

City of Lock Haven, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2020

City of Lock Haven, Pennsylvania

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City of Lock Haven, Pennsylvania

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Independent Auditors' Report

To the 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, 2020, 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 over financial reporting relevant to the City'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 City'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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information as listed in the table of contents 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.

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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Williamsport, Pennsylvania
October 22, 2021

City of Lock Haven, Pennsylvania

Statement of Net Position

December 31, 2020

	Primary Government			Component Unit - Flood Protection Authority
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,341,853	\$ 2,787,688	\$ 4,129,541	\$ 3,026
Restricted cash	-	33,083	33,083	-
Receivables (net of allowance for uncollectibles):				
Taxes, net	526,582	-	526,582	-
Loans	147,085	-	147,085	-
Other	4,696	715,013	719,709	-
Internal balances	1,027,047	(1,027,047)	-	-
Due from other governments	299,890	48,094	347,984	-
Prepaid expenses and other assets	206,731	14,195	220,926	-
Total current assets	3,553,884	2,571,026	6,124,910	3,026
Net pension asset	312,730	151,483	464,213	-
Capital assets:				
Public utility systems (including equipment)	-	49,142,685	49,142,685	-
Land and improvements	5,991,304	4,078,603	10,069,907	-
Infrastructure and infrastructure in progress	8,443,576	-	8,443,576	84,590,355
Buildings	4,704,197	-	4,704,197	-
Vehicles, equipment and furniture	5,397,795	1,136,528	6,534,323	-
Construction in progress	30,728	1,770	32,498	-
Less accumulated depreciation	(12,490,373)	(19,090,571)	(31,580,944)	(18,609,878)
Total capital assets	12,077,227	35,269,015	47,346,242	65,980,477
Deferred Outflows of Resources				
Pension	181,296	17,344	198,640	-
Other postemployment benefits (OPEB)	2,970,487	-	2,970,487	-
Total deferred outflows of resources	3,151,783	17,344	3,169,127	-
Total assets and deferred outflows of resources	19,095,624	38,008,868	57,104,492	65,983,503
Liabilities				
Accounts payable and accrued expenses	951,789	233,556	1,185,345	-
Unearned revenue	154,660	2,527	157,187	-
Long-term liabilities, due within one year				
Bonds and notes payable	180,154	927,022	1,107,176	-
Capital leases	37,661	28,476	66,137	-
Total current liabilities	1,324,264	1,191,581	2,515,845	-
Due in more than one year:				
Bonds and notes payable	2,637,498	21,032,083	23,669,581	-
Capital leases	70,436	83,818	154,254	-
Compensated absences	93,753	19,930	113,683	-
Net OPEB liability	10,669,110	-	10,669,110	-
Total liabilities	14,795,061	22,327,412	37,122,473	-
Deferred Inflows of Resources				
Pension	732,149	256,781	988,930	-
Other postemployment benefits (OPEB)	1,297,953	-	1,297,953	-
Total deferred inflows of resources	2,030,102	256,781	2,286,883	-
Net Position (Deficit)				
Net investment in capital assets	9,151,478	13,230,699	22,382,177	65,980,477
Restricted for:				
Capital projects	236,084	33,083	269,167	-
Program purposes	1,255,897	-	1,255,897	-
Unrestricted (deficit)	(8,372,998)	2,160,893	(6,212,105)	3,026
Total net position	\$ 2,270,461	\$ 15,424,675	\$ 17,695,136	\$ 65,983,503

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Activities
Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			Component Unit Flood Protection Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary Government								
Governmental activities:								
General government	\$ 646,610	\$ 245,348	\$ 155,804	\$ -	\$ (245,458)		\$ (245,458)	
Public safety	1,521,304	135,071	4,627	-	(1,381,606)		(1,381,606)	
Public works	1,206,081	-	342,978	919,409	56,306		56,306	
Community and economic development	152,522	-	-	-	(152,522)		(152,522)	
Culture and recreation	154,718	163,084	-	-	8,366		8,366	
Interest and fees on long-term debt	88,521	-	-	-	(88,521)		(88,521)	
Employee benefits and insurance	1,299,577	-	255,654	-	(1,043,923)		(1,043,923)	
Health and human services	287,062	-	-	-	(287,062)		(287,062)	
Unallocated depreciation	853,084	-	-	-	(853,084)		(853,084)	
Total governmental activities	6,209,479	543,503	759,063	919,409	(3,987,504)		(3,987,504)	
Business-type activities:								
Public utility services, water	1,683,387	1,566,118	-	203,214		\$ 85,945	85,945	
Public utility services, sanitary sewer	3,355,944	2,820,224	-	65		(535,655)	(535,655)	
William T. Piper Memorial Airport	302,578	219,020	-	250,203		166,645	166,645	
Total business-type activities	5,341,909	4,605,362	-	453,482		(283,065)	(283,065)	
Total primary government	\$ 11,551,388	\$ 5,148,865	\$ 759,063	\$ 1,372,891	(3,987,504)	(283,065)	(4,270,569)	
Component Unit								
Lock Haven Area Flood Protection Authority	\$ 847,340	\$ -	\$ -	\$ -				\$ (847,340)
General Revenues								
Property taxes					2,574,712	-	2,574,712	-
Earned income taxes					553,066	-	553,066	-
Other taxes					398,529	-	398,529	-
Grants and contributions not restricted to specific programs					286,046	-	286,046	-
Unrestricted investment earnings					4,850	33,340	38,190	-
Miscellaneous					159,852	14,555	174,407	3,000
Gain on sale of equipment					4,557	1,565	6,122	-
Transfers					41,290	(41,290)	-	-
Total general revenues					4,022,902	8,170	4,031,072	3,000
Change in Net Position					35,398	(274,895)	(239,497)	(844,340)
Net Position, Beginning								
As previously reported					2,235,063	15,861,340	18,096,403	66,827,843
Restatement					-	(161,770)	(161,770)	-
As restated					2,235,063	15,699,570	17,934,633	66,827,843
Net Position, Ending					\$ 2,270,461	\$ 15,424,675	\$ 17,695,136	\$ 65,983,503

See notes to financial statements

City of Lock Haven, Pennsylvania

Balance Sheet - Governmental Funds

December 31, 2020

	General Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 678,383	\$ 611,546	\$ 41,164	\$ 1,331,093
Receivables:				
Taxes, net	526,582	-	-	526,582
Loans	-	-	147,085	147,085
Other governments	90,512	208,362	1,016	299,890
Due from other funds	116,066	144,330	873,899	1,134,295
Prepaid expenses	210,314	-	-	210,314
	<u>\$ 1,621,857</u>	<u>\$ 964,238</u>	<u>\$ 1,063,164</u>	<u>\$ 3,649,259</u>
Liabilities, Deferred Inflow of Resources and Fund Balances				
Liabilities:				
Vouchers (accounts) payable	\$ 136,708	\$ 727,655	\$ 178	\$ 864,541
Accrued liabilities	83,086	498	(98)	83,486
Due to other funds	106,419	-	829	107,248
Unearned revenue	7,401	-	147,259	154,660
	<u>333,614</u>	<u>728,153</u>	<u>148,168</u>	<u>1,209,935</u>
Deferred inflow of resources, Unearned revenue, taxes	<u>389,570</u>	<u>-</u>	<u>-</u>	<u>389,570</u>
Fund balances:				
Nonspendable	210,314	-	-	210,314
Restricted	-	236,085	1,255,896	1,491,981
Committed	406,898	-	-	406,898
Assigned	-	-	14,541	14,541
Unassigned (deficit)	281,461	-	(355,441)	(73,980)
	<u>898,673</u>	<u>236,085</u>	<u>914,996</u>	<u>2,049,754</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,621,857</u>	<u>\$ 964,238</u>	<u>\$ 1,063,164</u>	<u>\$ 3,649,259</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
December 31, 2020

Total Fund Balance, Governmental Funds \$ 2,049,754

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

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. 8,110

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 12,077,227

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. 389,570

The net pension asset applicable to the City's governmental activities are not available
to pay for the current period's activities and as such is not reported in the
governmental funds, however it is reported in the statement of net position. 312,730

Deferred outflows related to the net pension liability are not reported in the
governmental funds, however are reported in the statement of net position. 181,296

Deferred outflows related to the OPEB liability are not reported in the
governmental funds, however are reported in the statement of net position. 2,970,487

Deferred inflows related to the net pension liability are not reported in the
governmental funds, however are reported in the statement of net position. (732,149)

