

City of Lock Haven, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2019

City of Lock Haven, Pennsylvania

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Independent Auditors' Report

To the Honorable Members of City Council of
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, 2019, 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. The financial statements of the Lock Haven Area Flood Protection Authority were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2019, and the respective changes in net 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.

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 Required Supplementary Information on pages 52 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020, 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.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Williamsport, Pennsylvania
December 7, 2020

City of Lock Haven, Pennsylvania

Statement of Net Position

December 31, 2019

	Primary Government			Component Protection Protection Authority
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,730,233	\$ 2,398,940	\$ 4,129,173	\$ 1,463
Restricted cash	-	218,276	218,276	-
Receivables (net of allowance for uncollectibles):				
Taxes, net	466,189	-	466,189	-
Loans	119,860	-	119,860	-
Other	4,749	779,646	784,395	-
Internal balances	237,575	(237,575)	-	-
Due from other governments	102,652	165,122	267,774	-
Prepaid expenses and other assets	125,883	6,470	132,353	-
Total current assets	2,787,141	3,330,879	6,118,020	1,463
Net pension asset	136,836	83,153	219,989	-
Capital assets:				
Public utility systems (including equipment)	-	48,660,514	48,660,514	84,590,355
Land and improvements	5,941,381	3,689,454	9,630,835	-
Infrastructure and infrastructure in progress	7,260,437	-	7,260,437	-
Buildings	4,451,383	-	4,451,383	-
Vehicles, equipment and furniture	5,383,706	1,136,528	6,520,234	-
Construction in progress	193,993	1,770	195,763	-
Less accumulated depreciation	(11,669,125)	(17,584,181)	(29,253,306)	(17,763,975)
Total capital assets	11,561,775	35,904,085	47,465,860	66,826,380
Deferred Outflows of Resources				
Pension	230,510	49,901	280,411	-
Other postemployment benefits (OPEB)	838,309	-	838,309	-
Total deferred outflows of resources	1,068,819	49,901	1,118,720	-
Total assets and deferred outflows of resources	15,554,571	39,368,018	54,922,589	66,827,843
Liabilities				
Accounts payable and accrued expenses	209,120	181,338	390,458	-
Construction contracts, including retainage payable	-	242,839	242,839	-
Unearned revenue	127,207	2,527	129,734	-
Long-term liabilities, due within one year				
Bonds and notes payable	171,553	923,575	1,095,128	-
Capital leases	36,635	27,468	64,103	-
Total current liabilities	544,515	1,377,747	1,922,262	-
Due in more than one year:				
Bonds and notes payable	2,569,083	21,650,503	24,219,586	-
Capital leases	103,735	112,294	216,029	-
Compensated absences	69,060	53,395	122,455	-
Net OPEB liability	7,653,288	-	7,653,288	-
Total liabilities	10,939,681	23,193,939	34,133,620	-
Deferred Inflows of Resources				
Pension	796,641	312,739	1,109,380	-
Other postemployment benefits (OPEB)	1,583,186	-	1,583,186	-
Total deferred inflows of resources	2,379,827	312,739	2,692,566	-
Net Position (Deficit)				
Net investment in capital assets	8,680,769	13,165,682	21,846,451	66,826,380
Restricted for:				
Capital projects	127,097	218,276	345,373	-
Program purposes	1,033,962	-	1,033,962	-
Unrestricted (deficit)	(7,606,765)	2,477,382	(5,129,383)	1,463
Total net position	\$ 2,235,063	\$ 15,861,340	\$ 18,096,403	\$ 66,827,843

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Activities

Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Unit Flood Protection Authority
					Governmental Activities	Business-Type Activities		
Primary Government								
Governmental activities:								
General government	\$ 861,097	\$ 474,360	\$ 153,352	\$ -	\$ (233,385)		\$ (233,385)	
Public safety	1,609,447	172,519	14,168	-	(1,422,760)		(1,422,760)	
Public works	1,103,189	-	293,697	15,733	(793,759)		(793,759)	
Culture and recreation	203,417	213,134	-	-	9,717		9,717	
Interest and fees on long-term debt	65,652	-	-	-	(65,652)		(65,652)	
Employee benefits and insurance	438,532	-	232,294	-	(206,238)		(206,238)	
Health and human services	343,683	-	-	-	(343,683)		(343,683)	
Unallocated depreciation	838,344	-	-	-	(838,344)		(838,344)	
Total governmental activities	5,463,361	860,013	693,511	15,733	(3,894,104)		(3,894,104)	
Business type activities:								
Public utility services, water	1,731,583	1,590,049	-	154,104		\$ 12,570	12,570	
Public utility services, sanitary sewer	3,519,726	2,604,454	-	416,929		(498,343)	(498,343)	
William T. Piper Memorial Airport	424,503	296,229	-	197,332		69,058	69,058	
Total business type activities	5,675,812	4,490,732	-	768,365		(416,715)	(416,715)	
Total primary government	\$ 11,139,173	\$ 5,350,745	\$ 693,511	\$ 784,098	(3,894,104)	(416,715)	(4,310,819)	
Component Unit								
Lock Haven Area Flood Protection Authority	\$ 847,042	\$ -	\$ -	\$ -				\$ (847,042)
General Revenues								
Property taxes					2,634,057	-	2,634,057	-
Earned income taxes					589,996	-	589,996	-
Other taxes					394,573	-	394,573	-
Grants and contributions not restricted to specific programs					56,772	-	56,772	-
Unrestricted investment earnings					12,781	49,250	62,031	-
Miscellaneous					168,271	22,736	191,007	-
Gain (loss) on sale of equipment					15,797	(1,965)	13,832	-
Total general revenues					3,872,247	70,021	3,942,268	-
Change in Net Position					(21,857)	(346,694)	(368,551)	(847,042)
Net Position, Beginning					2,256,920	16,208,034	18,464,954	67,674,885
Net Position, Ending					\$ 2,235,063	\$ 15,861,340	\$ 18,096,403	\$ 66,827,843

See notes to financial statements

City of Lock Haven, Pennsylvania

Balance Sheet - Governmental Funds

December 31, 2019

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 915,605	\$ 798,844	\$ 1,714,449
Receivables:			
Taxes, net	466,189	-	466,189
Loans	-	119,860	119,860
Other governments	102,652	-	102,652
Due from other funds	-	315,230	315,230
Prepaid expenses	125,601	-	125,601
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,610,047</u>	<u>\$ 1,233,934</u>	<u>\$ 2,843,981</u>
Liabilities, Deferred Inflow of Resources and Fund Balances			
Liabilities:			
Vouchers (accounts) payable	\$ 86,503	\$ 22,593	\$ 109,096
Accrued liabilities	88,331	8,242	96,573
Due to other funds	76,827	828	77,655
Unearned revenue	7,401	119,806	127,207
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>259,062</u>	<u>151,469</u>	<u>410,531</u>
Deferred inflow of resources, Unearned revenue, taxes	<u>402,820</u>	<u>-</u>	<u>402,820</u>
Fund balances:			
Nonspendable	125,601	-	125,601
Restricted	-	1,161,059	1,161,059
Committed	842,309	-	842,309
Assigned	-	12,705	12,705
Unassigned (deficit)	(19,745)	(91,299)	(111,044)
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>948,165</u>	<u>1,082,465</u>	<u>2,030,630</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,610,047</u>	<u>\$ 1,233,934</u>	<u>\$ 2,843,981</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
Year Ended December 31, 2019

Total Fund Balance, Governmental Funds \$ 2,030,630

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. 11,561,775

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. 402,820

Deferred outflows related to the net pension liability
are not reported in the governmental funds, however
are reported in the statement of net position. 230,510

Deferred outflows related to the OPEB liability
are not reported in the governmental funds, however
are reported in the statement of net position. 838,309

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. 17,364

Deferred inflows related to the net pension liability
are not reported in the governmental funds, however
are reported in the statement of net position. (796,641)

Deferred inflows related to the OPEB liability
are not reported in the governmental funds, however
are reported in the statement of net position. (1,583,186)

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,
2019 are:

Bonds and notes payable	(2,740,636)
Capital leases	(140,370)
Net OPEB liability	(7,653,288)
Net pension asset	136,836
Compensated absences	(69,060)

