trust Funds

As of December 31, 2017, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Equity securities	N/A	\$ 7,287,269
Mutual funds	N/A	1,688,226
Government asset backed securities	Average of 2 years	52,808
Certificates of deposit	Average of 4 years	460,656
Corporate bonds	Average of 5 years	1,180,928
Government bonds	Average of 5 years	129,137
U.S. Treasury securities	Average of 7 years	708,242
Corp. mortgage/asset backed securities	Average of 13 years	401,166
Government mortgage pools	Average of 23 years	1,139,949
Total		<u>\$ 13,048,381</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2017, all of the City's Pension and OPEB Trust Fund investments were held by Charles Schwab and were insured by SIPC up to \$500,000 per account.

Credit Risk

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2017

As of December 31, 2017, the City's credit quality distribution of securities as a percentage of total fixed income investments is as follows:

Corporate bonds	BBB- to AAA	28.99 %
Government bonds	AA+	3.17
Certificates of deposit	AA+	11.31
U.S. Treasury securities	AA+	17.39
Government mortgage pools	A+ to AAA	27.99
Corp. mortgage/asset backed securities	AA+ to AAA	9.85
Government asset backed securities	A+ to AA	1.30
Total fixed income		<u>100.00 %</u>

The City's investment policy limits investments as follows:

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

Concentration of Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Restricted Cash

The City's Sewer Fund reports the unspent bond proceeds for future capital activity as restricted cash. At December 31, 2017, the unspent bond proceeds amounted to \$235,627.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of December 31, 2017:

	December 31, 2017			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by fair value level				
Fixed income:				
Corporate bonds	\$ 1,180,928	\$ -	\$ 1,180,928	\$ -
Government bonds	129,137	-	129,137	-
Certificates of deposit	460,656	-	460,656	-
U.S. treasury securities	708,242	-	708,242	-
Government mortgage pools	1,139,949	-	1,139,949	-
Corp. mortgage/asset backed securities	401,166	-	401,166	-
Government asset backed securities	52,808	-	52,808	-
Common stocks:				
Industrials	1,054,522	1,054,522	-	-
Consumer discretionary	902,096	902,096	-	-
Health care	867,653	867,653	-	-
Financials	987,591	987,591	-	-
Materials	128,458	128,458	-	-
Information technology	2,219,962	2,219,962	-	-
Telecommunications services	103,381	103,381	-	-
Energy	593,392	593,392	-	-
Consumer staples	337,514	337,514	-	-
Utilities	92,700	92,700	-	-
Mutual funds	1,688,226	1,688,226	-	-
Total investments	<u>\$ 13,048,381</u>	<u>\$ 8,975,495</u>	<u>\$ 4,072,886</u>	<u>\$ -</u>

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2017

4. Property Taxes

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

The assessed value at January 1, 2017, upon which the 2017 levy was based, was \$280,251,500 of taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2017 were 89% of the tax levy.

The City is permitted by the Third Class City Code to levy taxes up to 30 mills (\$30 per \$1,000 of assessed valuation) for general governmental services. The City imposes a split rate tax on real estate, with the millage on land being different from that on improvements. The millage on land as levied is 26.32 mills and the millage on improvements as levied is 5.42 mills. Since this is a split rate the two amounts cannot be simply added to determine the total millage. An equivalent single tax rate can be calculated by dividing the total tax revenue by the total assessed value.

The City's equivalent single tax rates at December 31, 2017 were:

General Governmental Services	9.04 mills
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The City has a tax margin of 20.96 mills (30.00 mills limit less 9.04 mills for general government = 20.96 mills).

5. Due from Other Governments

The amount reported in the City's various governmental and proprietary funds at December 31, 2017 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 26,479	\$ 26,479
Other Nonmajor Governmental Funds	-	-	5,488	5,488
Water Fund	-	-	5,000	5,000
Sewer Fund	-	-	-	-
Airport Fund	5,211	-	-	5,211
Total	<u>\$ 5,211</u>	<u>\$ -</u>	<u>\$ 36,967</u>	<u>\$ 42,178</u>

Amounts due from the federal government are primarily grants receivable related to the City's various federal grant programs. Amounts due from local governments are primarily reimbursements for intergovernmental services performed during 2017.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

6. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2017 is as follows:

	Balance January 1, 2017	Acquisitions	Disposals	Transfers	Balance December 31, 2017
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,564,307	\$ -	\$ -	\$ -	\$ 3,564,307
Construction in progress	174,500	19,493	-	-	193,993
Total capital assets, not being depreciated	3,738,807	19,493	-	-	3,758,300
Capital assets, being depreciated:					
Land improvements	2,283,394	-	-	-	2,283,394
Buildings and improvements	3,933,041	-	-	-	3,933,041
Furniture and equipment	3,124,373	56,091	-	-	3,180,464
Transportation	1,469,878	190,412	-	-	1,660,290
Infrastructure	5,609,999	766,665	-	-	6,376,664
Total capital assets, being depreciated	16,420,685	1,013,168	-	-	17,433,853
Less accumulated depreciation:					
Land improvements	(1,578,169)	(93,764)	-	-	(1,671,933)
Buildings and improvements	(2,682,958)	(70,004)	-	-	(2,752,962)
Furniture and equipment	(2,075,134)	(141,020)	-	-	(2,216,154)
Transportation	(1,027,755)	(162,719)	-	-	(1,190,474)
Infrastructure	(1,871,588)	(339,595)	-	-	(2,211,183)
Total accumulated depreciation	(9,235,604)	(807,102)	-	-	(10,042,706)
Total capital assets, being depreciated	7,185,081	206,066	-	-	7,391,147
Governmental activities, net	\$ 10,923,888	\$ 225,559	\$ -	\$ -	\$ 11,149,447