Deferred inflows related to the OPEB liability are not reported in the governmental,
however are reported in the statement of net position. (1,297,953)

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, 2020 are:

Bonds and notes payable	(2,817,652)
Capital leases	(108,096)
Net OPEB liability	(10,669,110)
Compensated absences	(93,753)

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

\$ 2,270,461

City of Lock Haven, Pennsylvania

Statement of Revenues, Expenditures and Changes in Fund Balances -

Governmental Funds

Year Ended December 31, 2020

	General Fund	Capital Projects Funds	Other Nonmajor Governmental Funds	Total
Revenues				
Taxes	\$ 3,539,557	\$ -	\$ -	\$ 3,539,557
Licenses and permits	94,268	-	-	94,268
Fines and forfeits	121,777	-	-	121,777
Interest, rents and royalties	7,899	269	3,045	11,213
Intergovernmental	690,284	919,409	517,632	2,127,325
Charges for service	145,026	-	-	145,026
Collections on loans	-	1,461	22,252	23,713
Miscellaneous	72,853	-	32,974	105,827
Total revenues	4,671,664	921,139	575,903	6,168,706
Expenditures				
General government	507,641	75,226	248,272	831,139
Employee benefits and insurance	1,180,311	-	170	1,180,481
Community and economic development	-	133,249	50,000	183,249
Public works, highways and streets	683,042	1,190,646	317,581	2,191,269
Public safety	1,510,751	-	-	1,510,751
Culture and recreation	117,745	-	36,951	154,696
Capital outlay	58,917	61,399	20,752	141,068
Debt service	291,372	-	-	291,372
Total expenditures	4,349,779	1,460,520	673,726	6,484,025
Excess (Deficiency) of Revenues Over Expenditures	321,885	(539,381)	(97,823)	(315,319)
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	4,559	4,579	-	9,138
Proceeds from long-term debt	-	284,016	-	284,016
Transfers in	78,427	416,870	110,607	605,904
Transfers out	(454,363)	(57,096)	(53,156)	(564,615)
Total other financing sources (uses), net	(371,377)	648,369	57,451	334,443
Changes in Fund Balances	(49,492)	108,988	(40,372)	19,124
Fund Balance, Beginning	948,165	127,097	955,368	2,030,630
Fund Balance, Ending	\$ 898,673	\$ 236,085	\$ 914,996	\$ 2,049,754

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, 2020

Net Change in Fund Balances, Total Governmental Funds	\$ 19,124
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 \$1,368,536 exceeded depreciation expense \$853,084, in the current period.	515,452
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, 2020.	(13,251)
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 2020, the following transactions factor into this reconciliation:	
Issuance of long-term debt	(284,016)
Retirement of principal of long-term debt	207,000
Retirement of extended term financing	32,273
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, 2020.	(24,691)
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.	191,172
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.	(598,411)
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.	(9,254)
Change in Net Position of Governmental Activities	\$ 35,398

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, 2020

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
Taxes	\$ 3,373,605	\$ 3,539,557	\$ 165,952
Licenses and permits	116,514	94,268	(22,246)
Fines and forfeits	158,594	121,777	(36,817)
Interest, rents and royalties	11,936	7,899	(4,037)
Intergovernmental	570,058	690,284	120,226
Charges for services	259,577	145,026	(114,551)
Miscellaneous	13,322	72,853	59,531
	<u>4,503,606</u>	<u>4,671,664</u>	<u>168,058</u>
Total revenues			
Expenditures			
General government	508,812	507,641	1,171
Employee benefits and insurance	1,494,362	1,180,311	314,051
Public safety	1,604,853	1,510,751	94,102
Public works, highways and streets	1,359,799	683,042	676,757
Culture and recreation	104,512	117,745	(13,233)
Other	200	-	200
Debt service	257,418	291,372	(33,954)
Capital outlay	27,596	58,917	(31,321)
	<u>5,357,552</u>	<u>4,349,779</u>	<u>1,007,773</u>
Total expenditures			
Excess (Deficiency) of Revenues Over Expenditures	<u>(853,946)</u>	<u>321,885</u>	<u>1,175,831</u>
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets	11,979	4,559	(7,420)
Proceeds from long-term debt	629,000	-	(629,000)
Transfers in	37,754	78,427	40,673
Transfers out	(411,377)	(454,363)	(42,986)
Appropriated fund balance	586,590	366,982	(219,608)
	<u>853,946</u>	<u>(4,395)</u>	<u>(858,341)</u>
Total other financing sources (uses), net			
Deficiency of Revenues Over Expenditures After Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ 317,490</u>	<u>\$ 317,490</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Net Position - Proprietary Funds

December 31, 2020

	Enterprise Funds				Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund (Nonmajor)	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 2,167,926	\$ 619,762	\$ -	\$ 2,787,688	\$ 10,760
Restricted cash	-	-	33,083	33,083	-
Customer accounts receivable, (net of allowance)	300,225	355,460	59,328	715,013	4,696
Due from other funds	4,072	143,418	40,167	187,657	-
Due from other governments	5,000	43,094	-	48,094	-
Other current assets	14,195	-	-	14,195	-
Total current assets	2,491,418	1,161,734	132,578	3,785,730	15,456
Net pension asset	57,460	92,784	1,239	151,483	-
Capital assets:					
Public utility systems (including related equipment)	8,951,207	40,191,478	-	49,142,685	-
Land and improvements	-	506,915	3,571,688	4,078,603	-
Equipment and vehicles	286,057	97,250	753,221	1,136,528	-
Construction in progress	-	-	1,770	1,770	-
Less accumulated depreciation	(5,570,362)	(11,289,839)	(2,230,370)	(19,090,571)	-
Total capital assets, net	3,666,902	29,505,804	2,096,309	35,269,015	-
Total assets	6,215,780	30,760,322	2,230,126	39,206,228	15,456
Deferred Outflows of Resources					
Pension	6,579	10,624	141	17,344	-
Total assets and deferred outflows of resources	\$ 6,222,359	\$ 30,770,946	\$ 2,230,267	\$ 39,223,572	\$ 15,456
Liabilities					
Current liabilities:					
Current portion of bonds and notes payable	\$ 123,180	\$ 793,996	\$ 9,846	\$ 927,022	\$ -
Current portion of lease payable	14,409	14,067	-	28,476	-
Vouchers (accounts) payable, Trade	69,714	81,600	11,039	162,353	7,346
Accrued liabilities	27,255	43,358	590	71,203	-
Due to other funds	130,682	880,388	203,634	1,214,704	-
Unearned revenue	-	-	2,527	2,527	-
Total current liabilities	365,240	1,813,409	227,636	2,406,285	7,346
Noncurrent liabilities:					
Compensated absences	4,834	15,096	-	19,930	-
Long-term portion of bonds and notes payable	3,140,277	17,547,307	344,499	21,032,083	-
Long-term portion of lease payable	42,413	41,405	-	83,818	-
Total noncurrent liabilities	3,187,524	17,603,808	344,499	21,135,831	-
Total liabilities	3,552,764	19,417,217	572,135	23,542,116	7,346
Deferred Inflows of Resources					
Pension	97,401	157,280	2,100	256,781	-
Net Position					
Net investment in capital assets	346,623	11,109,029	1,775,047	13,230,699	-
Restricted	-	-	33,083	33,083	-
Unrestricted (deficit)	2,225,571	87,420	(152,098)	2,160,893	8,110
Total net position	2,572,194	11,196,449	1,656,032	15,424,675	8,110
Total liabilities, deferred inflows of resources and net position	\$ 6,222,359	\$ 30,770,946	\$ 2,230,267	\$ 39,223,572	\$ 15,456

