

City of Lock Haven, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2021

City of Lock Haven, Pennsylvania

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Independent Auditors' Report

To the Members of City Council
City of Lock Haven, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the Lock Haven Area Flood Protection Authority and the Redevelopment Authority of the City of Lock Haven were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 opinions on the basic financial statements are 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 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 GAAS. In our opinion, the supplementary information 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 GAS, we have also issued our report dated September 22, 2022 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 GAS in considering the City's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Williamsport, Pennsylvania
September 22, 2022

City of Lock Haven, Pennsylvania

 Statement of Net Position
 December 31, 2021

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 908,866	\$ 2,407,353	\$ 3,316,219	\$ 1,895
Restricted cash	-	33,083	33,083	-
Receivables (net of allowance for uncollectibles):				
Taxes, net	454,789	-	454,789	-
Loans	242,503	-	242,503	-
Other	4,953	900,326	905,279	-
Internal balances	1,539,023	(1,539,023)	-	-
Due from other governments	62,960	264,827	327,787	-
Due from primary government	-	-	-	98,765
Prepaid expenses and other assets	222,956	5,846	228,802	77,964
Total current assets	<u>3,436,050</u>	<u>2,072,412</u>	<u>5,508,462</u>	<u>178,624</u>
Net pension asset	1,160,591	369,102	1,529,693	-
Capital assets:				
Public utility systems (including equipment)	-	45,282,834	45,282,834	-
Land and improvements	5,976,677	4,626,419	10,603,096	-
Infrastructure and infrastructure in progress	8,879,693	-	8,879,693	84,590,355
Buildings	4,704,197	-	4,704,197	-
Vehicles, equipment and furniture	5,502,356	5,931,796	11,434,152	-
Construction in progress	145,505	1,770	147,275	-
Less accumulated depreciation	(13,298,824)	(20,642,719)	(33,941,543)	(19,455,781)
Total capital assets	<u>11,909,604</u>	<u>35,200,100</u>	<u>47,109,704</u>	<u>65,134,574</u>
Deferred Outflows of Resources				
Pension	596,744	169,260	766,004	-
Other postemployment benefits (OPEB)	2,508,712	-	2,508,712	-
Total deferred outflows of resources	<u>3,105,456</u>	<u>169,260</u>	<u>3,274,716</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>19,611,701</u>	<u>37,810,874</u>	<u>57,422,575</u>	<u>65,313,198</u>
Liabilities				
Accounts payable and accrued expenses	143,500	179,452	322,952	-
Due to component unit	98,765	-	98,765	-
Unearned revenue	478,167	2,527	480,694	-
Long-term liabilities, due within one year:				
Bonds and notes payable	122,347	2,397,076	2,519,423	-
Capital leases	56,544	29,521	86,065	-
Total current liabilities	<u>899,323</u>	<u>2,608,576</u>	<u>3,507,899</u>	<u>-</u>
Due in more than one year:				
Bonds and notes payable	2,587,376	19,180,798	21,768,174	-
Capital leases	99,680	54,297	153,977	-
Compensated absences	104,757	22,022	126,779	-
Net OPEB liability	8,620,495	-	8,620,495	-
Total liabilities	<u>12,311,631</u>	<u>21,865,693</u>	<u>34,177,324</u>	<u>-</u>
Deferred Inflows of Resources				
Pension	1,640,057	497,413	2,137,470	-
Other postemployment benefits (OPEB)	3,554,469	-	3,554,469	-
Total deferred inflows of resources	<u>5,194,526</u>	<u>497,413</u>	<u>5,691,939</u>	<u>-</u>
Net Position (Deficit)				
Net investment in capital assets	9,043,657	13,571,491	22,615,148	65,134,574
Restricted for:				
Capital projects	566,625	33,083	599,708	-
Pension benefits	117,278	40,949	158,227	-
Program purposes	834,296	-	834,296	-
Unrestricted (deficit)	(8,456,312)	1,802,245	(6,654,067)	178,624
Total net position	<u>\$ 2,105,544</u>	<u>\$ 15,447,768</u>	<u>\$ 17,553,312</u>	<u>\$ 65,313,198</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Activities

Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			Component Unit Flood Protection Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities:								
General government	\$ 694,262	\$ 317,123	\$ 65,886	\$ -	\$ (311,253)		\$ (311,253)	
Public safety	1,551,986	152,921	3,051	-	(1,396,014)		(1,396,014)	
Public works	595,539	-	633,537	74,407	112,405		112,405	
Community and economic development	308,752	-	-	-	(308,752)		(308,752)	
Culture and recreation	156,601	34,913	-	-	(121,688)		(121,688)	
Interest and fees on long-term debt	149,487	-	-	-	(149,487)		(149,487)	
Employee benefits and insurance	1,570,247	-	263,634	-	(1,306,613)		(1,306,613)	
Unallocated depreciation	808,451	-	-	-	(808,451)		(808,451)	
Total governmental activities	5,835,325	504,957	966,108	74,407	(4,289,853)		(4,289,853)	
Business-type activities:								
Public utility services, water	2,068,138	1,502,935	-	294,127		\$ (271,076)	(271,076)	
Public utility services, sanitary sewer	3,326,654	3,078,229	-	-		(248,425)	(248,425)	
William T. Piper Memorial Airport	421,842	259,494	-	544,295		381,947	381,947	
Total business-type activities	5,816,634	4,840,658	-	838,422		(137,554)	(137,554)	
Total primary government	\$ 11,651,959	\$ 5,345,615	\$ 966,108	\$ 912,829	(4,289,853)	(137,554)	(4,427,407)	
Component Units								
Lock Haven Area Flood Protection Authority	\$ 848,034	\$ -	\$ -	\$ -				\$ (848,034)
Redevelopment Authority of the City of Lock Haven	2,485	18,087	-	-				15,602
Total component units	\$ 850,519	\$ 18,087	\$ -	\$ -				(832,432)
General Revenues								
Property taxes					2,503,660	-	2,503,660	-
Earned income taxes					566,605	-	566,605	-
Other taxes					505,785	-	505,785	-
Grants and contributions not restricted to specific programs					614,967	-	614,967	-
Unrestricted investment earnings					3,107	(5,482)	(2,375)	-
Miscellaneous					78,285	81,033	159,318	1,000
Transfers					(85,096)	85,096	-	-
Transfers to component unit					(161,127)	-	(161,127)	161,127
Total general revenues					4,124,936	160,647	4,285,583	162,127
Change in net position					(164,917)	23,093	(141,824)	(670,305)
Net Position, Beginning					2,270,461	15,424,675	17,695,136	65,983,503
Net Position, Ending					\$ 2,105,544	\$ 15,447,768	\$ 17,553,312	\$ 65,313,198