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

	Balance January 1, 2017	Acquisitions	Disposals	Transfers	Balance December 31, 2017
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 669,000	\$ -	\$ -	\$ -	\$ 669,000
Construction in process	1,770	-	-	-	1,770
Total capital assets, not being depreciated	670,770	-	-	-	670,770
Capital assets, being depreciated:					
Utility system	46,344,420	372,468	-	-	46,716,888
Land improvements	2,727,506	-	-	-	2,727,506
Equipment and vehicles	990,055	-	-	-	990,055
Total capital assets, being depreciated	50,061,981	372,468	-	-	50,434,449
Less accumulated depreciation:					
Utility system	(11,322,189)	(1,310,173)	-	-	(12,632,362)
Land improvements	(959,781)	(136,375)	-	-	(1,096,156)
Equipment and vehicles	(676,062)	(72,458)	-	-	(748,520)
Total accumulated depreciation	(12,958,032)	(1,519,006)	-	-	(14,477,038)
Business-type activities capital assets, net	\$ 37,774,719	\$ (1,146,538)	\$ -	\$ -	\$ 36,628,181

Governmental activity depreciation expense, which amounted to \$807,102 for the year ended December 31, 2017, was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$316,092, \$1,029,344, and \$173,570 for the year ended December 31, 2017, was charged to the Water, Sewer, and Airport Funds in the accompanying financial statements, respectively.

	Balance January 1, 2017	Additions	Disposals	Balance December 31, 2017
Component - Unit Flood Protection Authority:				
Land improvements	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(15,226,264)	(845,903)	-	(16,072,167)
Component unit - capital asset, net	\$ 69,364,091	\$ (845,903)	\$ -	\$ 68,518,188

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

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, 2017 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 72,724	\$ 149,522
Non-major Governmental Funds	365,963	1,211
Enterprise Funds:		
Water Fund	4,072	85,743
Sewer Fund	98,169	6,490
Airport Fund	40,167	338,129
	<u>\$ 581,095</u>	<u>\$ 581,095</u>

Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2017 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 98,417	\$ 4,600
Non-major Governmental Funds	4,000	97,817
	<u>\$ 102,417</u>	<u>\$ 102,417</u>

During the year ended December 31, 2017, the City made transfers from its General Fund for the purposes of funding an annual allocation to its Interchange Fund for \$4,000 and for funding repairs to Tidlow Dam for \$600. In addition, the General Fund received transfers from its Capital Projects Fund in the amount of \$82,738 and from its Highway Aid Fund in the amount of \$15,079, nonmajor governmental funds for capital projects.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2017

8. Long-Term Debt

As of December 31, 2017, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at January 1, 2017	Additions	Retirements	Balance at December 31, 2017	Current Portion
PennVEST Note Payable - Sewer Fund	1.156 %	\$ 2,638,730	\$ 1,076,511	\$ -	\$ 130,609	\$ 945,902	\$ 132,126
PennVEST Note Payable - Water Fund	1.00 %	6,122,000	2,824,527	-	118,352	2,706,175	119,541
PennVEST Note Payable - Sewer Fund	1.00 %	18,074,732	15,016,611	782,089	549,976	15,248,724	587,704
2013 General Obligation Bond	2.46 - 5.50 %	2,118,000	2,102,000	-	36,000	2,066,000	36,000
2016 General Obligation Bond, Series A	1.61 - 4.50 %	3,430,000	2,645,581	-	-	2,645,581	2,000
2016 General Obligation Note, Series B	1.40 %	2,125,000	949,451	-	315,000	634,451	315,000
2016 General Obligation Note, Series C	1.40 %	2,530,000	-	2,318,202	1,707,000	611,202	317,130
Total, net			<u>\$ 24,614,681</u>	<u>\$ 3,100,291</u>	<u>\$ 2,856,937</u>	<u>\$ 24,858,035</u>	<u>\$ 1,509,501</u>

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental Activities	\$ 121,661	\$ 2,089,740	\$ 2,211,401
Business-Type Activities	1,387,840	21,258,794	22,646,634
Total	<u>\$ 1,509,501</u>	<u>\$ 23,348,534</u>	<u>\$ 24,858,035</u>

PennVEST - Note Payable - Sewer Fund

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

PennVEST - Note Payable - Water Fund

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

PennVEST - Note Payable - Sewer Fund

In 2012, the City entered into a loan agreement with PennVEST with a maximum balance of \$18,074,732 (only \$17,170,787 was drawn as of December 31, 2017), due in monthly installments of \$61,455, including principal and interest at 1% per annum through maturity in July 2044. (If the City does not draw any further funds on this loan, final maturity would be during 2041.) The proceeds drawn on the note to date were used to finance the City's sewer system capital improvement project. The note is secured by the City's pledge of all gross receipts and revenues of the sewer system and a lien position thereto.