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, 2020

	Enterprise Funds			Total	Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund (Nonmajor)		
Revenues					
Charges for services	\$ 1,566,118	\$ 2,820,224	\$ 219,020	\$ 4,605,362	\$ 48,730
Operating Expenses					
Personnel services	597,757	971,815	(6,178)	1,563,394	15,424
Depreciation	369,655	954,898	181,837	1,506,390	-
Utilities (including water filtration costs)	438,012	242,535	25,968	706,515	-
Administrative expense	170,126	456,430	4,773	631,329	42,560
Materials, supplies and maintenance	52,646	188,650	68,873	310,169	-
Sludge disposal	-	311,540	-	311,540	-
Insurance	4,226	5,293	11,203	20,722	-
Miscellaneous	2,512	10,164	1,057	13,733	-
Total operating expenses	1,634,934	3,141,325	287,533	5,063,792	57,984
Operating (loss) income	(68,816)	(321,101)	(68,513)	(458,430)	(9,254)
Nonoperating Revenues (Expenses)					
Subsidies from other governments:					
State	3,460	65	250,203	253,728	-
Local	199,754	-	-	199,754	-
Interest income	21,157	12,183	-	33,340	-
Rental income	7,983	5,592	205	13,780	-
Miscellaneous income	616	-	159	775	-
Gain on sale of capital assets	565	1,000	-	1,565	-
Interest expense	(48,453)	(214,619)	(15,045)	(278,117)	-
Total nonoperating revenues (expenses), net	185,082	(195,779)	235,522	224,825	-
Income (Loss) Before Other Financing Sources (Uses)	116,266	(516,880)	167,009	(233,605)	(9,254)
Other Financing Sources (Uses)					
Transfers in	-	-	9,773	9,773	-
Transfers out	(21,208)	(29,855)	-	(51,063)	-
Total other financing (uses) sources, net	(21,208)	(29,855)	9,773	(41,290)	-
Net Income (Loss)	95,058	(546,735)	176,782	(274,895)	(9,254)
Net Position, Beginning					
As previously reported	2,477,136	11,904,954	1,479,250	15,861,340	17,364
Restatement	-	(161,770)	-	(161,770)	-
As adjusted	2,477,136	11,743,184	1,479,250	15,699,570	17,364
Net Position, Ending	\$ 2,572,194	\$ 11,196,449	\$ 1,656,032	\$ 15,424,675	\$ 8,110

See notes to financial statements

City of Lock Haven, Pennsylvania

 Statement of Cash Flows - Proprietary Funds
 Year Ended December 31, 2020

	Enterprise Funds			Totals	Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund (Nonmajor)		
Cash Flows From Operating Activities					
Cash received from users	\$ 1,601,717	\$ 3,555,443	\$ 163,166	\$ 5,320,326	\$ 48,783
Cash payments to employees for services	(633,797)	(1,033,716)	(28,561)	(1,696,074)	(15,424)
Cash paid to suppliers for goods and services	(610,572)	(1,241,778)	(112,309)	(1,964,659)	(42,248)
Net cash provided by operating activities	357,348	1,279,949	22,296	1,659,593	(8,889)
Cash Flows (Used In) Provided By Noncapital Financing Activities					
Operating subsidies and transfers from (to) other funds	(21,208)	(29,855)	9,773	(41,290)	-
Cash Flows From Investing Activities					
Rental income	7,983	5,592	205	13,780	-
Earnings on investments	21,157	12,183	-	33,340	-
Net cash provided by investing activities	29,140	17,775	205	47,120	-
Cash Flows From Capital and Related Financing Activities					
Payments for capital acquisitions	(406,795)	(113,069)	(594,295)	(1,114,159)	-
Capital subsidies from other governments	203,214	65	367,231	570,510	-
Principal payments on long-term debt	(121,955)	(779,942)	(23,000)	(924,897)	-
Principal payments on lease liabilities	(13,899)	(13,569)	-	(27,468)	-
Proceeds from long-term debt	262,440	-	47,483	309,923	-
Miscellaneous income	616	-	159	775	-
Interest paid	(48,453)	(214,619)	(15,045)	(278,117)	-
Proceeds from sale of assets	565	1,000	-	1,565	-
Net cash used in capital and related financing activities	(124,267)	(1,120,134)	(217,467)	(1,461,868)	-
Increase (Decrease) in Cash and Cash Equivalents	241,013	147,735	(185,193)	203,555	(8,889)
Cash and Cash Equivalents, Beginning	1,926,913	472,027	218,276	2,617,216	19,649
Cash and Cash Equivalents, Ending	<u>\$ 2,167,926</u>	<u>\$ 619,762</u>	<u>\$ 33,083</u>	<u>\$ 2,820,771</u>	<u>\$ 10,760</u>
Displayed as:					
Cash and cash equivalents	\$ 2,167,926	\$ 619,762	\$ -	\$ 2,787,688	\$ 10,760
Restricted cash	-	-	33,083	33,083	-
Total	<u>\$ 2,167,926</u>	<u>\$ 619,762</u>	<u>\$ 33,083</u>	<u>\$ 2,820,771</u>	<u>\$ 10,760</u>
Reconciliation of Operating (Loss) Income to Net Cash Provided by Operating Activities					
Operating loss	\$ (68,816)	\$ (321,101)	\$ (68,513)	\$ (458,430)	\$ (9,254)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:					
Depreciation	369,655	954,898	181,837	1,506,390	-
Changes in assets and liabilities:					
Accounts receivable, other	(9,732)	(115,596)	28,191	(97,137)	53
Due from/to other governments and funds	45,331	828,567	(84,426)	789,472	-
Other current assets	(8,349)	624	-	(7,725)	-
Net pension asset	(29,121)	(38,573)	(636)	(68,330)	-
Deferred outflows of resources, pension	13,304	18,650	603	32,557	-
Vouchers payable	56,950	(27,791)	528	29,687	312
Accrued and other liabilities	(2,163)	12,170	(20,940)	(10,933)	-
Deferred inflows of resources, pension	(9,711)	(31,899)	(14,348)	(55,958)	-
Net Cash Provided by Operating Activities	<u>\$ 357,348</u>	<u>\$ 1,279,949</u>	<u>\$ 22,296</u>	<u>\$ 1,659,593</u>	<u>\$ (8,889)</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2020

	Pension and OPEB Trust Funds
Assets	
Current assets:	
Cash and cash equivalents	\$ 272,369
Accrued interest receivable	27,726
	<hr/>
Total current assets	300,095
Investments:	
Fixed income securities	5,452,170
Equity securities	7,255,041
Mutual funds	1,692,959
	<hr/>
Total investments	14,400,170
	<hr/>
Total assets	\$ 14,700,265
Liabilities	
Benefits payable	\$ 47,260
Due to brokers	855
	<hr/>
Total liabilities	48,115
Net Position	
Restricted for pensions and postemployment benefits other than pensions	14,652,150
	<hr/>
Total liabilities and net position	\$ 14,700,265
	<hr/> <hr/>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2020

	Pension and OPEB Trust Funds
Additions	
Contributions:	
Commonwealth of Pennsylvania	\$ 252,576
Employees	112,797
City	1,954
	<hr/>
Total contributions	367,327
Investment earnings:	
Net increase in fair value of investments	793,421
Interest and dividends	369,360
	<hr/>
Total investment gain	1,162,781
Total additions	<hr/> 1,530,108 <hr/>
Deductions	
Benefits	837,484
Investment fees and other	103,772
	<hr/>
Total deductions	941,256
Change in Net Position	588,852
Net Position, Beginning	<hr/> 14,063,298 <hr/>
Net Position, Ending	<hr/> \$ 14,652,150 <hr/>

See notes to financial statements

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2020

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 prescribed by the Governmental Accounting Standards Board (GASB) applicable 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, 2020

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 Flood Protection 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).

Fiduciary Component Units

The City Employee Retirement Plan, the Police Pension Plan and the Police Death Benefit Other Postemployment Benefit Plan are component units, fiduciary in nature, used to account for the Employee Retirement Plan and Employee Other Postemployment Benefit contributions of the City and its employees and related benefits and other plan costs. The financial results of these plans are reported and included in the statement of fiduciary net position and statement of changes in fiduciary net position.

Government-Wide and Fund Financial Statements

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2020

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

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 fund activities and operations. The City's airport fund 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 (Fiduciary Component Units)

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

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 the 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, 2020

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 accounts. 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, 2020 amounted to \$164,688. 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, 2020.

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

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 tax receivables not collected within 60 days subsequent to the City's year-end (fund-perspective financial statements), 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, 2020, the General, Nonmajor Governmental and Airport Operating Funds had unearned revenues of \$7,401, \$147,259 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.

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 Authority adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, for the year ended December 31, 2020. This statement establishes criteria for determining the timing and patterns of recognition of a liability and deferred outflows of resources. The adoption of this standard did not have a significant impact on the City's financial statements.

The Authority adopted GASB Statement No. 84, *Fiduciary Activities*, for the year ended December 31, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The adoption of this standard did not have a significant impact on the City's financial statements.

The Authority adopted GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and 61*, for the year ended December 31, 2020. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The adoption of this standard did not have a significant impact on the City's financial statements.