**Net Position of Governmental Activities
in the Statement of Net Position** \$ 2,235,063

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, 2019

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues			
Taxes	\$ 3,578,672	\$ -	\$ 3,578,672
Licenses and permits	145,681	-	145,681
Fines and forfeits	151,318	-	151,318
Interest, rents and royalties	49,065	8,661	57,726
Intergovernmental	586,237	442,876	1,029,113
Charges for service	201,938	-	201,938
Collections on loans	-	28,771	28,771
Miscellaneous	18,526	43,411	61,937
	<u>4,731,437</u>	<u>523,719</u>	<u>5,255,156</u>
Expenditures			
General government	624,335	752,718	1,377,053
Employee benefits and insurance	1,307,119	-	1,307,119
Community and economic development	-	50,012	50,012
Public works, highways and streets	992,549	213,210	1,205,759
Public safety	1,617,159	-	1,617,159
Culture and recreation	138,628	64,788	203,416
Capital outlay	467,654	-	467,654
Debt service	184,158	-	184,158
	<u>5,331,602</u>	<u>1,080,728</u>	<u>6,412,330</u>
Deficiency of Revenues Over Expenditures	<u>(600,165)</u>	<u>(557,009)</u>	<u>(1,157,174)</u>
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets	15,797	74,665	90,462
Proceeds from long-term debt	463,661	245,990	709,651
Proceeds from extended term financing	25,437	-	25,437
Transfers in	-	434,846	434,846
Transfers out	(213,659)	(221,187)	(434,846)
	<u>291,236</u>	<u>534,314</u>	<u>825,550</u>
Changes in Fund Balances	(308,929)	(22,695)	(331,624)
Fund Balance, Beginning	<u>1,257,094</u>	<u>1,105,160</u>	<u>2,362,254</u>
Fund Balance, Ending	<u>\$ 948,165</u>	<u>\$ 1,082,465</u>	<u>\$ 2,030,630</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, 2019

Net Change in Fund Balances, Total Governmental Funds	\$ (331,624)
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 \$1,142,029 exceeded depreciation expense \$838,344, in the current period.	303,685
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, 2019.	40,523
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 2019, the following transactions factor into this reconciliation:	
Issuance of long-term debt	(709,650)
Retirement of principal of long-term debt	124,620
Issuance of extended term financing	(25,437)
Retirement of extended term financing	33,756
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, 2019.	18,369
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.	(14,185)
OPEB 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 OPEB.	537,368
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.	718
Change in Net Position of Governmental Activities	\$ (21,857)

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, 2019

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
Taxes	\$ 3,411,915	\$ 3,578,672	\$ 166,757
Licenses and permits	101,050	145,681	44,631
Fines and forfeits	160,969	151,318	(9,651)
Interest, rents and royalties	13,903	49,065	35,162
Intergovernmental	564,256	586,237	21,981
Charges for services	268,050	201,938	(66,112)
Miscellaneous	11,800	18,526	6,726
	<u>4,531,943</u>	<u>4,731,437</u>	<u>199,494</u>
Expenditures			
General government	614,192	624,335	(10,143)
Employee benefits and insurance	1,464,134	1,307,119	157,015
Public safety	1,508,951	1,617,159	(108,208)
Public works, highways and streets	1,370,808	992,549	378,259
Culture and recreation	214,050	138,628	75,422
Other	378,092	-	378,092
Debt service	215,901	184,158	31,743
Capital outlay	326,000	467,654	(141,654)
	<u>6,092,128</u>	<u>5,331,602</u>	<u>760,526</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,560,185)</u>	<u>(600,165)</u>	<u>960,020</u>
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets	9,653	15,797	6,144
Proceeds from long-term debt	629,000	463,661	(165,339)
Proceeds from extended term financing	-	25,437	25,437
Transfers in	80,547	-	(80,547)
Transfers out	(258,056)	(213,659)	44,397
Appropriated fund balance	1,099,041	-	(1,099,041)
	<u>1,560,185</u>	<u>291,236</u>	<u>(1,268,949)</u>
Deficiency of Revenues Over Expenditures After Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ (308,929)</u>	<u>\$ (308,929)</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

 Statement of Net Position - Proprietary Funds
 December 31, 2019

	Enterprise Funds				Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund (Nonmajor)	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,926,913	\$ 472,027	\$ -	\$ 2,398,940	\$ 15,784
Restricted cash	-	-	218,276	218,276	-
Customer accounts receivable, (net of allowance)	290,493	401,634	87,519	779,646	4,749
Due from other funds	4,072	98,087	40,167	142,326	-
Due from other governments	5,000	43,094	117,028	165,122	-
Other current assets	5,846	624	-	6,470	282
Total current assets	2,232,324	1,015,466	462,990	3,710,780	20,815
Net pension asset	28,339	54,211	603	83,153	-
Capital assets:					
Public utility systems (including related equipment)	8,582,105	40,078,409	-	48,660,514	-
Land and improvements	-	506,915	3,182,539	3,689,454	-
Equipment and vehicles	286,057	97,250	753,221	1,136,528	-
Construction in progress	-	-	1,770	1,770	-
Less accumulated depreciation	(5,200,707)	(10,334,941)	(2,048,533)	(17,584,181)	-
Total capital assets, net	3,667,455	30,347,633	1,888,997	35,904,085	-
Total assets	5,928,118	31,417,310	2,352,590	39,698,018	20,815
Deferred Outflows of Resources					
Pension	19,883	29,274	744	49,901	-
Total assets and deferred outflows of resources	\$ 5,948,001	\$ 31,446,584	\$ 2,353,334	\$ 39,747,919	\$ 20,815
Liabilities					
Current liabilities:					
Current portion of bonds and notes payable	\$ 121,957	\$ 784,936	\$ 16,682	\$ 923,575	\$ -
Current portion of lease payable	13,899	13,569	-	27,468	-
Vouchers (accounts) payable:					
Trade	12,764	109,391	10,511	132,666	3,451
Construction contracts, including retainage	37,693	-	205,146	242,839	-
Accrued liabilities	20,210	28,365	97	48,672	-
Due to other funds	85,351	6,490	288,060	379,901	-
Unearned revenue	-	-	2,527	2,527	-
Total current liabilities	291,874	942,751	523,023	1,757,648	3,451
Noncurrent liabilities:					
Compensated absences	14,042	17,920	21,433	53,395	-
Long-term portion of bonds and notes payable	3,001,015	18,336,308	313,180	21,650,503	-
Long-term portion of lease payable	56,822	55,472	-	112,294	-
Total noncurrent liabilities	3,071,879	18,409,700	334,613	21,816,192	-
Total liabilities	3,363,753	19,352,451	857,636	23,573,840	3,451
Deferred Inflows of Resources					
Pension	107,112	189,179	16,448	312,739	-
Total deferred inflows of resources	107,112	189,179	16,448	312,739	-
Net Position					
Net investment in capital assets	436,069	11,157,348	1,572,265	13,165,682	-
Restricted	-	-	218,276	218,276	-
Unrestricted (deficit)	2,041,067	747,606	(311,291)	2,477,382	17,364
Total net position	2,477,136	11,904,954	1,479,250	15,861,340	17,364
Total liabilities, deferred inflows of resources and net position	\$ 5,948,001	\$ 31,446,584	\$ 2,353,334	\$ 39,747,919	\$ 20,815

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, 2019

	Enterprise Funds			Total	Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund (nonmajor)		
Revenues					
Charges for services	\$ 1,590,049	\$ 2,604,454	\$ 296,229	\$ 4,490,732	\$ 55,500
Operating Expenses					
Personnel services	684,316	1,285,176	29,187	1,998,679	-
Depreciation	361,399	1,069,511	183,767	1,614,677	-
Utilities (including water filtration costs)	539,955	222,605	32,177	794,737	-
Administrative expense	57,673	316,150	3,065	376,888	54,792
Materials, supplies and maintenance	45,975	218,286	162,270	426,531	-
Sludge disposal	-	154,822	-	154,822	-
Insurance	4,823	27,011	11,546	43,380	-
Miscellaneous	3,799	14,640	1,132	19,571	-
Total operating expenses	1,697,940	3,308,201	423,144	5,429,285	54,792
Operating (loss) income	(107,891)	(703,747)	(126,915)	(938,553)	708
Nonoperating Revenues (Expenses)					
Subsidies from other governments:					
State	6,188	416,929	197,332	620,449	-
Local	147,916	-	-	147,916	-
Interest income	32,002	17,248	-	49,250	10
Rental income	3,324	19,049	363	22,736	-
(Loss) gain on sale of capital assets	(2,454)	489	-	(1,965)	-
Interest expense	(33,643)	(211,525)	(1,359)	(246,527)	-
Total nonoperating revenues, net	153,333	242,190	196,336	591,859	10
Net Income (Loss)	45,442	(461,557)	69,421	(346,694)	718
Net Position, Beginning	2,431,694	12,366,511	1,409,829	16,208,034	16,646
Net Position, Ending	\$ 2,477,136	\$ 11,904,954	\$ 1,479,250	\$ 15,861,340	\$ 17,364