General Obligation Bond, Series of 2013

In 2013, the City issued a \$2,118,000 General Obligation Bond, Series of 2013, bearing interest at a fixed rate of 2.46% per annum through November 1, 2028, then at a monthly variable rate equal to the 30 day London Interbank Offering Rate (LIBOR) plus 2.24%, not to exceed 5.50% per annum, maturing on dates ranging from May 1, 2013 to November 1, 2033. The proceeds from this bond were used to provide funds toward a certain project consisting of, but not limited to (1) the purchase and acquisition of a certain building referred to as the "PennDOT building", and the furnishing of capital renovations and improvements thereto; (2) additional capital projects, including (a) main street lighting upgrades, (b) street repair and parking lot improvements, (c) airport projects and equipment, and (d) the purchase of fire-fighting equipment, various parks and streets department equipment and police department equipment and vehicle; (3) the current refunding of all of the outstanding principal amount of the City's General Obligation Note, Series of 2010, (4) payment of capitalized interest on the Bond; and, (5) to pay the costs of issuing the bonds. Of the \$2,118,000, \$2,068,000 was allocated to governmental activities and \$50,000 was allocated to proprietary funds. At December 31, 2017, the City had \$2,039,142 outstanding within its governmental activities and \$26,858 within its proprietary funds.

General Obligation Bond, Series A of 2016

In 2016, the City issued a General Obligation Bond with a maximum balance \$3,430,000 (only \$2,645,581 was drawn as of December 31, 2017), bearing interest at 1.61% per annum through November 1, 2026, then at a rate of interest equal to the 60% of the Wall Street Journal Prime; provided that the variable rate shall not exceed 4.50% per annum, maturing on November 1, 2036. The proceeds from the issuance of the Bond were used to currently refund the outstanding principal amount of the City's Series of 2014 General Obligation Note.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

General Obligation Note, Series B of 2016

In 2016, the City entered into a loan agreement with a maximum balance \$2,125,000 (only \$949,451 was drawn as of December 31, 2017). The proceeds of this note are available to the City on a revolving basis. This note is due in semi-annual installments of \$31,649, including principal and interest at 1.40% per annum through maturity in November 2026. The proceeds from the issuance of the note were used to currently refund the outstanding principal amount of the City's Series A of 2009 General Obligation Bond.

General Obligation Note, Series C of 2016

In 2016, the City entered into a loan agreement with a maximum balance \$2,530,000. The proceeds of this note are available to the City on a revolving basis. The proceeds were used to provide interim financing for the completion of the improvements and upgrades to the City's wastewater treatment plant and to pay the costs of issuing the note. The note bears interest at 1.40% per annum through maturity in November 2026.

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

Interest paid on these bonds and notes during the year ended December 31, 2017 amounted to \$297,894.

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, 2017:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,509,501	\$ 294,731	\$ 1,804,232
2019	1,502,536	276,898	1,779,434
2020	1,099,743	260,642	1,360,385
2021	1,113,562	246,729	1,360,291
2022	1,128,473	232,618	1,361,091
2023-2027	5,705,634	1,110,537	6,816,171
2028-2032	5,820,284	714,929	6,535,213
2033-2037	4,603,210	241,148	4,844,358
2038-2042	2,375,092	37,743	2,412,835
Total	<u>\$ 24,858,035</u>	<u>\$ 3,415,975</u>	<u>\$ 28,274,010</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2017

9. Compensated Absences

The changes in the City's compensated absences in 2017 are summarized as follows:

Governmental Activities	
Balance, January 1, 2017	\$ 116,461
Increase	37,767
Decrease	<u>(77,150)</u>
Balance, December 31, 2017	<u>\$ 77,078</u>
Business Type Activities	
Balance, January 1, 2017	\$ 51,010
Increase	15,612
Decrease	<u>(6,518)</u>
Balance, December 31, 2017	<u>\$ 60,104</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.

No such transfer was made to the Authority pursuant to either the sewer or water system leases, because the sewer capital reserve account had reached the required amount during 2002, and the water capital reserve account had reached the required amount during 2016.

11. Employee Pension Funds

Plan Descriptions

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

	Combining Statement of Fiduciary Net Position				
	Police Pension	City Employees Retirement Fund	Total Pension	OPEB Police Death Benefit*	Total Pension/ OPEB Trust Funds
Assets:					
Cash and cash equivalents	\$ 116,686	\$ 126,941	\$ 243,627	\$ 289	\$ 243,916
Receivables	15,293	37,331	52,624	3,302	55,926
Total	131,979	164,272	296,251	3,591	299,842
Investments:					
Fixed income securities	1,802,246	2,179,261	3,981,507	91,239	4,072,746
Equity securities	3,280,529	4,006,740	7,287,269	-	7,287,269
Mutual funds	725,676	837,138	1,562,814	125,552	1,688,366
Total investments	5,808,451	7,023,139	12,831,590	216,791	13,048,381
Total assets	\$ 5,940,430	\$ 7,187,411	\$ 13,127,841	\$ 220,382	\$ 13,348,223
Liabilities,					
Benefits payable	\$ 11,467	\$ 1,969	\$ 13,436	\$ -	\$ 13,436
Net position,					
Restricted for pensions and postemployment benefits other than pensions	5,928,963	7,185,442	13,114,405	220,382	13,334,787
Total liabilities and net position	\$ 5,940,430	\$ 7,187,411	\$ 13,127,841	\$ 220,382	\$ 13,348,223