The City adopted GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans*, during 2020. GASB No. 97 increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform; mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit plans and employee benefit plans other than pension or OPEB plans as fiduciary component units in fiduciary fund financial statements; and enhances the relevance, consistency and comparability of accounting and financial reporting for IRC Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The County adopted the requirements of this Statement that exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans or other employee benefit plans and limit the applicability of the financial burden criterion in paragraph 7 of GASB No. 84 to defined benefit pension and OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Nos. 67 and 74. The adoption of this standard did not have a significant impact on the City's financial statements.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

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 2020, the City had no major special revenue funds.

3. Cash, Cash Equivalents and Investments

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

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, 2020, the aggregate bank balance of bank deposits was \$4,455,129, of which \$1,200,382 was covered by federal depository insurance and \$250,000 was covered by Securities Investor Protection Corporation (SIPC) insurance. Of the uninsured remaining bank deposits, \$2,982,378 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 \$22,369 was unsecured. The carrying amount of these bank deposits was \$4,446,553 at December 31, 2020.

Investments, Pension and OPEB Trust Funds

As of December 31, 2020, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Equity securities	N/A	\$ 7,255,041
Mutual funds	N/A	1,692,959
Corporate bonds	Average of 5 years	1,570,848
U.S. Treasury securities	Average of 6 years	1,342,633
Corp. mortgage/asset backed securities	Average of 21 years	1,029,990
Government mortgage pools	Average of 19 years	1,002,288
Certificates of deposit	Average of 4 years	282,116
Government bonds	Average of 5 years	210,449
Government asset backed securities	Average of 3 years	13,846
Total		<u>\$ 14,400,170</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2020, 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, 2020, the City's credit quality distribution of securities as a percentage of total fixed income investments is as follows:

Corporate bonds	BBB- to AA	28.81 %
Government bonds	AA+	3.86
Certificates of deposit	AA+	5.17
U.S. Treasury securities	AA+	24.63
Government mortgage pools	AA+ to AAA	18.38
Corp. mortgage/asset backed securities	AA to AAA	18.89
Government asset backed securities	AA+	0.26
Total fixed income		<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, 2020

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, 2020:

	December 31, 2020			
	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:				
Other equity funds	\$ 1,692,959	\$ -	\$ 1,692,959	\$ -
U.S. treasury securities	1,342,633	-	1,342,633	-
Corporate bonds	1,570,848	-	1,570,848	-
Government mortgage pools	1,002,288	-	1,002,288	-
Corp. mortgage/asset backed securities	745,389	-	745,389	-
Government asset backed securities	298,447	-	298,447	-
Certificates of deposit	282,116	-	282,116	-
Government bonds	210,449	-	210,449	-
Equity securities:				
Information technology	1,843,039	1,843,039	-	-
Communication services	1,211,093	1,211,093	-	-
Industrials	959,723	959,723	-	-
Consumer discretionary	836,005	836,005	-	-
Financials	800,817	800,817	-	-
Healthcare	672,678	672,678	-	-
Consumer staples	399,503	399,503	-	-
Energy	181,016	181,016	-	-
Materials	130,503	130,503	-	-
Utilities	81,974	81,974	-	-
Other equity mutual funds	138,690	138,690	-	-
Total investments	<u>\$ 14,400,170</u>	<u>\$ 7,255,041</u>	<u>\$ 7,145,129</u>	<u>\$ -</u>

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

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

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2020

7. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2020 is as follows:

	Balance January 1, 2020	Acquisitions	Disposals	Transfers	Balance December 31, 2020
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,642,272	\$ -	\$ -	\$ -	\$ 3,642,272
Construction in progress	193,993	30,728	-	(193,993)	30,728
Total capital assets, not being depreciated	<u>3,836,265</u>	<u>30,728</u>	<u>-</u>	<u>(193,993)</u>	<u>3,673,000</u>
Capital assets, being depreciated:					
Land improvements	2,299,109	49,923	-	-	2,349,032
Buildings and improvements	4,451,383	58,821	-	193,993	4,704,197
Furniture and equipment	3,334,795	45,925	-	-	3,380,720
Transportation	2,048,911	-	(31,836)	-	2,017,075
Infrastructure	7,260,437	1,183,139	-	-	8,443,576
Total capital assets, being depreciated	<u>19,394,635</u>	<u>1,337,808</u>	<u>(31,836)</u>	<u>193,993</u>	<u>20,894,600</u>
Less accumulated depreciation:					
Land improvements	(1,858,503)	(76,681)	-	-	(1,935,184)
Buildings and improvements	(2,913,703)	(95,235)	-	-	(3,008,938)
Furniture and equipment	(2,518,652)	(140,765)	-	-	(2,659,417)
Transportation	(1,589,967)	(191,664)	31,836	-	(1,749,795)
Infrastructure	(2,788,300)	(348,739)	-	-	(3,137,039)
Total accumulated depreciation	<u>(11,669,125)</u>	<u>(853,084)</u>	<u>31,836</u>	<u>-</u>	<u>(12,490,373)</u>
Total capital assets, being depreciated	<u>7,725,510</u>	<u>484,724</u>	<u>-</u>	<u>193,993</u>	<u>8,404,227</u>
Governmental activities, net	<u>\$ 11,561,775</u>	<u>\$ 515,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,077,227</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

	Balance January 1, 2020	Acquisitions	Disposals	Transfers	Balance December 31, 2020
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 675,915	\$ -	\$ -	\$ -	\$ 675,915
Construction in progress	1,770	-	-	-	1,770
Total capital assets, not being depreciated	677,685	-	-	-	677,685
Capital assets, being depreciated:					
Utility system	48,660,514	482,171	-	-	49,142,685
Land improvements	3,013,539	389,149	-	-	3,402,688
Equipment and vehicles	1,136,528	-	-	-	1,136,528
Total capital assets, being depreciated	52,810,581	871,320	-	-	53,681,901
Less accumulated depreciation:					
Utility system	(15,300,619)	(1,279,868)	-	-	(16,580,487)
Land improvements	(1,383,745)	(170,135)	-	-	(1,553,880)
Equipment and vehicles	(899,817)	(56,387)	-	-	(956,204)
Total accumulated depreciation	(17,584,181)	(1,506,390)	-	-	(19,090,571)
Business-type activities capital assets, net	\$ 35,904,085	\$ (635,070)	\$ -	\$ -	\$ 35,269,015

Governmental activity depreciation expense, which amounted to \$853,084 for the year ended December 31, 2020, was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$369,655, \$954,898 and \$181,837 for the year ended December 31, 2020, was charged to the Water, Sewer and Airport Funds in the accompanying financial statements, respectively.

	Balance January 1, 2020	Additions	Disposals	Balance December 31, 2020
Component unit:				
Flood Protection Authority:				
Infrastructure	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(17,763,975)	(845,903)	-	(18,609,878)
Component unit - capital asset, net	\$ 66,826,380	\$ (845,903)	\$ -	\$ 65,980,477

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

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, 2020 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 116,066	\$ 106,419
Capital Projects Fund	144,330	-
Nonmajor Governmental Funds	873,899	829
Enterprise Funds:		
Water Fund	4,072	130,682
Sewer Fund	143,418	880,388
Airport Fund	40,167	203,634
	<u> </u>	<u> </u>
Total	<u>\$ 1,321,952</u>	<u>\$ 1,321,952</u>

Transfers to/From Other Funds

Interfund transfers for the year ended December 31, 2020 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 78,427	\$ 454,363
Capital Projects Fund	416,870	57,096
Nonmajor Governmental Funds	110,607	53,156
Enterprise Funds:		
Water Fund	-	21,208
Sewer Fund	-	29,855
Airport Fund	9,773	-
	<u> </u>	<u> </u>
Total	<u>\$ 615,677</u>	<u>\$ 615,678</u>

During the year ended December 31, 2020, the City made transfers from its General Fund to the City's Capital Projects Fund for an annual expense allocation for \$290,258, to the Capital Projects Fund for \$75,312 for annual projects, and to the Interchange Fund for an annual allocation of \$4,000. The remaining amounts relate to contributions to the General Fund for pension contributions on behalf of eligible employees.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2020