See notes to financial statements

City of Lock Haven, Pennsylvania

 Statement of Cash Flows - Proprietary Funds
 Year Ended December 31, 2019

	Enterprise Funds				Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund (Nonmajor)	Totals	
Cash Flows From Operating Activities					
Cash received from users	\$ 1,621,250	\$ 2,458,615	\$ 174,032	\$ 4,253,897	\$ 55,535
Cash payments to employees for services	(614,346)	(1,285,813)	(22,105)	(1,922,264)	-
Cash paid to suppliers for goods and services	(665,998)	(804,919)	(205,146)	(1,676,063)	(54,285)
Net cash provided by (used in) operating activities	340,906	367,883	(53,219)	655,570	1,250
Cash Flows From Investing Activities					
Rental income	3,324	19,049	363	22,736	-
Earnings on investments	32,002	17,248	-	49,250	10
Net cash provided by investing activities	35,326	36,297	363	71,986	10
Cash Flows From Capital and Related Financing Activities					
Payments for capital acquisitions	(759,190)	(908,009)	(70,187)	(1,737,386)	-
Capital subsidies from other governments	154,104	416,929	85,515	656,548	-
Principal payments on long-term debt	(210,567)	(787,066)	(32,963)	(1,030,596)	-
Principal payments on lease liabilities	(3,397)	(3,314)	-	(6,711)	-
Proceeds from long-term debt	607,080	725,419	290,126	1,622,625	-
Interest paid	(33,643)	(211,525)	(1,359)	(246,527)	-
Proceeds from sale of assets	(2,454)	489	-	(1,965)	-
Net cash (used in) provided by capital and related financing activities	(248,067)	(767,077)	271,132	(744,012)	-
Increase (decrease) in Cash and Cash Equivalents	128,165	(362,897)	218,276	(16,456)	1,260
Cash and Cash Equivalents, Beginning	1,798,748	834,924	-	2,633,672	14,524
Cash and Cash Equivalents, Ending	\$ 1,926,913	\$ 472,027	\$ 218,276	\$ 2,617,216	\$ 15,784
Displayed as:					
Cash and cash equivalents	\$ 1,926,913	\$ 472,027	\$ -	\$ 2,398,940	\$ 15,784
Restricted cash	-	-	218,276	218,276	-
Total	\$ 1,926,913	\$ 472,027	\$ 218,276	\$ 2,617,216	\$ 15,784
Reconciliation of Operating (Loss) Income to Net Cash Provided by (Used in) Operating Activities					
Operating (loss) income	\$ (107,891)	\$ (703,747)	\$ (126,915)	\$ (938,553)	\$ 708
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:					
Depreciation	361,399	1,069,511	183,767	1,614,677	-
Changes in assets and liabilities:					
Accounts receivable, other	31,201	(145,839)	(23,846)	(138,484)	35
Due from/to other governments and funds	-	-	(98,351)	(98,351)	-
Other current assets	60,479	121,561	4,775	186,815	-
Net pension asset	(179,607)	(304,414)	(39,121)	(523,142)	-
Deferred outflows of resources, pension	53,421	44,898	40,575	138,894	-
Vouchers payable	(13,773)	27,033	6,008	19,268	507
Accrued and other liabilities	6,154	(7,019)	1,272	407	-
Deferred inflows of resources, pension	129,523	265,899	(1,383)	394,039	-
Net Cash Provided by (Used in) Operating Activities	\$ 340,906	\$ 367,883	\$ (53,219)	\$ 655,570	\$ 1,250
Supplemental Disclosure of Non-Cash Capital and Related Financing Activities					
Capital additions from capital lease payable	\$ 74,118	\$ 72,355	\$ -	146,473	\$ -
Capital additions from construction contracts payable	\$ 37,693	\$ -	\$ 205,146	242,839	\$ -

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2019

	Pension and OPEB Trust Funds
Assets	
Current Assets:	
Cash and cash equivalents	\$ 280,278
Accrued interest receivable	32,676
	<hr/>
Total current assets	312,954
	<hr/>
Investments:	
Fixed income securities	4,713,952
Equity securities	7,481,418
Mutual funds	1,597,546
	<hr/>
Total investments	13,792,916
	<hr/>
Total assets	<u>\$ 14,105,870</u>
Liabilities	
Benefits payable	\$ 42,572
Net Position	
Restricted for pensions and postemployment benefits other than pensions	<hr/> 14,063,298
	<hr/>
Total liabilities and net position	<u>\$ 14,105,870</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2019

	Pension and OPEB Trust Funds
Additions	
Contributions:	
Commonwealth of Pennsylvania	\$ 191,019
Employees	100,465
City	<u>65,068</u>
Total contributions	<u>356,552</u>
Investment earnings:	
Net increase in fair value of investments	1,989,701
Interest and dividends	<u>396,046</u>
Total investment gain	<u>2,385,747</u>
Total additions	<u>2,742,299</u>
Deductions	
Benefits	780,097
Investment fees and other	<u>108,930</u>
Total deductions	<u>889,027</u>
Change in Net Position	1,853,272
Net Position, Beginning	<u>12,210,026</u>
Net Position, Ending	<u><u>\$ 14,063,298</u></u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2019

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 Bald Eagle Creek. The City is the largest municipality in Clinton County, encompassing 2.7 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, 2019

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 City 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 and the City Authority has guaranteed certain debt of the City.
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.

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, pension and OPEB 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 and transportation related services (Water, Sewer and Airport). 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.

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.
- 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 nonmajor 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 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 and sewer operations. The City's airport operations is reported as a nonmajor fund.

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 Other Post-Employment Benefit (OPEB) Trust Funds

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

Cash Equivalents

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

Investments

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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Customer 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, 2019 amounted to \$149,081. The allowance for doubtful accounts related to the Water, Sewer and Airport proprietary funds amounted to \$23,032, \$17,758 and \$6,736, respectively, as of December 31, 2019.

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	50 - 75 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, 2019, the General, Nonmajor Governmental and Airport Operating Funds had unearned revenues of \$7,401, \$252,302 and \$2,527, respectively.

Deferred Outflows/Inflows of Resources

In additions to assets and liabilities, 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:

- *Nonspendable* - 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 healthcare benefits for police officers who participate in the City's Police Pension Plan and who retire from active service after age 50 with 20 years of service. The City does not fund this benefit. In addition, 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2019

Use of Estimates

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

New Accounting Principles

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements* in 2019. Statement No. 88 enhances information included in the notes to financial statements related to debt, including lines of credit, collateral for debt, and terms of events of default with significant finance related consequences. Statement No. 88 expanded and enhanced disclosures surrounding debt, but did not have a material impact on the City's financial statements.

The City adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, during 2019. GASB 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain GASB statements. The adoption of this standard did not have a material effect on the City's financial statements.

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 percent 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 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 2019, 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its deposits 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. At December 31, 2019, the aggregate bank balance of bank deposits was \$4,649,743, of which \$1,245,717 was covered by federal depository insurance and \$250,000 was covered by Securities Investor Protection Corporation (SIPC) insurance. The uninsured remaining bank deposits of \$3,123,748 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 and \$30,278 was unsecured. The carrying amount of these bank deposits was \$4,627,726 at December 31, 2019.

Investments, Pension and OPEB Trust Funds

As of December 31, 2019, the City had the following investments:

Investment	Maturities	Fair Value
Common stock	N/A	\$ 7,481,418
Corporate bonds	Average of 5 years	1,230,124
Government bonds	Average of 9 years	17,651
Certificates of deposit	Average of 4 years	275,233
Mutual funds	N/A	1,597,547
U.S. Treasury securities	Average of 7 years	1,303,111
Government mortgage pools	Average of 21 years	912,723
Corp. mortgage/asset backed securities	Average of 3 years	747,247
Government asset backed securities	Average of 3 years	227,862
Total		<u>\$ 13,792,916</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

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, 2019, 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.

At December 31, 2019, the City's credit quality distribution of securities as a percentage of total fixed income investments is as follows:

U.S. Treasury securities	AA+	27.64 %
Corporate bonds	BBB- to AAA	26.10
Government mortgage pools	AA+ to AAA	19.36
Corp. mortgage/asset backed securities	AA to AAA	15.85
Certificates of deposit	AA+	5.84
Government asset backed securities	AA to AAA	4.84
Government bonds	AA+	0.37
		<u>100.00 %</u>

The City's investment policy limits investments as follows:

- At least 50 percent 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. No single investment holding exceeds 5 percent of the total investment portfolio.

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. The City does not hold any foreign investments.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

4. 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, 2019:

	December 31, 2019			
	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:				
U.S. treasury securities	\$ 1,303,111	\$ -	\$ 1,303,111	\$ -
Corporate bonds	1,230,124	-	1,230,124	-
Government mortgage pools	912,723	-	912,723	-
Corp. mortgage/asset backed securities	563,432	-	563,432	-
Government asset backed securities	411,677	-	411,677	-
Certificates of deposit	275,233	-	275,233	-
Government bonds	17,652	-	17,652	-
Common stocks:				
Information technology	1,822,955	1,822,955		
Other equity mutual funds	1,483,878	1,483,878	-	-
Communication services	1,118,125	1,118,125	-	-
Industrials	982,913	982,913	-	-
Financials	925,484	925,484	-	-
Consumer discretionary	802,965	802,965	-	-
Healthcare	785,552	785,552	-	-
Energy	493,189	493,189	-	-
Consumer staples	308,356	308,356	-	-
Materials	135,520	135,520	-	-
Utilities	106,359	106,359	-	-
Other equity mutual funds	113,668	113,668	-	-
Total investments	\$ 13,792,916	\$ 9,078,964	\$ 4,713,952	\$ -

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, 2019

7. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2019 is as follows:

	Balance January 1, 2019	Acquisitions	Disposals	Transfers	Balance December 31, 2019
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,577,272	\$ 65,000	\$ -	\$ -	\$ 3,642,272
Construction in progress	193,993	-	-	-	193,993
Total capital assets, not being depreciated	<u>3,771,265</u>	<u>65,000</u>	<u>-</u>	<u>-</u>	<u>3,836,265</u>
Capital assets, being depreciated:					
Land improvements	2,289,843	9,266	-	-	2,299,109
Buildings and improvements	3,992,239	459,144	-	-	4,451,383
Furniture and equipment	3,334,795	-	-	-	3,334,795
Transportation	1,903,976	144,935	-	-	2,048,911
Infrastructure	6,796,753	463,684	-	-	7,260,437
Total capital assets, being depreciated	<u>18,317,606</u>	<u>1,077,029</u>	<u>-</u>	<u>-</u>	<u>19,394,635</u>
Less accumulated depreciation:					
Land improvements	(1,764,694)	(93,809)	-	-	(1,858,503)
Buildings and improvements	(2,822,965)	(90,738)	-	-	(2,913,703)
Furniture and equipment	(2,367,768)	(150,884)	-	-	(2,518,652)
Transportation	(1,383,726)	(206,241)	-	-	(1,589,967)
Infrastructure	(2,491,628)	(296,672)	-	-	(2,788,300)
Total accumulated depreciation	<u>(10,830,781)</u>	<u>(838,344)</u>	<u>-</u>	<u>-</u>	<u>(11,669,125)</u>
Total capital assets, being depreciated	<u>7,486,825</u>	<u>238,685</u>	<u>-</u>	<u>-</u>	<u>7,725,510</u>
Governmental activities, net	<u>\$ 11,258,090</u>	<u>\$ 303,685</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,561,775</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

	Balance January 1, 2019	Acquisitions	Disposals	Transfers	Balance December 31, 2019
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 669,000	\$ 6,915	\$ -	\$ -	\$ 675,915
Construction in progress	1,770	-	-	-	1,770
Total capital assets, not being depreciated	670,770	6,915	-	-	677,685
Capital assets, being depreciated:					
Utility system	46,962,538	1,697,976	-	-	48,660,514
Land improvements	2,738,206	275,333	-	-	3,013,539
Equipment and vehicles	990,055	146,473	-	-	1,136,528
Total capital assets, being depreciated	50,690,799	2,119,782	-	-	52,810,581
Less accumulated depreciation:					
Utility system	(13,917,205)	(1,383,414)	-	-	(15,300,619)
Land improvements	(1,233,067)	(150,678)	-	-	(1,383,745)
Equipment and vehicles	(819,232)	(80,585)	-	-	(899,817)
Total accumulated depreciation	(15,969,504)	(1,614,677)	-	-	(17,584,181)
Business-type activities capital assets, net	\$ 35,392,065	\$ 512,020	\$ -	\$ -	\$ 35,904,085

Governmental activity depreciation expense, which amounted to \$838,344 for the year ended December 31, 2019, was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$361,399, \$1,069,511 and \$183,767 for the year ended December 31, 2019, was charged to the Water, Sewer and Airport Funds in the accompanying financial statements, respectively.

	Balance January 1, 2019	Additions	Disposals	Balance December 31, 2019
Component unit:				
Flood Protection Authority:				
Land improvements	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(16,918,071)	(845,904)	-	(17,763,975)
Component unit - capital asset, net	\$ 67,672,284	\$ (845,904)	\$ -	\$ 66,826,380

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

8. 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, 2019 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 76,827
Nonmajor Governmental Funds	316,803	828
Enterprise Funds:		
Water Fund	4,072	85,351
Sewer Fund	98,087	6,490
Airport Fund	40,167	289,633
	<u>\$ 459,129</u>	<u>\$ 459,129</u>

Transfers to/From Other Funds

Interfund transfers for the year ended December 31, 2019 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 213,659
Nonmajor Governmental Funds	434,846	221,187
	<u>\$ 434,846</u>	<u>\$ 434,846</u>

During the year ended December 31, 2019, the City made transfers from its General Fund to the City's Capital Projects Fund for an annual expense allocation for \$53,102, to the Capital Projects Fund for \$156,557 for annual projects, and to the Interchange Fund for an annual allocation of \$4,000. The City also made a state mandated transfer of \$221,187 from its Road Turnback Fund to its Highway Aid Fund.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

9. Long-Term Debt From Direct Borrowings and General Obligation Debt

As of December 31, 2019, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at January 1, 2019	Additions	Retirements	Balance at December 31, 2019	Current Portion
PennVEST Note Payable, Sewer Fund *	1.156 %	\$ 2,638,730	\$ 813,775	\$ -	\$ 133,662	\$ 680,113	\$ 135,216
PennVEST Note Payable, Water Fund *	1.00	6,122,000	2,586,634	-	120,742	2,465,892	121,957
PennVEST Note Payable, Sewer Fund *	1.00	18,074,732	15,614,426	-	540,299	15,074,127	545,720
2013 General Obligation Bond	2.46 - 5.50	2,118,000	2,030,000	-	39,000	1,991,000	139,000
2016 General Obligation Bond, Series A	1.61 - 4.50	3,430,000	2,643,581	784,419	2,000	3,426,000	104,000
2016 General Obligation Note, Series B	1.40	2,125,000	319,512	-	319,512	-	-
2018 General Obligation Bond, Series A	3.938	1,060,000	66,334	709,650	-	775,984	34,360
2018 General Obligation Bond, Series B	4.90	292,000	13,392	231,126	-	244,518	14,875
2018 General Obligation Bond, Series C	3.31	2,500,000	50,001	607,080	-	657,081	-
Total, net			<u>\$ 24,137,655</u>	<u>\$ 2,332,275</u>	<u>\$ 1,155,215</u>	<u>\$ 25,314,715</u>	<u>\$ 1,095,128</u>

* Direct Borrowings

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental activities	\$ 171,553	\$ 2,569,083	\$ 2,740,636
Business-type activities	923,575	21,650,504	22,574,079
Total	<u>\$ 1,095,128</u>	<u>\$ 24,219,587</u>	<u>\$ 25,314,715</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 percent 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. The note includes a provision that in an event of default, the timing of repayment of outstanding amounts becomes due and payable in full immediately or the lender may exercise any and all rights in the security interest of collateral.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

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 percent 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. The note includes a provision that in an event of default, the timing of repayment of outstanding amounts becomes due and payable in full immediately or the lender may exercise any and all rights in the security interest of collateral.

PennVEST, Note Payable, Sewer Fund

In 2012, the City entered into a loan agreement with PennVEST with a maximum balance of \$18,074,732, due in monthly installments of \$61,455, including principal and interest at 1 percent per annum through maturity in July 2044. The proceeds from the note 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. The note includes a provision that in an event of default, the timing of repayment of outstanding amounts becomes due and payable in full immediately or the lender may exercise any and all rights in the security interest of collateral.

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 percent 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 percent, not to exceed 5.50 percent 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. This bond is secured by the general taxes and other general revenues of the City. There is a provision in this bond that in an event of default, the timing of repayment of outstanding amounts becomes due and payable in full immediately or the lender may exercise any and all rights in the security interest of collateral. At December 31, 2019, the City had \$1,964,655 outstanding within its governmental activities and \$26,345 within its proprietary funds.

General Obligation Bond, Series A of 2016, Sewer Fund

In 2016, the City issued a General Obligation Bond with a maximum balance of \$3,430,000 (only \$3,428,000 was drawn as of December 31, 2019), bearing interest at 1.61 percent per annum through November 1, 2026, then at a rate of interest equal to the 60 percent of the Wall Street Journal Prime; provided that the variable rate shall not exceed 4.50 percent 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. This bond is secured by the general taxes and other general revenues of the city; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

General Obligation Note, Series B of 2016

In 2016, the City entered into a loan agreement with a maximum balance of \$2,125,000. 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 percent 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. The City paid off the remaining balance of this bond during the current fiscal year. This note is secured by the general taxes and other general revenues of the city; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

General Obligation Note, Series A of 2018, Governmental Activities

In 2018, the City entered into a loan agreement with a maximum balance of \$1,060,000. This note is due in varying semi-annual installments of principal and interest at 3.938 percent per annum through maturity in November 2038. The proceeds were used to provide funds to be applied for and toward costs of the repairs and improvements to the City's Levee System and Tidlow Dam, construction of a new public works salt shed, replacement of the public works garage roof and paying the costs of issuing the 2018 Series A Note. This bond is secured by the general taxes and other general revenues of the city; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

General Obligation Note, Series B of 2018, Airport Fund

In 2018, the City entered into a loan agreement with a maximum balance of \$292,000 (only \$244,518 was drawn as of December 31, 2019). This note is due in varying semi-annual installments of principal and interest at 4.90 percent per annum through maturity in November 2033. The proceeds were used to provide funds to be applied for and toward costs of improvements to the self-fueling station and a hangar at the City owned Airport, and paying the costs of issuing the 2018 Series B Note. This bond is secured by the general taxes and other general revenues of the city; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

General Obligation Note, Series C of 2018, Water Fund

In 2018, the City entered into a loan agreement with a maximum balance of \$2,500,000 (only \$657,081 was drawn as of December 31, 2019). This note is due in semi-annual installments of interest at 3.31 percent per annum with a final principal payment on October 2022 of all then outstanding amounts. The proceeds were used to provide funds to be applied for and toward interim financial costs of improvements and upgrades to the City's Water System, and paying the costs of issuing the 2018 Series C Note. This bond is secured by the general taxes and other general revenues of the city; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