* See Note 12.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

	Combining Statement of Fiduciary Net Position				
	Police Pension	City Employees Retirement Fund	Total Pension	OPEB Police Death Benefit*	Total Pension/ OPEB Trust Funds
Additions:					
Contributions:					
Commonwealth of Pennsylvania	\$ 182,904	\$ 111,620	\$ 294,524	\$ -	\$ 294,524
Employees	12,823	106,503	119,326	-	119,326
City	3,983	7,189	11,172	400	11,572
Total contributions	199,710	225,312	425,022	400	425,422
Investment earnings:					
Net increase in fair value of investments	597,981	704,231	1,302,212	23,170	1,325,382
Interest and dividends	132,143	161,628	293,771	11,832	305,603
Total investment earnings	730,124	865,859	1,595,983	35,002	1,630,985
Total additions	929,834	1,091,171	2,021,005	35,402	2,056,407
Deductions:					
Benefits	409,833	252,870	662,703	-	662,703
Other	42,074	49,795	91,869	1,013	92,882
Total deductions	451,907	302,665	754,572	1,013	755,585
Change in net position	477,927	788,506	1,266,433	34,389	1,300,822
Net position, beginning	5,451,036	6,396,936	11,847,972	185,993	12,033,965
Net position, ending	\$ 5,928,963	\$ 7,185,442	\$ 13,114,405	\$ 220,382	\$ 13,334,787

* See Note 12.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

As of December 31, 2017, the City reported the following amounts in the accompanying financial statements related to the CERF and Police Plans:

	<u>CERF</u>	<u>Police</u>	<u>Total</u>
Deferred Outflows of Resources	\$ 305,717	\$ 324,936	\$ 630,653
Net Pension Liability (Asset)	(20,449)	100,488	80,039
Deferred Inflows of Resources	499,168	311,686	810,854

As of December 31, 2017, the City reported the following amounts in the accompanying financial statements related to its participation in the above Plans:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Deferred Outflows of Resources	\$ 476,273	\$ 154,380	\$ 630,653
Net Pension Liability (Asset)	90,336	(10,297)	80,039
Deferred Inflows of Resources	559,525	251,329	810,854

At January 1, 2017, the date of the latest valuation, employees covered by the Plans consisted of the following:

	<u>CERF</u>	<u>Police</u>
Retirees and beneficiaries receiving benefits	29	18
Terminated employees entitled to benefits but not yet receiving them	1	-
Active plan participants	40	14
Total	<u>70</u>	<u>32</u>
Number of participating employers	<u>1</u>	<u>1</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

Benefits Provided

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2017

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

Funding Policy and Contributions

The contribution requirements of the 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 made based on a minimum municipal obligation ("MMO"), as determined in connection with the Pension Plan's biennial actuarial obligation. The MMO includes the normal cost, estimated administrative expenses and an amortization of the actuarial accrued liability (if any), less member contributions (if any) and a credit equal to 10% of the actuarial present value of assets over the actuarial accrued liability. The City must fund any financial requirement established by the MMO that exceeds state/member contributions. The annual required contribution was determined based on the most recent annual actuarial valuation dated January 1, 2017. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 6.5% per year compounded annually; (b) no projected salary increases; and (c) no postretirement benefit increases. The rate of return includes an inflation component of 3%. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
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Deposits and Investments

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

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

The long-term expected rate of return on the Plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation for the 2017 measurement period are listed in the table above.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of Plan investment expense, was 13.3% for the CERF plan and 13.2% for the Police Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The City's net pension liability was measured at December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. The components of the net pension liability of the Plan as of December 31, 2017 were as follows:

	<u>CERF</u>	<u>Police</u>
Total pension liability	\$ 7,164,993	\$ 6,029,451
Plan fiduciary net position	<u>7,185,442</u>	<u>5,928,963</u>
Plan net position liability (asset)	<u>\$ (20,449)</u>	<u>\$ 100,488</u>
Plan fiduciary net position as a percentage of total pension liability	<u>100.29%</u>	<u>98.33%</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

Changes in the Net Pension Liability

The changes in the City's CERF Plan net pension liability during the year ended December 31, 2017 are as follows:

	Increase (Decreases)		
	Total Pension Liability (a)	Plan Net Fiduciary Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2017	\$ 6,947,266	\$ 6,396,936	\$ 550,330
Changes for the year:			
Service cost	159,203	-	159,203
Interest	445,939	-	445,939
Differences between expected and actual experience	(108,895)	-	(108,895)
Changes of benefit terms	-	-	-
Changes of assumptions	(25,651)	-	(25,651)
Employer contributions	-	118,809	(118,809)
Member contributions	-	95,393	(95,393)
Net investment income	-	843,955	(843,955)
Benefit payments, including refunds of employee contributions	(252,869)	(252,869)	-
Administrative expense	-	(16,782)	16,782
Net changes	<u>217,727</u>	<u>788,506</u>	<u>(570,779)</u>
Balances at December 31, 2017	<u>\$ 7,164,993</u>	<u>\$ 7,185,442</u>	<u>\$ (20,449)</u>