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

As of December 31, 2020, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance at January 1, 2020	Additions	Retirements	Balance at December 31, 2020	Current Portion
PennVEST Note Payable, Sewer Fund *	1.156 %	\$ 2,638,730	\$ 680,113	\$ -	\$ 135,216	\$ 544,897	\$ 136,787
PennVEST Note Payable, Water Fund *	1.00	6,122,000	2,465,892	-	121,955	2,343,937	123,180
PennVEST Note Payable, Sewer Fund *	1.00	18,074,732	15,074,127	-	545,717	14,528,410	551,209
2013 General Obligation Bond	2.46 - 5.50	2,118,000	1,991,000	-	178,000	1,813,000	142,000
2016 General Obligation Bond, Series A	1.61 - 4.50	3,430,000	3,426,000	-	104,000	3,322,000	106,000
2018 General Obligation Bond, Series A	3.938	1,060,000	775,984	284,016	39,000	1,021,000	40,000
2018 General Obligation Bond, Series B	4.90	292,000	244,518	47,482	8,000	284,000	8,000
2018 General Obligation Bond, Series C	3.31	2,500,000	657,081	262,432	-	919,513	-
Total, net			<u>\$ 25,314,715</u>	<u>\$ 593,930</u>	<u>\$ 1,131,888</u>	<u>\$ 24,776,757</u>	<u>\$ 1,107,176</u>

* Direct Borrowings

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental activities	\$ 180,154	\$ 2,637,498	\$ 2,817,652
Business-type activities	927,022	21,032,083	21,959,105
Total	<u>\$ 1,107,176</u>	<u>\$ 23,669,581</u>	<u>\$ 24,776,757</u>

PennVEST, Note Payable, Sewer Fund (Direct Borrowing)

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.

PennVEST, Note Payable, Water Fund (Direct Borrowing)

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 (Direct Borrowing)

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, 2020, the City had \$1,796,652 outstanding within its governmental activities and \$16,348 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, 2020), 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, 2020

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. 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 \$919,513 was drawn as of December 31, 2020). This note is due in semi-annual installments of interest at 3.31 percent per annum with a single, 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, 2020 amounted to \$357,460.

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, 2020:

	Direct Borrowings		General Obligation Debt		Total
	Principal	Interest	Principal	Interest	
Years ending December 31:					
2021	\$ 811,176	\$ 171,214	\$ 296,000	\$ 177,154	\$ 1,455,544
2022	819,538	162,849	1,223,515	176,573	2,382,475
2023	827,992	154,398	311,000	137,768	1,431,158
2024	824,666	145,860	265,221	171,951	1,407,698
2025	701,900	138,127	418,619	162,912	1,421,558
2026-2030	3,616,695	583,441	2,049,958	706,086	6,956,180
2031-2035	3,802,047	398,088	2,290,200	307,054	6,797,389
2036-2040	3,627,312	207,684	505,000	17,781	4,357,777
2041-2044	2,385,918	42,991	-	-	2,428,909
Total	\$ 17,417,244	\$ 2,004,652	\$ 7,359,513	\$ 1,857,279	\$ 28,638,688

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

10. Property Held Under Capital Lease

Governmental Activities

The City leases vehicles under the terms of capital leases. The interest rates on the capital leases range 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 \$36,000 for the year ended December 31, 2020. Interest paid on these capital leases amounted to \$2,689 during the year ended December 31, 2020.

Capital Leases	Balance January 1, 2020	Additions	Payments	Balance December 31, 2020	Due Within One Year
Various vehicles	\$ 140,370	\$ -	\$ 32,273	\$ 108,097	\$ 37,661

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, 2020, as related to the City's governmental activities:

Years ending December 31:	
2021	\$ 40,313
2022	40,313
2023	25,468
2024	6,796
Total minimum lease payments	112,890
Less amounts representing interest	(4,793)
Present value of net minimum lease payments	108,097
Less current portion	(37,661)
Present value of net minimum lease payments, long-term	\$ 70,436

Business-Type Activities

During the current year ended December 31, 2020, 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, 2020. Interest paid on these capital leases amounted to \$4,594 for the year ended December 31, 2020.

Capital Leases	Balance January 1, 2020	Additions	Payments	Balance December 31, 2020	Due Within One Year
Various vehicles, Water	\$ 70,721	\$ -	\$ 13,899	\$ 56,822	\$ 14,409
Various vehicles, Sewer	69,041	-	13,569	55,472	14,067
Total	\$ 139,762	\$ -	\$ 27,468	\$ 112,294	\$ 28,476

City of Lock Haven, Pennsylvania

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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, 2020, as related to the City's business-type activities:

Years ending December 31:	
2021	\$ 32,062
2022	32,062
2023	32,062
2024	<u>24,046</u>
Total minimum lease payments	120,232
Less amounts representing interest	<u>(7,938)</u>
Present value of net minimum lease payments	112,294
Less current portion	<u>(28,476)</u>
Present value of net minimum lease payments, long-term	<u>\$ 83,818</u>

11. Compensated Absences

The changes in the City's compensated absences in 2020 are summarized as follows:

Governmental activities:	
Balance, January 1, 2020	\$ 69,060
Increase	39,800
Decrease	<u>(15,107)</u>
Balance, December 31, 2020	<u>\$ 93,753</u>
Business-type activities:	
Balance, January 1, 2020	\$ 53,395
Increase	9,930
Decrease	<u>(43,395)</u>
Balance, December 31, 2020	<u>\$ 19,930</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.

City of Lock Haven, Pennsylvania

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13. Combining Fiduciary Information

The following is a summary of the individual plan financial statements as of and for the year ended December 31, 2020:

	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	\$ 129,802	\$ 139,857	\$ 269,659	\$ 2,710	\$ 272,369
Accrued interest receivable	10,798	13,431	24,229	3,497	27,726
Total	<u>140,600</u>	<u>153,288</u>	<u>293,888</u>	<u>6,207</u>	<u>300,095</u>
Investments:					
Fixed income securities	2,389,584	2,994,739	5,384,323	67,847	5,452,170
Equity securities	3,188,288	4,066,753	7,255,041	-	7,255,041
Mutual funds	695,051	801,808	1,496,859	196,100	1,692,959
Total investments	<u>6,272,923</u>	<u>7,863,300</u>	<u>14,136,223</u>	<u>263,947</u>	<u>14,400,170</u>
Total assets	<u>\$ 6,413,523</u>	<u>\$ 8,016,588</u>	<u>\$ 14,430,111</u>	<u>\$ 270,154</u>	<u>\$ 14,700,265</u>
Liabilities:					
Benefits payable	\$ 21,943	\$ 25,317	\$ 47,260	\$ -	\$ 47,260
Due to brokers	-	-	-	855	855
Total liabilities	21,943	25,317	47,260	855	48,115
Net position:					
Restricted for benefits	6,391,580	7,991,271	14,382,851	269,299	14,652,150
Total liabilities and net position	<u>\$ 6,413,523</u>	<u>\$ 8,016,588</u>	<u>\$ 14,430,111</u>	<u>\$ 270,154</u>	<u>\$ 14,700,265</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

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	\$ 150,475	\$ 102,101	\$ 252,576	\$ -	\$ 252,576
Employees	12,458	100,339	112,797	-	112,797
City	1,954	-	1,954	-	1,954
Total contributions	164,887	202,440	367,327	-	367,327
Investment earnings:					
Net increase in fair value of investments	346,839	428,793	775,632	17,789	793,421
Interest and dividends	154,637	196,065	350,702	18,658	369,360
Total investment earnings	501,476	624,858	1,126,334	36,447	1,162,781
Total additions, net	666,363	827,298	1,493,661	36,447	1,530,108
Deductions:					
Benefits	392,713	432,771	825,484	12,000	837,484
Investment fees and other	49,497	53,077	102,574	1,198	103,772
Total deductions	442,210	485,848	928,058	13,198	941,256
Change in net position	224,153	341,450	565,603	23,249	588,852
Net position, beginning	6,167,427	7,649,821	13,817,248	246,050	14,063,298
Net position, ending	\$ 6,391,580	\$ 7,991,271	\$ 14,382,851	\$ 269,299	\$ 14,652,150

*See Note 15

14. 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, 2020

As of December 31, 2020, the City reported the following amounts in the accompanying financial statements related to the CERF and Police Plans:

	<u>CERF</u>	<u>Police</u>	<u>Total</u>
Deferred outflows of resources	\$ 34,478	\$ 164,162	\$ 198,640
Net pension (liability) asset	301,123	163,090	464,213
Deferred inflows of resources	510,440	478,490	988,930

As of December 31, 2020, the City reported the following amounts in the accompanying financial statements related to its participation in the above Plans:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Deferred outflows of resources	\$ 181,296	\$ 17,344	\$ 198,640
Net pension (liability) asset	312,730	151,483	464,213
Deferred inflows of resources	732,149	256,781	988,930

At January 1, 2020, 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	33	18
Terminated employees entitled to benefits but not yet receiving them	4	1
Active plan participants	42	14
Total	<u>79</u>	<u>33</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)

City of Lock Haven, Pennsylvania

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	<u>CERF</u>	<u>Police</u>
Monthly retirement benefits	Will receive monthly benefit based on the following: (1) Elected officials received \$7 times years of service as an elected official; (2) City employees receive 1.8% of average monthly earnings in the highest 5 consecutive years of the 10 years immediately preceding retirement or termination times years of service; and (3) Police officers hired prior to 1/1/1978, will receive monthly benefit equal to \$3 times years of service	Will receive annual benefit equal to 50% of the highest one years' W-2 earnings during the last 3 years of service preceding retirement
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100
Disability benefits, Eligibility	None	Service related injury or illness
Monthly disability benefits	None	2.5% of final monthly compensation times years of completed service, not to exceed 50%
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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

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, 2020. 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.