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, 2019 amounted to \$304,993.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

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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, 2019:

	Direct Borrowings		General Obligation Debt		Total
	Principal	Interest	Principal	Interest	
Years Ending December 31:					
2020	\$ 802,893	\$ 179,493	\$ 292,235	\$ 162,956	\$ 1,437,577
2021	811,176	171,214	298,275	161,946	1,442,611
2022	819,541	162,849	962,420	154,620	2,099,430
2023	827,992	154,398	311,425	125,058	1,418,873
2024	824,666	145,860	301,534	160,350	1,432,410
2025-2029	3,580,723	619,413	2,106,155	669,543	6,975,834
2030-2034	3,764,232	435,903	2,085,441	320,061	6,605,637
2035-2039	3,736,502	244,549	737,098	36,876	4,755,025
2040-2044	3,052,407	70,466	-	-	3,122,873
Total	<u>\$ 18,220,132</u>	<u>\$ 2,184,145</u>	<u>\$ 7,094,583</u>	<u>\$ 1,791,410</u>	<u>\$ 29,290,270</u>

10. Property Held Under Capital Lease

Governmental Activities

The City leases vehicles under the terms of capital leases. The interest rate on the capital leases ranges from 2.00 percent to 3.91 percent per annum, as specified in the agreements. The economic substance of the leases are that the City is financing the acquisition of vehicles through the lease agreements. These assets are being amortized over their respective lease terms, which approximate their estimated productive lives. Amortization of assets under capital leases related to governmental activities amounted to approximately \$38,000 for the year ended December 31, 2019. Interest paid on these capital leases amounted to \$4,220 during the year ended December 31, 2019.

Capital Leases	Balance January 1, 2019	Additions	Payments	Balance December 31, 2019	Due Within One Year
Various vehicles	<u>\$ 148,689</u>	<u>\$ 25,437</u>	<u>\$ 33,756</u>	<u>\$ 140,370</u>	<u>\$ 36,635</u>

The following is a schedule, by year, of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2019, as related to the City's governmental activities:

Years ending December 31:	
2020	\$ 40,144
2021	40,144
2022	40,144
2023	25,645
2024	2,337
Total minimum lease payments	148,414
Less amounts representing interest	(8,044)
Present value of net minimum lease payments	140,370
Less current portion	(36,635)
Present value of net minimum lease payments, long-term	<u>\$ 103,735</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Business-Type Activities

During the current year ended December 31, 2019, the City leased two vehicles under the terms of one capital lease, allocated between both the Water and Sewer Funds. The vehicles leased during the current year were a Ford F250 truck, split between the Water and Sewer Funds (\$38,818 to Water and \$33,710 to Sewer) and a Ford F350 truck (\$35,300 to Water and \$38,645 to Sewer). The economic substance of the leases are that the City is financing the acquisition of vehicles through the lease agreements. These assets are being amortized over their respective lease terms, which approximate their estimated productive lives. Amortization of assets under capital leases related to business-type activities amounted to approximately \$29,000 for the year ended December 31, 2019. Interest paid on these capital leases amounted to \$1,304 for the year ended December 31, 2019.

Capital Leases	Balance January 1, 2019	Additions	Payments	Balance December 31, 2019	Due Within One Year
Various vehicles, Water	\$ -	\$ 74,118	\$ 3,397	\$ 70,721	\$ 13,899
Various vehicles, Sewer	-	72,355	3,314	69,041	13,569
Total	\$ -	\$ 146,473	\$ 6,711	\$ 139,762	\$ 27,468

The following is a schedule, by year, of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2019, as related to the City's business-type activities:

Years ending December 31:	
2020	\$ 32,062
2021	32,062
2022	32,062
2023	32,062
2024	24,046
Total minimum lease payments	152,294
Less amounts representing interest	(12,532)
Present value of net minimum lease payments	139,762
Less current portion	(27,468)
Present value of net minimum lease payments, long-term	\$ 112,294

11. Compensated Absences

The changes in the City's compensated absences in 2019 are summarized as follows:

Governmental activities:	
Balance, January 1, 2019	\$ 87,429
Increase	23,806
Decrease	(42,175)
Balance, December 31, 2019	\$ 69,060

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Business-type activities:		
Balance, January 1, 2019	\$	64,042
Increase		11,003
Decrease		<u>(21,650)</u>
Balance, December 31, 2019	\$	<u>53,395</u>

12. 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 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.

13. 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, 2019

The following is a summary of the individual plan financial statements as of and for the year ended December 31, 2019:

	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	\$ 120,010	\$ 159,564	\$ 279,574	\$ 704	\$ 280,278
Accrued interest receivable	13,108	16,108	29,216	3,460	32,676
Total	<u>133,118</u>	<u>175,672</u>	<u>308,790</u>	<u>4,164</u>	<u>312,954</u>
Investments:					
Fixed income securities	2,062,798	2,541,478	4,604,276	109,676	4,713,952
Equity securities	3,315,388	4,166,030	7,481,418	-	7,481,418
Mutual funds	680,413	784,923	1,465,336	132,210	1,597,546
Total investments	<u>6,058,599</u>	<u>7,492,431</u>	<u>13,551,030</u>	<u>241,886</u>	<u>13,792,916</u>
Total assets	<u>\$ 6,191,717</u>	<u>\$ 7,668,103</u>	<u>\$ 13,859,820</u>	<u>\$ 246,050</u>	<u>\$ 14,105,870</u>
Liabilities:					
Benefits payable	\$ 24,290	\$ 18,282	\$ 42,572	\$ -	\$ 42,572
Net position:					
Restricted for benefits	<u>6,167,427</u>	<u>7,649,821</u>	<u>13,817,248</u>	<u>246,050</u>	<u>14,063,298</u>
Total liabilities and net position	<u>\$ 6,191,717</u>	<u>\$ 7,668,103</u>	<u>\$ 13,859,820</u>	<u>\$ 246,050</u>	<u>\$ 14,105,870</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2019

Combining Statement of Changes in 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	\$ 168,426	\$ 22,593	\$ 191,019	\$ -	\$ 191,019
Employees	11,079	89,386	100,465	-	100,465
City	-	63,868	63,868	1,200	65,068
Total contributions	179,505	175,847	355,352	1,200	356,552
Investment earnings:					
Net increase in fair value of investments	865,218	1,094,660	1,959,878	29,823	1,989,701
Interest and dividends	177,390	203,069	380,459	15,587	396,046
Total investment earnings	1,042,608	1,297,729	2,340,337	45,410	2,385,747
Total additions, net	1,222,113	1,473,576	2,695,689	46,610	2,742,299
Deductions:					
Benefits	382,067	390,030	772,097	8,000	780,097
Investment fees and other	53,604	54,201	107,805	1,125	108,930
Total deductions	435,671	444,231	879,902	9,125	889,027
Change in net position	786,442	1,029,345	1,815,787	37,485	1,853,272
Net position, beginning	5,380,985	6,620,476	12,001,461	208,565	12,210,026
Net position, ending	\$ 6,167,427	\$ 7,649,821	\$ 13,817,248	\$ 246,050	\$ 14,063,298

*See Note 14

As of December 31, 2019, the City reported the following amounts in the accompanying financial statements related to the CERF and Police Plans:

	CERF	Police	Total
Deferred outflows of resources	\$ 80,865	\$ 199,546	\$ 280,411
Net pension liability (asset)	(155,708)	(64,281)	(219,989)
Deferred inflows of resources	582,149	527,231	1,109,380

As of December 31, 2019, the City reported the following amounts in the accompanying financial statements related to its participation in the above Plans:

	Governmental Activities	Business-Type Activities	Total
Deferred outflows of resources	\$ 230,510	\$ 49,901	\$ 280,411
Net pension liability (asset)	(136,836)	(83,153)	(219,989)
Deferred inflows of resources	796,641	312,739	1,109,380

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

At January 1, 2019, 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	35	18
Terminated employees entitled to benefits but not yet receiving them	4	1
Active plan participants	<u>40</u>	<u>13</u>
Total	<u>79</u>	<u>32</u>
Number of participating employers	<u>1</u>	<u>1</u>

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 nonuniformed 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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

	CERF	Police
Disability benefits, Eligibility	None	Service related injury or illness
Monthly disability benefits	None	2.5% of final monthly compensation times years of completed service, not to exceed 50%
Death benefits - Spouse: Before retirement	Refund of employee contributions without interest	Monthly benefit equal to years of service times 1.25%, up to a maximum of 25% times last salary prior to death, if death was duty related. 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 percent 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, 2019. 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 percent 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 percent. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

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 2019 measurement period are listed in the table above.