The changes in the City's Police Plan net pension liability during the year ended December 31, 2017 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Net Fiduciary Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2017	\$ 5,741,942	\$ 5,451,036	\$ 290,906
Changes for the year:			
Service cost	158,058	-	158,058
Interest	379,459	-	379,459
Differences between expected and actual experience	159,825	-	159,825
Changes of benefit terms	-	-	-
Changes of assumptions	-	-	-
Employer contributions	-	186,887	(186,887)
Member contributions	-	12,823	(12,823)
Net investment income	-	702,413	(702,413)
Benefit payments, including refunds of employee contributions	(409,833)	(409,833)	-
Administrative expense	-	(14,363)	14,363
Net changes	<u>287,509</u>	<u>477,927</u>	<u>(190,418)</u>
Balances at December 31, 2017	<u>\$ 6,029,451</u>	<u>\$ 5,928,963</u>	<u>\$ 100,488</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

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

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of January 1, 2017 using the following actuarial methods and assumptions:

	CERF	Police
Actuarial valuation date	January 1, 2017	January 1, 2017
Actuarial cost method	Entry-age normal	Entry-age normal
Actuarial assumptions:		
Projected salary increases	4.00%	4.00%
Inflation	2.50%	2.75%
Interest rate	7.00%	7.00%
Asset valuation method	Market	Market

Mortality rates were based on the RP-2000 Mortality Table. The actuarial assumptions used in the January 1, 2017 valuation were based upon a study of plan experience, provisions in the current collective bargaining agreement, and future expectations.

Discount Rate

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

Discount Rate Sensitivity

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

	1% Decrease (5.50%)	Current Discount Rate	1% Increase (7.50%)
Net pension liability (asset) - CERF	\$ 804,410	\$ (20,449)	\$ (715,973)
Net pension liability (asset) - Police	855,777	100,488	(521,233)

City of Lock Haven, Pennsylvania

Notes to Financial Statements

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

For the year ended December 31, 2017, the City recognized pension expense of \$30,938. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience CERF Plan	\$ -	\$ 123,425
Differences between expected and actual experience Police Plan	141,454	26,485
Changes in assumptions - CERF Plan	136,551	21,376
Changes in assumptions - Police Plan	21,248	-
Difference between projected and actual earnings on investments - CERF Plan	169,167	354,367
Difference between projected and actual earnings on investments - Police Plan	162,233	285,201
Total	<u>\$ 630,653</u>	<u>\$ 810,854</u>

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

	<u>CERF</u>	<u>Police</u>	<u>Total</u>
Years ending December 31:			
2018	\$ 4,223	\$ 26,049	\$ 30,272
2019	4,223	26,049	30,272
2020	(80,360)	(51,405)	(131,765)
2021	(99,108)	(53,849)	(152,957)
2022	(22,428)	17,453	(4,975)
Thereafter	-	48,952	48,952

12. Postemployment Benefits

Plan Description

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

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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 untrusted single employer defined-benefit plan and no financial report is prepared. Stand-alone financial statements are not issued for the plan.

Funding Policy and Contributions

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 \$180,000 for the year ended December 31, 2017.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,016,487
Interest on net OPEB obligation	175,435
Adjustment to annual required contribution	<u>(379,298)</u>
Annual OPEB cost (expense)	812,624
Contributions made	<u>179,798</u>
Increase in net OPEB obligation	632,826
Net OPEB obligation at January 1, 2017	<u>4,385,870</u>
Net OPEB obligation at December 31, 2017	<u>\$ 5,018,696</u>

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2017

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2017, 2016, and 2015 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, 2017	\$ 812,624	22.1 %	\$ 5,018,696
December 31, 2016	844,001	20.0	4,385,870
December 31, 2015	878,146	16.4	3,710,810

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

City of Lock Haven, Pennsylvania

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

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

Police Death Benefit Fund

Plan Description

The City also maintains the City of Lock Haven Police Death Benefit Plan (the "Plan"), which is a trusted single employer defined benefit plan. The City is the only participating employer in this Plan and stand-alone financial statements are not issued for the Plan, nor is the Plan included in the any public employee retirement system or other entity.

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

Membership of the Plan consisted of the following at January 1, 2017, the date of its latest actuarial valuation:

Inactive plan members currently receiving benefits	16
Inactive plan members entitled to benefits but not yet receiving them	-
Current employees	<u>14</u>
Total	<u><u>30</u></u>
Number of participating employers	<u><u>1</u></u>

Benefits Provided

The Plan provides a one-time death benefit to the identified participant beneficiary amounting to \$4,000, provided the participant was older than 55 at the time of their death.

Funding Policy and Contributions

Contributions to the Plan are determined in accordance with the Plan Document and consist of a one-time City contribution of \$400 when a new police officer is hired. There are no other contribution requirements for either participants or the City under the Plan.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
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Deposits and Investments

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

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	50 %	1.5 %
Large cap domestic	50	6.0

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on OPEB plan investments, net of Plan investment expense, was 18.7%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The City's net OPEB liability was measured at December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. The components of the net OPEB liability of the Plan as of December 31, 2017 was as follows:

Total OPEB liability	\$ 25,738
Plan fiduciary net position	<u>220,382</u>
Plan net OPEB liability (asset)	<u>\$ (194,644)</u>
Plan fiduciary net position as a percentage of total OPEB liability (asset)	<u>856.25 %</u>

Actuarial Assumptions

The total OPEB liability above was determined by an actuarial valuation performed as of January 1, 2017 using the following actuarial methods and assumptions:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	5.0%
Inflation	2.5%
Interest rate	6.0%
Asset valuation method	Market

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Mortality rates were based on the RP-2000 Non-annuitant Mortality Table, projected using scale BB2D with Blue Collar adjustment for pre-retirement participants and the RP-2000 Healthy annuitant Table, projected using scale BB2D with Blue Collar adjustment for post

Discount Rate

The discount rate used to measure the total OPEB liability for the Plans was 6.00%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates sufficient to cover future benefit payments.