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 City Council, and established the following target allocation across asset categories:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	40.0 %	1.50 %
Large cap domestic	60.0	6.00

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 2020 measurement period are listed in the table above.

Rate of Return

For the year ended December 31, 2020, the annual money-weighted rate of return (loss) on pension plan investments, net of Plan investment expense, was 7.8 percent for both the CERF and Police Plans. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

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Net Pension Liability (Asset)

The City's net pension liability (asset) was measured at December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019, rolled forward to December 31, 2020. The components of the net pension liability (asset) of the Plans as of December 31, 2020 were as follows:

	<u>CERF</u>	<u>Police</u>
Total pension liability	\$ 7,690,148	\$ 6,228,490
Plan fiduciary net position	<u>7,991,271</u>	<u>6,391,580</u>
Plan net pension liability (asset)	<u>\$ (301,123)</u>	<u>\$ (163,090)</u>
Plan fiduciary net pension as a percentage of total pension liability	<u>103.92%</u>	<u>102.62%</u>

Changes in the Net Pension Liability (Asset)

The changes in the City's CERF Plan net pension liability (asset) during the year ended December 31, 2020 are as follows:

	<u>Increase (Decreases)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Net Fiduciary Position (b)</u>	<u>Net Position Liability (Asset) (a) - (b)</u>
Balances at January 1, 2020	\$ 7,494,113	\$ 7,649,821	\$ (155,708)
Changes for the year:			
Service cost	147,348	-	147,348
Interest	481,458	-	481,458
Differences between expected and actual experience	-	-	-
Changes of benefit terms	-	-	-
Changes of assumptions	-	-	-
Employer contributions	-	102,101	(102,101)
Plan member contributions	-	100,339	(100,339)
Net investment income	-	585,278	(585,278)
Benefit payments, including refunds of employee contributions	(432,771)	(432,771)	-
Administrative expenses	-	(13,497)	13,497
Net changes	<u>196,035</u>	<u>341,450</u>	<u>(145,415)</u>
Balances at December 31, 2020	<u>\$ 7,690,148</u>	<u>\$ 7,991,271</u>	<u>\$ (301,123)</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

The changes in the City's Police Plan net pension liability (asset) during the year ended December 31, 2020 are as follows:

	Increase (Decreases)		
	Total Pension Liability (a)	Plan Net Fiduciary Position (b)	Net Position Liability (Asset) (a) - (b)
Balances at January 1, 2020	\$ 6,103,146	\$ 6,167,427	\$ (64,281)
Changes for the year:			
Service cost	126,929	-	126,929
Interest	391,128	-	391,128
Differences between expected and actual experience	-	-	-
Changes of benefit terms	-	-	-
Changes of assumptions	-	-	-
Employer contributions	-	152,429	(152,429)
Plan member contributions	-	12,458	(12,458)
Net investment income	-	468,979	(468,979)
Benefit payments, including refunds of employee contributions	(392,713)	(392,713)	-
Administrative expenses	-	(17,000)	17,000
Net changes	125,344	224,153	(98,809)
Balances at December 31, 2020	<u>\$ 6,228,490</u>	<u>\$ 6,391,580</u>	<u>\$ (163,090)</u>

The schedule of changes in the employer's net pension liability (asset) 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, rolled forward to December 31, 2020, using the following actuarial methods and assumptions:

	CERF	Police
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.

City of Lock Haven, Pennsylvania

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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:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability (asset), CERF	\$ 579,654	\$ (301,123)	\$ (1,047,259)
Net pension liability (asset), Police	628,160	(163,090)	(813,457)

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

For the year ended December 31, 2020, the City recognized pension expense of \$(28,374) (\$68,637 CERF and \$40,263 Police). At December 31, 2020, 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	\$ -	\$ 178,475
Differences between expected and actual experience Police Plan	86,341	218,340
Changes in assumptions, CERF Plan	34,478	8,551
Changes in assumptions, Police Plan	77,821	-
Difference between projected and actual earnings on investments, CERF Plan	-	323,414
Difference between projected and actual earnings on investments, Police Plan	-	260,150
Total	<u>\$ 198,640</u>	<u>\$ 988,930</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:			
2021	\$ (141,212)	\$ (92,915)	\$ (234,127)
2022	(64,524)	(21,614)	(86,138)
2023	(213,521)	(158,762)	(372,283)
2024	(46,053)	(24,121)	(70,174)
2025	(10,652)	(14,207)	(24,859)
Thereafter	-	(2,709)	(2,709)

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15. Other Postemployment Benefits (OPEB)

At December 31, 2020, the City reported the following amounts in the accompanying financial statements related to participation in the Retiree Medical Benefits and Police Death Benefit Plans:

	<u>Retiree Medical Benefits Plan</u>	<u>Police Death Benefit Plan</u>	<u>Total</u>
Deferred outflow of resources	\$ 2,955,973	\$ 14,514	\$ 2,970,487
Net OPEB (liability) asset	(10,912,752)	243,642	(10,669,110)
Deferred inflow of resources	1,268,310	29,643	1,297,953

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 statements 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, 2020, 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	6	11
Terminated participants with deferred benefits	2	-
Active employees	14	14
Total	<u>22</u>	<u>25</u>
Participating employers	<u>1</u>	<u>1</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

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Net OPEB Liability

The City's net Retiree Medical Benefits OPEB liability was measured at December 31, 2020, 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, 2020. The City's net Police Death Benefit OPEB liability was measured at December 31, 2020 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, 2020. The components of the net OPEB liability of the Plans as of December 31, 2020 were as follows:

	<u>Retiree Medical Benefits Plan</u>	<u>Police Death Benefit Plan</u>
Total OPEB liability	\$ 10,912,752	\$ 25,657
Plan fiduciary net position	-	269,299
Plan net OPEB liability (asset)	<u>\$ 10,912,752</u>	<u>\$ (243,642)</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.00%</u>	<u>1,049.65%</u>

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	1.93%	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% in 2070 and later	N/A
Medicare Part B	4.00%	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

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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, 2020	\$ 7,874,014	\$ -	\$ 7,874,014
Changes for the year:			
Service cost	392,364	-	392,364
Interest	265,982	-	265,982
Difference between expected and actual experience	-	-	-
Changes in benefit terms	-	-	-
Changes of assumptions or other inputs	2,595,210	-	2,595,210
Employer contributions	-	214,818	(214,818)
Plan member contributions	-	-	-
Net investment income	-	-	-
Actual benefit payments	(214,818)	(214,818)	-
Administrative expense	-	-	-
Net changes	3,038,738	-	3,038,738
Balances at December 31, 2020	\$ 10,912,752	\$ -	\$ 10,912,752

The discount rate used to measure the total OPEB liability changed from 3.26 percent at December 31, 2019 to 1.93 percent at December 31, 2020.