Rate of Return

For the year ended December 31, 2019, the annual money-weighted rate of return (loss) on pension plan investments, net of Plan investment expense, was 19.4 percent for the CERF Plan and 19.2 percent 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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019. The components of the net pension liability of the Plan as of December 31, 2019 were as follows:

	<u>CERF</u>	<u>Police</u>
Total pension liability	\$ 7,494,113	\$ 6,103,146
Plan fiduciary net position	<u>7,649,821</u>	<u>6,167,427</u>
Plan net pension liability (asset)	<u>\$ (155,708)</u>	<u>\$ (64,281)</u>
Plan fiduciary net pension as a percentage of total pension liability	<u>102.08%</u>	<u>101.05%</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Changes in the Net Pension Liability

The changes in the City's CERF Plan net pension liability during the year ended December 31, 2019 are as follows:

	Increase (Decreases)		
	Total Pension Liability (a)	Plan Net Fiduciary Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2019	\$ 7,435,728	\$ 6,620,476	\$ 815,252
Changes for the year:			
Service cost	152,459	-	152,459
Interest	466,339	-	466,339
Differences between expected and actual experience	(202,483)	-	(202,483)
Changes of benefit terms	-	-	-
Changes of assumptions	32,101	-	32,101
Employer contributions	-	86,461	(86,461)
Plan member contributions	-	89,386	(89,386)
Net investment income	-	1,259,167	(1,259,167)
Benefit payments, including refunds of employee contributions	(390,031)	(390,031)	-
Administrative expense	-	(15,638)	15,638
Net changes	58,385	1,029,345	(970,960)
Balances at December 31, 2019	<u>\$ 7,494,113</u>	<u>\$ 7,649,821</u>	<u>\$ (155,708)</u>

The changes in the City's Police Plan net pension liability during the year ended December 31, 2019 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Net Fiduciary Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2019	\$ 6,175,646	\$ 5,380,985	\$ 794,661
Changes for the year:			
Service cost	124,315	-	124,315
Interest	377,423	-	377,423
Differences between expected and actual experience	(286,497)	-	(286,497)
Changes of benefit terms	-	-	-
Changes of assumptions	94,326	-	94,326
Employer contributions	-	168,426	(168,426)
Plan member contributions	-	11,079	(11,079)
Net investment income	-	1,011,424	(1,011,424)
Benefit payments, including refunds of employee contributions	(382,067)	(382,067)	-
Administrative expense	-	(22,420)	22,420
Net changes	(72,500)	786,442	(858,942)
Balances at December 31, 2019	<u>\$ 6,103,146</u>	<u>\$ 6,167,427</u>	<u>\$ (64,281)</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

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, 2019 using the following actuarial methods and assumptions:

	<u>CERF</u>	<u>Police</u>
Actuarial valuation date	January 1, 2019	January 1, 2019
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Projected salary increases	4.00%	4.00%
Inflation	2.50%	2.50%
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, 2019 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 percent, 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 percent 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 percent) or 1 percentage point higher (7.50 percent) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net pension liability (asset), CERF	\$ 706,905	\$ (155,708)	\$ (886,697)
Net pension liability (asset), Police	705,722	(64,281)	(697,267)

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

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

For the year ended December 31, 2019, the City recognized pension expense of \$278,863 (\$104,797 CERF, \$174,066 Police). At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience CERF Plan	\$ -	\$ 238,155
Differences between expected and actual experience Police Plan	104,712	263,338
Changes in assumptions, CERF Plan	80,864	12,826
Changes in assumptions, Police Plan	94,835	-
Difference between projected and actual earnings on investments, CERF Plan	-	331,168
Difference between projected and actual earnings on investments, Police Plan	-	263,893
	<u>-</u>	<u>263,893</u>
Total	<u>\$ 280,411</u>	<u>\$ 1,109,380</u>

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

	CERF	Police	Total
Years ending December 31:			
2020	\$ (103,032)	\$ (75,051)	\$ (178,083)
2021	(121,782)	(77,491)	(199,273)
2022	(45,097)	(6,191)	(51,288)
2023	(194,097)	(143,340)	(337,437)
2024	(26,622)	(8,696)	(35,318)
Thereafter	(10,655)	(16,915)	(27,570)

14. Other Postemployment Benefits (OPEB)

At December 31, 2019, the City reported the following amounts in the accompanying financial statements related to participation in the Retiree Medical Benefits and Police Death Benefit Plans:

	Retiree Medical Benefits Plan	Police Death Benefit Plan	Total
Deferred outflow of resources	\$ 819,839	\$ 18,470	\$ 838,309
Net OPEB liability (asset)	7,874,014	(220,726)	7,653,288
Deferred inflow of resources	1,556,678	26,508	1,583,186

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Retiree Medical Benefits, Plan Description and Benefits Provided

The City provides and administers other postretirement benefits, consisting of healthcare benefits for retired employees who are participants in the City's Police Pension Plan and who retire from active service after age 50 with at least 20 years of service, and police officers who have voluntarily elected to participate in the Early Retirement Incentive window. Benefits extend for the life of the retired police officer and consist of continued participation in the medical program for active employees for non-Medicare-eligible retirees, participation in a Medicare supplemental plan for Medicare-eligible retirees, reimbursement for Part B premiums and continued participation in the City's dental plan. The City is the only participating employer in this retiree medical benefits plan and stand-alone financial statement are not issued, nor is the plan included in any public employee retirement system or other entity. Such benefits are provided in accordance with the police union contract. The City of Lock Haven, Pennsylvania OPEB Plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

Police Death Benefit, Plan Description and Benefits Provided

The City also maintains the City of Lock Haven Police Death Benefit 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. The City provides and administers another postemployment benefit plan for all full-time police officers who retire from active service after age 50 with 20 years of service. Benefits extend for the life of the retired police officer and consist of a \$4,000 payment to the designated beneficiary upon the retired police officers death, provided they were at least 55 years of age.

Employees Covered by Benefit Terms

At December 31, 2019, the following employees were covered by the benefit terms:

	<u>Retiree Medical Benefits Plan</u>	<u>Police Death Benefit Plan</u>
Participants receiving benefit payments	11	13
Terminated participants with deferred benefits	2	1
Active employees	13	13
Total	<u>26</u>	<u>27</u>
Participating employers	<u>1</u>	<u>1</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Net OPEB Liability

The City's net Retiree Medical Benefits OPEB liability was measured at December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to December 31, 2019. The City's net Police Death Benefit OPEB liability was measured at December 31, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019, rolled forward to December 31, 2019. The components of the net OPEB liability of the Plans as of December 31, 2019 were as follows:

	<u>Retiree Medical Benefits Plan</u>	<u>Police Death Benefit Plan</u>
Total OPEB liability	\$ 7,874,014	\$ 25,324
Plan fiduciary net position	-	246,050
Plan net position liability (asset)	<u>\$ 7,874,014</u>	<u>\$ (220,726)</u>
Plan fiduciary net position as a percentage of total OPEB liability	0.00%	971.64%

Actuarial Assumptions and Other Inputs

The total OPEB liability in the Retiree Medical Benefits Plan December 31, 2018 and the Police Death Benefit Plan January 1, 2019 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>Retiree Medical Benefits Plan</u>	<u>Police Death Benefit Plan</u>
Actuarial valuations date	December 31, 2018	January 1, 2019
Actuarial cost method	Entry age	Entry age normal
Future annual pay (salary) increases	4.00%	4.00%
Annual administrative expenses	2.50%	N/A
Annual opt-out reimbursements	3.25%	N/A
Discount interest rate	3.26%	6.00%
Retirement rates	Later of age 50 and 20 years of service	Later of age 52 and 20 years of service
Inflation	2.50%	2.50%
Asset valuation method	None	Market
Healthcare cost trend rates:		
	7.00% in 2019 and 2020, decreasing from 6.75% in 2021 to 4.00% in 2058 and later	N/A
Medical	6.00% in 2019 through 2025, decreasing to 4.00%	
Medicare Part B	in 2070 and later	N/A
Dental	4.00%	N/A

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Index Yield to Maturity.

Mortality rates used in the Retiree Medical Benefits Plan were based on Pub S.H. - 2010 Headcount-weighted mortality tables projected by scale MP-2018.

Mortality rates used in the Police Death Benefit Plan were based on 2010 Headcount-weighted mortality tables projected by scale MP-2018. These are the public plan mortality tables for *Public Safety Employees* that were published by the Society of Actuaries in February 2019.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Changes in the Retiree Medical Benefits Plan Total OPEB Liability

	Total OPEB Liability (a)	Plan Net Fiduciary Position (b)	Net OPEB Liability (a) - (b)
Balances at January 1, 2019	\$ 8,426,322	\$ -	\$ 8,426,322
Changes for the year:			
Service cost	309,076	-	309,076
Interest	284,285	-	284,285
Difference between expected and actual experience	(1,135,241)	-	(1,135,241)
Changes in benefit terms (a)	(824,211)	-	(824,211)
Changes of assumptions or other inputs	966,239	-	966,239
Employer contributions	-	152,456	(152,456)
Plan member contributions	-	-	-
Net investment income	-	-	-
Actual benefit payments	(152,456)	(152,456)	-
Administrative expense	-	-	-
Net changes	(552,308)	-	(552,308)
Balances at December 31, 2019	\$ 7,874,014	\$ -	\$ 7,874,014

(a) This represents a correction in the valuation programming. One participant was valued twice last year.