Discount and Healthcare Cost Trend Rate Sensitivity

The following is a sensitivity analysis of the net OPEB liability to changes in the discount rate. The table below presents the OPEB liability of the City Employees Retirement Plan calculated using the discount rate of 6.00% as well as what the net OPEB liability would be if it were to be calculated using a discount rate that is 1 percentage point lower (5.00%) or 1 percentage point higher (7.00%) than the current rate:

	<u>1% Decrease (5.00%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (7.00%)</u>
Net OPEB liability (asset)	\$ (190,963)	\$ (194,644)	\$ (197,604)

The healthcare cost trend rate does not apply to this Plan, as the future benefit is a fixed sum cash distribution. As such, a sensitivity analysis of the healthcare cost trend rate is not presented.

13. Fund Balance Classifications

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

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable for:			
Prepaid expenses	\$ 156,717	\$ -	\$ 156,717
Restricted for:			
Capital projects	\$ -	\$ 535,487	\$ 535,487
Street programs	-	52,590	52,590
Recreation	123	75,898	76,021
Economic development	-	448,094	448,094
Total	<u>\$ 123</u>	<u>\$ 1,112,069</u>	<u>\$ 1,112,192</u>
Assigned for:			
Road maintenance	\$ -	\$ 346,796	\$ 346,796
Program purposes	-	6,885	6,885
Total	<u>\$ -</u>	<u>\$ 353,681</u>	<u>\$ 353,681</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

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, 2017, the City purchased \$491,363 in water filtration services from the Water Filtration Authority.

15. Related Organizations

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

16. Commitments and Contingent Liabilities

Grant Programs

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

Environmental

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

Contingencies

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

The City has elected to self-insure its employee medical insurance plan. The City has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the City for any medical costs over \$35,000 per covered individual per year. The City believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The City's liability for all asserted and estimated unasserted claims was \$91,660 at December 31, 2017. The City has a surplus deposit related to the plan in the amount of \$248,028 at December 31, 2017, resulting in a net prepaid expense of \$156,717. The cost of medical coverage for employees was approximately \$1,224,000 in 2017.

Lock Haven City Authority

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

17. Extraordinary Item – Litigation Proceeds

In September 2017, the City entered into a Settlement and Release Agreement (the "Agreement") with certain contractors involved with the construction of its sewage treatment plant. Pursuant to the terms of the Agreement, the City received \$570,901 during 2017 towards the cost of construction of the sewage treatment plant.

18. New Accounting Pronouncements

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

Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. GASB 75 is effective for the City's calendar year 2018 financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. GASB 83 is effective for the City's calendar year 2019 financial statements.

City of Lock Haven, Pennsylvania

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In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement will enhance consistency and comparability of governmental financial statements by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. GASB 84 is effective for the City's calendar year 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. GASB 85 is effective for the City's calendar year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash or other monetary assets acquired with only existing resources - that is, resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the purpose of extinguishing debt. This statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. GASB 86 is effective for the City's calendar year 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and the lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 is effective for the City's calendar year 2020 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement improves the information that is disclosed in notes to government financial statements related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB 88 is effective for the City's calendar year 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest costs incurred before the end of a construction period. GASB 89 is effective for the City's calendar year 2020 financial statements.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2017

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interest-an amendment of GASB Statement No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. To the extent applicable, the City is required to adopt Statement No. 90 for its calendar year 2019 financial statements.

Management is in the process of analyzing these pending changes in accounting principles and the impact they may have on the financial reporting process.

19. Subsequent Events

In November 2018, the City issued its General Obligation Note, Series A of 2018 in the principal amount of \$1,066,000 for the purpose of providing funds to be applied for and toward costs of the certain capital projects and paying the costs of issuing the 2018A Note.

In November 2018, the City issued its General Obligation Note, Series B of 2018 in the principal amount of \$292,000 for the purpose of providing funds to be applied for and toward costs of certain capital projects at the Airport and paying the costs of issuing the 2018B Note.

In November 2018, the City issued its General Obligation Note, Series C of 2018 in the principal amount of \$2,500,000 for the purpose of providing funds to be applied for and toward interim financing of improvements and upgrades to the City's water system and paying the costs of issuing the 2018C Note.

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Changes in Net Pension Liability and Related Ratios
 Year Ended December 31, 2017
 (Unaudited)