Changes in the Police Death Benefit Net OPEB Liability (Asset)

	Total OPEB Liability (a)	Plan Net Fiduciary Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at January 1, 2020	\$ 25,324	\$ 246,050	\$ (220,726)
Changes for the year:			
Service cost	104	-	104
Interest	1,485	-	1,485
Difference between expected and actual experience	10,744	-	10,744
Changes in benefit terms	-	-	-
Changes of assumptions or other inputs	-	-	-
Employer contributions	-	-	-
Plan member contributions	-	-	-
Net investment income	-	36,447	(36,447)
Actual benefit payments	(12,000)	(12,000)	-
Administrative expense	-	(1,198)	1,198
Net changes	333	23,249	(22,916)
Balances at December 31, 2020	\$ 25,657	\$ 269,299	\$ (243,642)

City of Lock Haven, Pennsylvania

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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 %	1.50 %
Large cap domestic	50	6.00

Rate of Return

For the year ended December 31, 2020, the annual money-weighted rate of return on Police Death Benefit Plan investments, net of Plan investment expense, was 15.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 1.93 percent and 6.00 percent, respectively. The projection of cash flows used to determine the discount rate for the Police Death Benefit Plan 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	\$ 13,687,086	\$ 10,912,752	\$ 8,870,625
Net OPEB liability (asset):			
Police Death Benefit Plan	(240,050)	(243,642)	(246,517)

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	\$ 8,512,462	\$ 10,912,752	\$ 14,323,227

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, 2020

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

For the year ended December 31, 2020, the City recognized OPEB expense of \$829,054 and \$(15,825) for its Retiree Medical Benefits Plan and its Police Death Benefits Plan, respectively. At December 31, 2020, 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 experience, Retiree Medical Benefits Plan	\$ -	\$ 791,229
Difference between expected and actual experience, Police Death Benefit Plan	14,493	-
Changes of assumptions, Retiree Medical Benefits Plan	2,955,973	477,081
Changes of assumptions, Police Death Benefit Plan	21	-
Net difference between projected and actual earnings on investments, Police Death Benefit Plan	-	29,643
Total	\$ 2,970,487	\$ 1,297,953

	Retiree Medical Benefits Plan	Police Death Benefits Plan	Total
Years ending December 31:			
2021	\$ 170,708	\$ (4,245)	\$ 166,463
2022	170,708	(4,245)	166,463
2023	170,708	(8,197)	162,511
2024	170,708	(1,924)	168,784
2025	285,675	1,452	287,127
Thereafter	719,156	2,030	721,186

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 \$214,818 for the year ended December 31, 2020. 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, 2020.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2020

16. 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>Capital Projects Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable for prepaid expenses	\$ 210,314	\$ -	\$ -	\$ 210,314
Restricted for:				
Capital projects	\$ -	\$ 236,085	\$ -	\$ 236,085
Street programs	-	-	758,924	758,924
Economic development	-	-	437,413	437,413
Recreation	-	-	59,559	59,559
Total	\$ -	\$ 236,085	\$ 1,255,896	\$ 1,491,981
Committed for 2021 Budget	\$ 406,898	\$ -	\$ -	\$ 406,898
Assigned for program purposes	\$ -	\$ -	\$ 14,541	\$ 14,541

17. 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, 2020, the City purchased \$343,266 in water filtration services from the Water Filtration Authority.

18. 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.

19. 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, 2020

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.

COVID-19

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. The City's evaluation of the effects of these events is ongoing; however, based on current information this situation could impact the City's demand for services and collections on services provided. 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.

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 \$75,483 at December 31, 2020. The City has a surplus deposit related to the plan in the amount of \$285,797 at December 31, 2020, resulting in a net prepaid expense of \$125,601. The cost of medical coverage for employees was approximately \$1,118,000 in 2020.

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).

20. Restatement

The City's 2019 financial statements have been restated to correct an error involving the recognition of an intergovernmental receivable. The effect of the restatement on the City's Business-Type Activities and Sewer Fund at December 31, 2019 financial statements is summarized as follows:

	<u>Business-Type Activities</u>	<u>Sewer Fund</u>
Net Position, unrestricted:		
As previously presented	\$ 15,861,340	\$ 11,904,954
Restatement	<u>(161,770)</u>	<u>(161,770)</u>
As restated	<u>\$ 15,699,570</u>	<u>\$ 11,743,184</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2020

21. New Accounting Pronouncements

The GASB has approved the following:

Statement No. 87, *Leases*

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

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*

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* (portions of GASB Statement No.97 were implemented in 2020, see Note 1).

City management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the City's financial statements. When they become effective, application of these standards may restate portions of these financial statements.

22. Subsequent Events

The federal government passed the American Rescue Plan Act on March 11, 2021 to respond to the COVID-19 public health emergency and its negative economic impacts. Amounts were appropriated for fiscal year 2021 to units of local government to mitigate the fiscal effects stemming from the public health emergency. The City's estimated award is \$950,710, which will be used to combat the negative effects of the public health emergency in the local economy. The City received 50 percent of the funds in June 2021, with the remaining expected a year later. The funds are available to cover costs incurred through December 31, 2024.

In October 2021, the City approved the issuance of its General Obligation Note, Series A of 2021 in the principal amount of \$5,707,000 for the purposes of (a) acquisition and construction of improvements to City owned administrative and operation buildings; (b) acquisition and construction of improvements to the City-owned water system; (c) refunding of certain outstanding indebtedness of the City; and, (d) paying the costs of issuance of the 2021A Note. The Note bears interest at the bank-qualified, tax-exempt fixed rate equal to 1.33 percent per annum through November 1, 2031, and then reset at a rate equal to 79 percent of the Wall Street Journal Prime rate, not to exceed 4.25 percent per annum, through maturity in November 2041.

In October 2021, the City approved the issuance of its General Obligation Note, Series B of 2021 in the principal amount of \$671,000 for the purpose of (a) acquisition and construction of improvements to the self-fueling station and hangars at the City-owned airport; (b) refunding of certain outstanding indebtedness of the City; and (c) paying the costs of issuance of the 2021B Note. The Note bears interest at the federally taxable fixed rate equal to 1.68 percent per annum through November 1, 2031 and then continually resets at a rate equal to 52 percent of the Wall Street Journal Prime Rate, not to exceed 5.25 percent, through maturity in November 2041.

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions - Police Pension Fund
 Year Ended December 31, 2020
 (Unaudited)

	<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>	<u>2020</u>
Actuarially determined contribution ⁽¹⁾	\$ 140,351	\$ 156,821	\$ 155,503	\$ 145,654	\$ 191,163	\$ 182,213	\$ 182,904	\$ 175,574	\$ 168,426	\$ 150,475
Contributions in relation to the actuarially determined contribution	<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>	<u>152,429</u>
Contribution deficiency (excess)	<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>	<u>\$ (1,954)</u>
Covered-employee payroll ⁽²⁾	\$ 653,400	\$ 728,150	\$ 686,000	\$ 660,022	\$ 792,288	\$ 755,035	\$ 831,400	\$ 681,554	\$ 820,947	\$ 788,021
Contributions as a percentage of covered-employee payroll	22.56%	21.54%	22.67%	23.06%	24.13%	24.19%	22.48%	25.76%	20.52%	19.34%

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, 2020

(Unaudited)

	<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>	<u>2020</u>
Actuarially determined contribution ⁽¹⁾	\$ 87,184	\$ 90,931	\$ 86,957	\$ 91,331	\$ 138,657	\$ 110,388	\$ 118,809	\$ 85,550	\$ 86,461	\$ 89,264
Contributions in relation to the actuarially determined contribution	91,485	90,931	86,957	103,387	138,657	110,577	118,809	85,550	86,461	102,101
Contribution deficiency (excess)	<u>\$ (4,301)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,056)</u>	<u>\$ -</u>	<u>\$ (189)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,837)</u>
Covered-employee payroll ⁽²⁾	\$ 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	\$ 1,770,101
Contributions as a percentage of covered-employee payroll	6.01%	5.96%	6.33%	6.80%	8.94%	6.72%	7.33%	5.45%	5.19%	5.77%

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, 2020
(Unaudited)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</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%	7.8%
City Employees Retirement Fund	6.5%	(0.5)%	6.8%	13.3%	(5.6)%	19.4%	7.8%