Changes in the Police Death Benefit Net OPEB Liability

	Total OPEB Liability (a)	Plan Net Fiduciary Position (b)	Net OPEB Liability (a) - (b)
Balances at January 1, 2019	\$ 26,094	\$ 208,565	\$ (182,471)
Changes for the year:			
Service cost	72	-	72
Interest	1,464	-	1,464
Difference between expected and actual experience	5,662	-	5,662
Changes in benefit terms	-	-	-
Changes of assumptions or other inputs	32	-	32
Employer contributions	-	1,200	(1,200)
Plan member contributions	-	-	-
Net investment income	-	45,410	(45,410)
Actual benefit payments	(8,000)	(8,000)	-
Administrative expense	-	(1,125)	1,125
Net changes	(770)	37,485	(38,255)
Balances at December 31, 2019	\$ 25,324	\$ 246,050	\$ (220,726)

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Deposits and investments

The Police Death Benefit Plan allows 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 City Council, and established the following target allocation across asset categories:

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

Discount Rate

The discount rate used to measure the total OPEB liability for the Retiree Medical Benefits Plan and the Police Death Benefit Plan was 3.26 percent and 6.00 percent, respectively. 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.

Sensitivity of the Total/Net OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB/net liability of the City's OPEB Plans, as well as what the City's total/net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability:			
Retiree Medical Benefits Plan	\$ 9,613,661	\$ 7,874,014	\$ 6,562,153
Net OPEB liability (asset):			
Police Death Benefit Plan	(217,122)	(220,726)	(223,615)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City's Retiree Medical Benefits Plan, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 6,329,365	\$ 7,874,014	\$ 10,009,228

The City's Police Death Benefit Plan is not tied to a health care rate and as such a sensitivity analysis is not applicable.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the City recognized OPEB expense of \$372,818 and \$10,894 for its Retiree Medical Benefits Plan and its Police Death Benefits Plan, respectively. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual expenses, Retiree Medical Benefits Plan	\$ -	\$ 963,235
Difference between expected and actual expenses, Police Death Benefit Plan	6,590	-
Changes of assumptions, Retiree Medical Benefits Plan	819,839	593,443
Changes of assumptions, Police Death Benefit Plan	26	-
Net difference between projected and actual earnings on investments, Retiree Medical Benefits Plan	-	-
Net difference between projected and actual earnings on investments, Police Death Benefit Plan	11,854	26,508
Total	\$ 838,309	\$ 1,583,186

	Retiree Medical Benefits Plan	Police Death Benefits Plan	Total
Years ending December 31:			
2020	\$ (141,968)	\$ (1,281)	\$ (143,249)
2021	(141,968)	(1,281)	(143,249)
2022	(141,968)	(1,281)	(143,249)
2023	(141,968)	(5,235)	(147,203)
2024	(141,968)	1,040	(140,928)
Thereafter	(26,999)	-	(26,999)

Employer 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 Retiree Medical Benefits Plan is funded on a pay-as-you-go basis, eligible retirees premiums are paid annually to fund the healthcare benefits provided to current retirees. Retirees are currently not required to contribute to the plan. The City made contributions to the Retiree Medical Benefits Plan of \$152,456 for the year ended December 31, 2019. The Police Death Benefit Plan is funded through a \$400 contribution by the City when new full-time police officers are hired. Plan members are not allowed to contribute and the City made no contributions during the year ended December 31, 2019.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2019

15. 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	\$ 125,601	\$ -	\$ 125,601
Restricted for:			
Capital projects	\$ -	\$ 127,097	\$ 127,097
Street programs	-	431,822	431,822
Recreation	-	55,480	55,480
Economic development	-	546,660	546,660
Total	<u>\$ -</u>	<u>\$ 1,161,059</u>	<u>\$ 1,161,059</u>
Committed for:			
Subsequent year budget	<u>\$ 842,309</u>	<u>\$ -</u>	<u>\$ 842,309</u>
Assigned for:			
Program purposes	<u>\$ -</u>	<u>\$ 12,705</u>	<u>\$ 12,705</u>

16. 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, 2019, the City purchased \$429,876 in water filtration services from the Water Filtration Authority.

17. 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.

18. 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

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 \$76,588 at December 31, 2019. The City has a surplus deposit related to the plan in the amount of \$202,189 at December 31, 2019, resulting in a net prepaid expense of \$125,601. The cost of medical coverage for employees was approximately \$1,097,000 in 2019.

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).

19. New Accounting Pronouncements

The GASB has approved the following:

Statement No. 83, *Certain Asset Retirement Obligations*

Statement No. 84, *Fiduciary Activities*

Statement No. 87, *Leases*

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*

Statement No. 90, *Majority Equity Interests*

Statement No. 91, *Conduit Debt Obligations*

Statement No. 92, *Omnibus 2020*

Statement No. 93, *Replacement of Interbank Offered Rates*

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Agreements*

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2019

Statement No. 96, *Subscription-Based Information Technology Arrangements*

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

GASB Statement No. 95 postpones the effective dates of Statements No. 83, 84, 88, 89, 90, 91, 92 and 93 for a period of one year, and Statement No. 87 for a period of 18 months.

When they become effective, application of these standards may restate portions of these financial statements.

20. Subsequent Events

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the City. As of December 7, 2020, the City's evaluation of the effects of these events is ongoing; however, based on current information we believe this situation will negatively impact the collection of business privilege and earned income taxes as the City was under a stay-at-home order during much of March through May 2020.

The extent of the impact of COVID-19 on the City's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Changes in Net Pension Liability and Related Ratios
 Year Ended December 31, 2019
 (Unaudited)

	Police Pension Fund					City Employees Retirement Fund				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Total Pension Liability										
Service cost	\$ 167,226	\$ 149,903	\$ 158,058	\$ 166,803	\$ 124,315	\$ 149,426	\$ 140,324	\$ 159,203	\$ 148,430	\$ 152,459
Interest changes of benefit terms	354,712	361,769	379,459	388,358	377,423	397,860	430,829	445,939	463,365	466,339
Differences between expected and actual experience	(40,423)	-	159,825	-	(286,497)	(62,327)	-	(108,895)	-	(202,483)
Changes in assumptions	32,433	-	-	-	94,326	260,629	-	(25,651)	-	32,101
Benefit payments, including refunds of member contributions	(368,357)	(404,727)	(409,833)	(408,966)	(382,067)	(212,166)	(243,735)	(252,869)	(341,060)	(390,031)
Net change in total pension liability	145,591	106,945	287,509	146,195	(72,500)	533,422	327,418	217,727	270,735	58,385
Total pension liability, beginning	5,489,406	5,634,997	5,741,942	6,029,451	6,175,646	6,086,426	6,619,848	6,947,266	7,164,993	7,435,728
Total pension liability, ending (a)	\$ 5,634,997	\$ 5,741,942	\$ 6,029,451	\$ 6,175,646	\$ 6,103,146	\$ 6,619,848	\$ 6,947,266	\$ 7,164,993	\$ 7,435,728	\$ 7,494,113
Plan Fiduciary Net Position										
Employer contributions	\$ 191,163	\$ 182,625	\$ 186,887	\$ 175,574	\$ 168,426	\$ 81,381	\$ 110,577	\$ 95,393	\$ 85,550	\$ 86,461
Employee contributions	13,949	11,216	12,823	12,119	11,079	138,657	86,666	118,809	103,044	89,386
Other contributions	-	327,091	-	-	-	-	-	-	-	-
Net investment income	(32,582)	-	702,413	(310,563)	1,011,424	(28,143)	407,095	843,955	(396,453)	1,259,167
Benefits payments, including refunds of member contributions	(368,357)	(404,727)	(409,833)	(408,966)	(382,067)	(212,166)	(243,735)	(252,869)	(341,060)	(390,031)
Administration	(16,313)	(14,916)	(14,363)	(16,142)	(22,420)	(13,913)	(14,775)	(16,782)	(16,047)	(15,638)
Other	-	-	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	(212,140)	101,289	477,927	(547,978)	786,442	(34,184)	345,828	788,506	(564,966)	1,029,345
Plan fiduciary net position, beginning	5,561,887	5,349,747	5,451,036	5,928,963	5,380,985	6,085,292	6,051,108	6,396,936	7,185,442	6,620,476
Plan fiduciary net position, ending (b)	\$ 5,349,747	\$ 5,451,036	\$ 5,928,963	\$ 5,380,985	\$ 6,167,427	\$ 6,051,108	\$ 6,396,936	\$ 7,185,442	\$ 6,620,476	\$ 7,649,821
Net pension liability (asset), ending (a) - (b)	\$ 285,250	\$ 290,906	\$ 100,488	\$ 794,661	\$ (64,281)	\$ 568,740	\$ 550,330	\$ (20,449)	\$ 815,252	\$ (155,708)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.94%	94.93%	98.33%	87.13%	101.05%	91.41%	92.08%	100.29%	89.04%	102.08%
Covered-employee payroll	\$ 792,288	\$ 755,035	\$ 831,400	\$ 681,554	\$ 820,947	\$ 1,550,266	\$ 1,644,670	\$ 1,621,000	\$ 1,569,803	\$ 1,667,207
Net Pension Liability as a Percentage of Covered-Employee Payroll	36.0%	38.5%	12.1%	116.6%	-7.8%	36.7%	33.5%	-1.3%	51.9%	-9.3%