	Police Pension Fund			City Employees Retirement Fund		
	2015	2016	2017	2015	2016	2017
Total pension liability						
Service cost	\$ 167,226	\$ 149,903	\$ 158,058	\$ 149,426	\$ 140,324	\$ 159,203
Interest changes of benefit terms	354,712	361,769	379,459	397,860	430,829	445,939
Differences between expected and actual experience	(40,423)	-	159,825	(62,327)	-	(108,895)
Changes in assumptions	32,433	-	-	260,629	-	(25,651)
Benefit payments, including refunds of member contributions	(368,357)	(404,727)	(409,833)	(212,166)	(243,735)	(252,869)
Net change in total pension liability	145,591	106,945	287,509	533,422	327,418	217,727
Total pension liability, beginning	5,489,406	5,634,997	5,741,942	6,086,426	6,619,848	6,947,266
Total pension liability, ending (a)	<u>\$ 5,634,997</u>	<u>\$ 5,741,942</u>	<u>\$ 6,029,451</u>	<u>\$ 6,619,848</u>	<u>\$ 6,947,266</u>	<u>\$ 7,164,993</u>
Plan fiduciary net position						
Employer contributions	\$ 191,163	\$ 182,625	\$ 186,887	\$ 81,381	\$ 110,577	\$ 95,393
Employee contributions	13,949	11,216	12,823	138,657	86,666	118,809
Other contributions	-	327,091	-	-	-	-
Net investment income	(32,582)	-	702,413	(28,143)	407,095	843,955
Benefits payments, including refunds of member contributions	(368,357)	(404,727)	(409,833)	(212,166)	(243,735)	(252,869)
Administration	(16,313)	(14,916)	(14,363)	(13,913)	(14,775)	(16,782)
Other	-	-	-	-	-	-
Net change in plan fiduciary net position	(212,140)	101,289	477,927	(34,184)	345,828	788,506
Plan fiduciary net position, beginning	5,561,887	5,349,747	5,451,036	6,085,292	6,051,108	6,396,936
Plan fiduciary net position, ending (b)	<u>\$ 5,349,747</u>	<u>\$ 5,451,036</u>	<u>\$ 5,928,963</u>	<u>\$ 6,051,108</u>	<u>\$ 6,396,936</u>	<u>\$ 7,185,442</u>
Net pension liability, ending (a) - (b)	<u>\$ 285,250</u>	<u>\$ 290,906</u>	<u>\$ 100,488</u>	<u>\$ 568,740</u>	<u>\$ 550,330</u>	<u>\$ (20,449)</u>
Plan fiduciary net position as a percentage of total pension liability	<u>94.94%</u>	<u>94.93%</u>	<u>98.33%</u>	<u>91.41%</u>	<u>92.08%</u>	<u>100.29%</u>
Covered-employee payroll	\$ 792,288	\$ 755,035	\$ 831,400	\$ 1,550,266	\$ 1,644,670	\$ 1,621,000
Net pension liability as a percentage of covered-employee payroll	<u>36.0%</u>	<u>38.5%</u>	<u>12.1%</u>	<u>36.7%</u>	<u>33.5%</u>	<u>-1.3%</u>

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

See notes to financial statements

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions - Police Pension Fund
 Year Ended December 31, 2017
 (Unaudited)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution ⁽¹⁾	\$ 40,011	\$ 37,722	\$ 50,572	\$ 140,351	\$ 156,821	\$ 155,503	\$ 145,654	\$ 191,163	\$ 182,213	\$ 182,904
Contributions in relation to the actuarially determined contribution	<u>41,280</u>	<u>37,722</u>	<u>84,106</u>	<u>147,379</u>	<u>156,821</u>	<u>155,503</u>	<u>152,210</u>	<u>191,163</u>	<u>182,625</u>	<u>186,887</u>
Contribution deficiency (excess)	<u>\$ (1,269)</u>	<u>\$ -</u>	<u>\$ (33,534)</u>	<u>\$ (7,028)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,556)</u>	<u>\$ -</u>	<u>\$ (412)</u>	<u>\$ (3,983)</u>
Covered-employee payroll ⁽²⁾	\$ 620,136	\$ 587,311	\$ 678,000	\$ 653,400	\$ 728,150	\$ 686,000	\$ 660,022	\$ 792,288	\$ 755,035	\$ 831,400
Contributions as a percentage of covered-employee payroll	6.66%	6.42%	12.41%	22.56%	21.54%	22.67%	23.06%	24.13%	24.19%	22.48%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	2.75%
Salary increases	4.00%, 5.00% prior to January 1, 2015
Investment rate of return	6.50%
Retirement age	Individual entry age
Mortality	RP-2000 Mortality Table

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

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

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions - City Employees Retirement Fund
 Year Ended December 31, 2017
 (Unaudited)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution ⁽¹⁾	\$ 10,313	\$ 7,926	\$ 12,320	\$ 87,184	\$ 90,931	\$ 86,957	\$ 91,331	\$ 138,657	\$ 110,388	\$ 118,809
Contributions in relation to the actuarially determined contribution	10,645	7,926	139,098	91,485	90,931	86,957	103,387	138,657	110,577	118,809
Contribution deficiency (excess)	<u>\$ (332)</u>	<u>\$ -</u>	<u>\$ (126,778)</u>	<u>\$ (4,301)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,056)</u>	<u>\$ -</u>	<u>\$ (189)</u>	<u>\$ -</u>
Covered-employee payroll ⁽²⁾	\$ 1,464,870	\$ 1,460,194	\$ 1,429,000	\$ 1,521,800	\$ 1,526,250	\$ 1,374,000	\$ 1,520,906	\$ 1,550,266	\$ 1,644,670	\$ 1,621,000
Contributions as a percentage of covered-employee payroll	0.73%	0.54%	9.73%	6.01%	5.96%	6.33%	6.80%	8.94%	6.72%	7.33%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	2.50%
Salary increases	4.00%
Investment rate of return	6.50%
Retirement age	Individual entry age
Mortality	RP-2000 Mortality Table