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

City of Lock Haven, Pennsylvania

Required Supplementary Information

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

Year Ended December 31, 2020

(Unaudited)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total OPEB Liability				
Service cost	\$ 98	\$ 101	\$ 72	\$ 104
Interest	1,487	1,509	1,464	1,485
Differences between expected and actual experience	-	-	5,662	10,744
Changes in benefit terms	-	-	-	-
Changes in assumptions	-	-	32	-
Benefit payments, including refunds of member contributions	(1,188)	(1,254)	(8,000)	(12,000)
Administrative expense	-	-	-	-
Net change in total OPEB liability	397	356	(770)	333
Total OPEB liability, beginning	25,341	25,738	26,094	25,324
Total OPEB liability, ending (a)	<u>\$ 25,738</u>	<u>\$ 26,094</u>	<u>\$ 25,324</u>	<u>\$ 25,657</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	36,447
Benefits payments, including refunds of member contributions	(1,188)	(4,000)	(8,000)	(12,000)
Administration	(756)	(1,128)	(1,125)	(1,198)
Other	-	-	-	-
Net change in plan fiduciary net position	34,389	(11,817)	37,485	23,249
Plan fiduciary net position, beginning	185,993	220,382	208,565	246,050
Plan fiduciary net position, ending (b)	<u>\$ 220,382</u>	<u>\$ 208,565</u>	<u>\$ 246,050</u>	<u>\$ 269,299</u>
Net OPEB liability (asset), ending (a) - (b)	<u>\$ (194,644)</u>	<u>\$ (182,471)</u>	<u>\$ (220,726)</u>	<u>\$ (243,642)</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	<u>856.25%</u>	<u>799.28%</u>	<u>971.61%</u>	<u>1049.61%</u>
Covered-employee payroll	<u>\$ 834,504</u>	<u>\$ 867,030</u>	<u>\$ 798,290</u>	<u>\$ 788,021</u>
Net OPEB Liability (Asset) as a Percentage of Covered-Employee Payroll	<u>(23.3)%</u>	<u>(21.0)%</u>	<u>(27.6)%</u>	<u>(30.9)%</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 Total OPEB Liability and Related Ratios - Retiree Medical Benefits Plan

Year Ended December 31, 2020

(Unaudited)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total OPEB Liability			
Service cost	\$ 348,780	\$ 309,076	\$ 392,364
Interest	286,043	284,285	265,982
Differences between expected and actual experience	-	(1,135,241)	-
Changes in benefit terms	-	(824,211)	-
Changes in assumptions	(826,167)	966,239	2,595,210
Benefit payments, including refunds of member contributions	(186,611)	(152,456)	(214,818)
Administrative expense	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Net change in total OPEB liability	(377,955)	(552,308)	3,038,738
Total OPEB liability, beginning	<u>8,804,277</u>	<u>8,426,322</u>	<u>7,874,014</u>
Total OPEB liability, ending (a)	<u><u>\$ 8,426,322</u></u>	<u><u>\$ 7,874,014</u></u>	<u><u>\$ 10,912,752</u></u>
Plan Fiduciary Net Position			
Employer contributions	\$ 186,611	\$ 152,456	\$ 214,818
Employee contributions	-	-	-
Other contributions	-	-	-
Net investment income	-	-	-
Benefits payments, including refunds of member contributions	(186,611)	(152,456)	(214,818)
Administration	-	-	-
Other	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position, beginning	<u>-</u>	<u>-</u>	<u>-</u>
Plan fiduciary net position, ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Total OPEB liability (asset), ending (a) - (b)	<u><u>\$ 8,426,322</u></u>	<u><u>\$ 7,874,014</u></u>	<u><u>\$ 10,912,752</u></u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered-employee payroll	<u>\$ 711,867</u>	<u>\$ 798,290</u>	<u>\$ 788,021</u>
Total OPEB Liability as a Percentage of Covered-Employee Payroll	<u>1,183.7%</u>	<u>986.4%</u>	<u>1384.8%</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, 2020
(Unaudited)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	<u>18.7%</u>	<u>(3.1)%</u>	<u>22.2%</u>	<u>15.2%</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 City Council of
City of Lock Haven, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lock Haven, Pennsylvania (the City), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 22, 2021. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. Our report disclosed that the City elected to exclude a Management's Discussion and Analysis, that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinions are not modified with respect to this matter.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 questioned costs as items 2020-001 and 2020-002 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 questioned costs as items 2020-003 and 2020-004 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*.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity'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.

Williamsport, Pennsylvania
October 22, 2021

**Independent Auditors' Report on Compliance
for the Major Federal Program and Report on
Internal Control Over Compliance Required
by the Uniform Guidance**

To the City Council of
City of Lock Haven, Pennsylvania

Report on Compliance for the Major Federal Program

We have audited the City of Lock Haven, Pennsylvania's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2020. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Williamsport, Pennsylvania
October 22, 2021

City of Lock Haven, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Federal Grantor / Program Title	Pass-Through Entity Identification Number	Federal CFDA Number	Program Amount	Total Received for the Year	Federal Expenditures	Payments Made to Subrecipients
U.S. Department of Housing and Urban Development						
Passed through Pennsylvania Department of Community and Economic Development:						
Community Development Block Grant State's Program - 2016	C000064556	14.228	272,958	\$ 65,576	\$ 20,751	\$ -
Community Development Block Grant State's Program - 2017	C000067319	14.228	269,615	<u>157,015</u>	<u>157,015</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development				<u>222,591</u>	<u>177,766</u>	<u>-</u>
U.S. Department of Transportation						
Passed through the Pennsylvania Department of Transportation:						
Highway Planning and Construction Cluster, Highway Planning & Construction	R19020004	20.205	1,000,000	<u>711,048</u>	<u>919,409</u>	<u>-</u>
Airport Improvement Program	ABG-2020-COLH-00025	20.106	555,750	241,027	137,973	-
COVID - Airport Improvement Program	ABG-2020-COLH-00015	20.106	30,000	<u>-</u>	<u>30,000</u>	<u>-</u>
Total Airport Improvement Program				<u>241,027</u>	<u>167,973</u>	<u>-</u>
Total U.S. Department of Transportation				<u>952,075</u>	<u>1,087,382</u>	<u>-</u>
U.S. Department of the Treasury						
Passed through the Clinton County Commissioners						
COVID - Coronavirus Relief Fund	N/A	21.019	250,000	<u>250,000</u>	<u>250,000</u>	<u>-</u>
U.S. General Services Administration						
Passed through Pennsylvania Department of General Services						
Federal Surplus Program	N/A	39.003		<u>1,345</u>	<u>1,345</u>	<u>-</u>
Total Federal Financial Assistance				<u>\$ 1,426,011</u>	<u>\$ 1,516,493</u>	<u>\$ -</u>

See notes to schedule of expenditures of federal awards

City of Lock Haven, Pennsylvania

Notes to Schedule of Expenditures of Federal Awards
December 31, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Lock Haven, Pennsylvania (the City) under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

3. Indirect Cost Rate

The City has not elected to use the 10 percent de minimis indirect cost rate.

City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning & Construction Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

City of Lock Haven, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

Section II - Financial Statement Findings

Finding No. 2020-001: Internal Control Over Financial Reporting - Nonattest Services - Material Weakness

Criteria: Internal control is a process which captures and records transactions, safeguards 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 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;
- Reconciliation of interfund transfers; 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 Questioned Costs
Year Ended December 31, 2020

Finding No. 2020-002: Internal Control Over Financial Reporting - Information Technology Security - Material Weakness

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 monitoring and testing of information technology security access to prevent, or detect and correct errors or fraud.

Condition/Context: During the year ended December 31, 2020, the City experienced a situation where its electronic mail (e-mail) accounts were compromised by an external hacker who was able to intercept certain information and redirect certain payments from their intended recipients. Further, the City provides e-mail and certain other data storage for its related component units, who also experienced issues stemming from the City's IT system being compromised.

Effect: The City had certain disbursements it made that were redirected to an inappropriate party resulting in a potential loss of City funds.

Cause: The City's information technology controls are not as robust as necessary to secure its information.

Recommendation: We recommend that management evaluate its current information technology securities processes and rules, and assess its ability to ensure that private and sensitive information is appropriately secured.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

Finding No. 2020-003: 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 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 Questioned Costs
Year Ended December 31, 2020

Finding No. 2020-004: 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 \$203,634 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.

Section III - Federal Award Findings and Questioned Costs

None.

City of Lock Haven, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2020

Section IV – Summary of Prior Year's Finding and Questioned Costs

Finding No. 2019-001: Internal Control Over Financial Reporting - City Pooled Cash Account - Material Weakness

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.

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.

Resolution: During 2020, the City reconciled its cash accounts on a monthly basis.

Finding No. 2019-002: Internal Control Over Financial Reporting - Nonattest Services - Material Weakness

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

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

Resolution: See current year finding 2020-002

City of Lock Haven, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2020

Finding No. 2019-003: Internal Control Over Financial Reporting - Segregation of Duties Over Cash Receipts - Significant Deficiency

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.

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.

Resolution: See current year finding 2020-004

Finding No. 2019-004: Internal Control Over Financial Reporting - Settlement of Due to/from Accounts - Significant Deficiency

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.

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

Resolution: See current year finding 2020-005