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

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions - Police Pension Fund
 Year Ended December 31, 2019
 (Unaudited)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution ⁽¹⁾	\$ 50,572	\$ 140,351	\$ 156,821	\$ 155,503	\$ 145,654	\$ 191,163	\$ 182,213	\$ 182,904	\$ 175,574	\$ 168,426
Contributions in relation to the actuarially determined contribution	<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>	<u>175,574</u>	<u>168,426</u>
Contribution deficiency (excess)	<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>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll ⁽²⁾	\$ 678,000	\$ 653,400	\$ 728,150	\$ 686,000	\$ 660,022	\$ 792,288	\$ 755,035	\$ 831,400	\$ 681,554	\$ 820,947
Contributions as a percentage of covered-employee payroll	12.41%	22.56%	21.54%	22.67%	23.06%	24.13%	24.19%	22.48%	25.76%	20.52%

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%, 5.00% prior to January 1, 2015
Investment rate of return	7.00%
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, 2019
 (Unaudited)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Actuarially determined contribution ⁽¹⁾	\$ 12,320	\$ 87,184	\$ 90,931	\$ 86,957	\$ 91,331	\$ 138,657	\$ 110,388	\$ 118,809	\$ 85,550	\$ 86,461
Contributions in relation to the actuarially determined contribution	139,098	91,485	90,931	86,957	103,387	138,657	110,577	118,809	85,550	86,461
Contribution deficiency (excess)	\$ (126,778)	\$ (4,301)	\$ -	\$ -	\$ (12,056)	\$ -	\$ (189)	\$ -	\$ -	\$ -
Covered-employee payroll ⁽²⁾	\$ 1,429,000	\$ 1,521,800	\$ 1,526,250	\$ 1,374,000	\$ 1,520,906	\$ 1,550,266	\$ 1,644,670	\$ 1,621,000	\$ 1,569,803	\$ 1,667,207
Contributions as a percentage of covered-employee payroll	9.73%	6.01%	5.96%	6.33%	6.80%	8.94%	6.72%	7.33%	5.45%	5.19%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	2.50%
Salary increases	4.00%
Investment rate of return	7.00%
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, 2019
(Unaudited)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Annual Money-Weighted Rate of Return (Loss), Net of Investment Expense						
Police Pension Fund	6.5%	(0.6)%	6.2%	13.2%	(5.3)%	19.2%
City Employees Retirement Fund	6.5%	(0.5)%	6.8%	13.3%	(5.6)%	19.4%

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 Changes in Net OPEB Liability and Related Ratios - Police Death Benefit Plan

Year Ended December 31, 2019

(Unaudited)

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total OPEB Liability			
Service cost	\$ 98	\$ 101	\$ 72
Interest	1,487	1,509	1,464
Differences between expected and actual experience	-	-	5,662
Changes in benefit terms	-	-	-
Changes in assumptions	-	-	32
Benefit payments, including refunds of member contributions	(1,188)	(1,254)	(8,000)
Administrative expense	-	-	-
	<u>397</u>	<u>356</u>	<u>(770)</u>
Net change in total OPEB liability	397	356	(770)
Total OPEB liability, beginning	<u>25,341</u>	<u>25,738</u>	<u>26,094</u>
Total OPEB liability, ending (a)	<u>\$ 25,738</u>	<u>\$ 26,094</u>	<u>\$ 25,324</u>
Plan Fiduciary Net Position			
Employer contributions	\$ 1,588	\$ -	\$ 1,200
Employee contributions	-	-	-
Other contributions	-	-	-
Net investment income (loss)	34,745	(6,689)	45,410
Benefits payments, including refunds of member contributions	(1,188)	(4,000)	(8,000)
Administration	(756)	(1,128)	(1,125)
Other	-	-	-
	<u>34,389</u>	<u>(11,817)</u>	<u>37,485</u>
Net change in plan fiduciary net position	34,389	(11,817)	37,485
Plan fiduciary net position, beginning	<u>185,993</u>	<u>220,382</u>	<u>208,565</u>
Plan fiduciary net position, ending (b)	<u>\$ 220,382</u>	<u>\$ 208,565</u>	<u>\$ 246,050</u>
Net OPEB liability (asset), ending (a) - (b)	<u>\$ (194,644)</u>	<u>\$ (182,471)</u>	<u>\$ (220,726)</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability			
	<u>856.25%</u>	<u>799.28%</u>	<u>971.61%</u>
Covered-employee payroll	<u>\$ 834,504</u>	<u>\$ 867,030</u>	<u>\$ 798,290</u>
Net OPEB Liability as a Percentage of Covered-Employee Payroll			
	<u>(23.3)%</u>	<u>(21.0)%</u>	<u>(27.6)%</u>

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

City of Lock Haven, Pennsylvania

Required Supplementary Information

Schedule of Changes in Net OPEB Liability and Related Ratios - Retiree Medical Benefits Plan

Year Ended December 31, 2019

(Unaudited)

	<u>2018</u>	<u>2019</u>
Total OPEB Liability		
Service cost	\$ 348,780	\$ 309,076
Interest	286,043	284,285
Differences between expected and actual experience	-	(1,135,241)
Changes in benefit terms	-	(824,211)
Changes in assumptions	(826,167)	966,239
Benefit payments, including refunds of member contributions	(186,611)	(152,456)
Administrative expense	-	-
	<u> </u>	<u> </u>
Net change in total OPEB liability	(377,955)	(552,308)
Total OPEB liability, beginning	<u>8,804,277</u>	<u>8,426,322</u>
Total OPEB liability, ending (a)	<u><u>\$ 8,426,322</u></u>	<u><u>\$ 7,874,014</u></u>
Plan Fiduciary Net Position		
Employer contributions	\$ 186,611	\$ 152,456
Employee contributions	-	-
Other contributions	-	-
Net investment income	-	-
Benefits payments, including refunds of member contributions	(186,611)	(152,456)
Administration	-	-
Other	-	-
	<u> </u>	<u> </u>
Net change in plan fiduciary net position	-	-
Plan fiduciary net position, beginning	<u>-</u>	<u>-</u>
Plan fiduciary net position, ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Net OPEB liability (asset), ending (a) - (b)	<u><u>\$ 8,426,322</u></u>	<u><u>\$ 7,874,014</u></u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	<u>0.00%</u>	<u>0.00%</u>
Covered-employee payroll	<u>\$ 711,867</u>	<u>\$ 798,290</u>
Net OPEB Liability as a Percentage of Covered-Employee Payroll	<u>1,183.7%</u>	<u>986.4%</u>

The City implemented GASB Statement No. 75 during its calendar year ended December 31, 2018. Information prior to 2018 is not available.

City of Lock Haven, Pennsylvania

Required Supplementary Information

Schedule of Investment Returns - Police Death Benefit Plan

Year Ended December 31, 2019

(Unaudited)

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	<u>18.7%</u>	<u>(3.1)%</u>	<u>22.2%</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***

To the Honorable Members of City Council of
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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2020. The financial statements of the Lock Haven Area Flood Protection Authority were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Lock Haven Area Flood Protection Authority.

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 material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-003 and 2019-004 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 Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses and corrective action plan. 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.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Williamsport, Pennsylvania
December 7, 2020

City of Lock Haven, Pennsylvania

Schedule of Findings and Responses
Year Ended December 31, 2019

Finding No.

Finding/Noncompliance

2019-001

**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 2019. 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.

Effect: Cash account balances within the general ledger system, during 2019, did not reflect accurate reconciled balances.

Cause: The primary cause of this situation was a system conversion in 2016 from Munis to MIP; which continued on into 2017. During 2018 and 2019, the City is continuing to work to resolve issues with its cash reconciliation process and the legacy data that feeds into these reconciliations.

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, 2019

Finding No.

Finding/Noncompliance

2019-002

Internal Control Over Financial Reporting - Nonattest Services - Material Weakness

Criteria: 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.

Condition/Context: In connection with our audit of your financial statements, you have also engaged us to perform certain nonattest services, subject to City oversight, review and approval, which included technical assistance with the following:

- Cash reconciliations;
- Various receivable/payable and associated revenue and expense accounts;
- Proceeds from issuance of capital leases and draw-down on new debt and related capital outlay;
- Conversion of financial statements from fund basis to government wide basis and from cash to accrual basis;
- Proprietary Fund capital assets and related financing activities;
- Proprietary Fund net pension liability and related deferred outflows of resources and deferred inflows of resources; and,
- Beginning fund balance

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

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 address these areas in a timely manner, and you have determined it is cost beneficial for you to utilize a member of our team 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, 2019

<u>Finding No.</u>	<u>Finding/Noncompliance</u>
2019-003	Internal Control Over Financial Reporting - Segregation of Duties Over 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. A key component of internal control is adequate segregation of duties between accounting functions.
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 deficiency 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 deficiency 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, 2019

Finding No.

Finding/Noncompliance

2019-004

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 a timely manner. In particular, the Airport Fund had a \$289,633 payable to other funds, which based on the historical operations of the Airport Fund, would seemingly 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.