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

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

City of Lock Haven, Pennsylvania

Required Supplementary Information
Schedule of Investment Returns - Pension Trust Funds
Year Ended December 31, 2017
(Unaudited)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Annual money-weighted rate of return (loss), net of investment expense				
Police Pension Fund	6.5%	(0.5)%	6.2%	13.2%
City Employees Retirement Fund	6.5%	(0.6)%	6.8%	13.3%

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

City of Lock Haven, Pennsylvania

Required Supplementary Information

Schedule of Other Post-Employment Benefit Plan Funding Progress

Year Ended December 31, 2017

(Unaudited)

Schedule of Funding Progress

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

See notes to financial statements

City of Lock Haven, Pennsylvania

Required Supplementary Information

Schedule of Changes in Net OPEB Liability and Related Ratios - OPEB Trust Fund

Year Ended December 31, 2017

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 98
Interest	1,487
Differences between expected and actual experience	-
Changes in benefit terms	-
Changes in assumptions	-
Benefit payments, including refunds of member contributions	(1,188)
Administrative expense	-
	<hr/>
Net change in total OPEB liability	397
Total OPEB liability, beginning	<hr/> 25,341
Total OPEB liability, ending (a)	<hr/> <u>\$ 25,738</u>
Plan fiduciary net position	
Employer contributions	\$ 1,588
Employee contributions	-
Other contributions	-
Net investment income	34,745
Benefits payments, including refunds of member contributions	(1,188)
Administration	(756)
Other	-
	<hr/>
Net change in plan fiduciary net position	34,389
Plan fiduciary net position, beginning	<hr/> 185,993
Plan fiduciary net position, ending (b)	<hr/> <u>\$ 220,382</u>
Net OPEB liability (asset), ending (a) - (b)	<hr/> <u>\$ (194,644)</u>
Plan fiduciary net position as a percentage of total OPEB liability	<hr/> <u>856.25%</u>
Covered-employee payroll	\$ 834,504
Net OPEB liability as a percentage of covered-employee payroll	<hr/> <u>-23.3%</u>

The City implemented GASB Statement No. 74 during its calendar year ended December 31, 2017. Information prior to 2017 is not available.

See notes to financial statements

City of Lock Haven, Pennsylvania

Required Supplementary Information
Schedule of Investment Returns - OPEB Trust Fund
Year Ended December 31, 2017
(Unaudited)

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	<u>18.7%</u>

The City implemented GASB Statement No. 74 during its calendar year ended December 31, 2017. Information prior to 2017 is not available.

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

Honorable Members of City Council
City of Lock Haven, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the "City") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 8, 2019. Our report included an emphasis-of-matter paragraph, as more fully described in Note 1, to address the City's adoption of the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans* in 2017. Our report was not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-002 through 2017-005 to be significant deficiencies.

Compliance and Other Matters

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

City's Responses to Findings

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
February 8, 2019

City of Lock Haven, Pennsylvania

Schedule of Findings and Responses
Year Ended December 31, 2017

Finding No.

Finding/Noncompliance

2017-001

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

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

Condition/Context: The City's pooled cash account balances within its general ledger system were not adequately reconciled to monthly bank statements during 2017. Further, the reconciliations were not performed on a timely, monthly basis and did not fully reconcile all activity between the general ledger and the bank statement. This process was complicated due in part to the City's conversion to a new accounting system in 2016.

Effect: Cash account balances within the general ledger system, during 2017, did not reflect accurate reconciled balances.

Cause: The primary cause of this situation was a system conversion in 2016 from Munis to MIP; which spilled over into 2017. Moreover, this process has not been prioritized by those involved.

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

**Views of
Responsible
Officials and
Planned Corrective**

Actions: See corrective action plan.

City of Lock Haven, Pennsylvania

Schedule of Findings and Responses
Year Ended December 31, 2017

Finding No.

Finding/Noncompliance

2017-002

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

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

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

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

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

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

Views of Responsible Officials and Planned Corrective

Actions: See corrective action plan.

City of Lock Haven, Pennsylvania

Schedule of Findings and Responses
Year Ended December 31, 2016

Finding No.

Finding/Noncompliance

2017-003

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

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

- Cash reconciliations;
- Various receivable/payable and associated revenue and expense accounts;
- Proprietary Fund capital assets and related financing activity;
- Conversion of financial statements from fund basis to government wide basis and from cash to accrual basis; and,
- Beginning fund balance

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

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

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

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

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

Views of Responsible Officials and Planned Corrective

Actions: See corrective action plan.

City of Lock Haven, Pennsylvania

Schedule of Findings and Responses
Year Ended December 31, 2016

Finding No.

Finding/Noncompliance

2017-004

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

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

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

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

Cause: Lack of oversight.

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

Views of Responsible Officials and Planned Corrective

Actions: See corrective action plan.

City of Lock Haven, Pennsylvania

Schedule of Findings and Responses
Year Ended December 31, 2016

Finding No.

Finding/Noncompliance

2017-005

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

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

Condition/Context: The City reports various amounts of interfund receivables (due from) and payables (due to) within its governmental fund financial statements. Such balances have accumulated over time and not been liquidated (settled). In particular, the Airport Fund had \$426,925 payable to other funds, which based on the historical operations of the Airport Fund would be difficult for this payable to be satisfied.

Effect: As time goes by, the composition and original purpose of the interfund borrowing becomes more difficult to identify and the ability of these items to be repaid becomes less likely.

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

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

Views of Responsible Officials and Planned Corrective

Actions: See corrective action plan.