See notes to financial statements

City of Lock Haven, Pennsylvania

Balance Sheet - Governmental Funds

December 31, 2021

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 379,480	\$ 529,413	\$ -	\$ 908,893
Receivables:				
Taxes, net	454,789	-	-	454,789
Loans	-	-	242,503	242,503
Other governments	59,254	-	3,706	62,960
Due from other funds	403,451	136,041	1,098,490	1,637,982
Prepaid expenses	222,956	-	-	222,956
	<u>222,956</u>	<u>-</u>	<u>-</u>	<u>222,956</u>
Total assets	<u>\$ 1,519,930</u>	<u>\$ 665,454</u>	<u>\$ 1,344,699</u>	<u>\$ 3,530,083</u>
Liabilities, Deferred Inflow of Resources and Fund Balances				
Liabilities:				
Vouchers (accounts) payable	\$ 80,392	\$ 24	\$ 24,165	\$ 104,581
Accrued liabilities	30,579	40	92	30,711
Due to other funds	98,130	-	829	98,959
Due to component unit	-	98,765	-	98,765
Unearned revenues	7,401	-	470,766	478,167
	<u>7,401</u>	<u>-</u>	<u>470,766</u>	<u>478,167</u>
Total liabilities	<u>216,502</u>	<u>98,829</u>	<u>495,852</u>	<u>811,183</u>
Deferred inflow of resources, Unearned revenues, taxes	<u>379,426</u>	<u>-</u>	<u>-</u>	<u>379,426</u>
Fund balances:				
Nonspendable	222,956	-	-	222,956
Restricted	-	566,625	834,296	1,400,921
Committed	712,529	-	-	712,529
Assigned	-	-	18,448	18,448
Unassigned (deficit)	(11,483)	-	(3,897)	(15,380)
	<u>(11,483)</u>	<u>-</u>	<u>(3,897)</u>	<u>(15,380)</u>
Total fund balances	<u>924,002</u>	<u>566,625</u>	<u>848,847</u>	<u>2,339,474</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,519,930</u>	<u>\$ 665,454</u>	<u>\$ 1,344,699</u>	<u>\$ 3,530,083</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, 2021

Total Fund Balance, Governmental Funds	\$ 2,339,474
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.	(3,282)
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the fund financial statements, but are reported in the statement of net position	11,909,604
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.	379,426
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.	1,160,591
Deferred outflows related to the net pension liability are not reported in the governmental funds, however, are reported in the statement of net position.	596,744
Deferred outflows related to the OPEB liability are not reported in the governmental funds, however, are reported in the statement of net position.	2,508,712
Deferred inflows related to the net pension liability are not reported in the governmental funds, however, are reported in the statement of net position.	(1,640,057)
Deferred inflows related to the OPEB liability are not reported in the governmental, however, are reported in the statement of net position.	(3,554,469)
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, 2021 are:	
Bonds and notes payable	(2,709,723)
Capital leases	(156,224)
Net OPEB liability	(8,620,495)
Compensated absences	(104,757)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 2,105,544</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended December 31, 2021

	General Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
Revenues				
Taxes	\$ 3,586,070	\$ -	\$ -	\$ 3,586,070
Licenses and permits	91,040	-	-	91,040
Fines and forfeits	152,921	-	-	152,921
Interest, rents and royalties	21,616	332	2,041	23,989
Intergovernmental	512,433	237,157	858,324	1,607,914
Charges for service	164,546	-	-	164,546
Collections on loans	-	-	36,391	36,391
Miscellaneous	50,959	14,753	32,275	97,987
Total revenues	4,579,585	252,242	929,031	5,760,858
Expenditures				
General government	462,343	11,863	4,105	478,311
Employee benefits and insurance	1,255,696	79	6,701	1,262,476
Community and economic development	116,904	27,398	208,706	353,008
Public works, highways and streets	726,157	25,003	485,470	1,236,630
Health and sanitation	208	-	-	208
Public safety	1,649,663	-	-	1,649,663
Culture and recreation	199,127	19,777	81,688	300,592
Capital outlay	-	120	-	120
Debt service	360,825	-	-	360,825
Total expenditures	4,770,923	84,240	786,670	5,641,833
Excess (deficiency) of revenues over expenditures	(191,338)	168,002	142,361	119,025
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	5,486	98,765	-	104,251
Proceeds from long-term debt	2,697,863	11,864	-	2,709,727
Proceeds from extended term financing	95,334	-	-	95,334
Payments to bond refunding agent	(2,653,521)	-	-	(2,653,521)
Transfers in	124,435	51,909	11,729	188,073
Transfers out	(52,930)	-	(220,239)	(273,169)
Total other financing sources (uses), net	216,667	162,538	(208,510)	170,695
Changes in fund balances	25,329	330,540	(66,149)	289,720
Fund Balance, Beginning	898,673	236,085	914,996	2,049,754
Fund Balance, Ending	\$ 924,002	\$ 566,625	\$ 848,847	\$ 2,339,474

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, 2021

Net Change in Fund Balances, Total Governmental Funds	\$ 289,720
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 \$801,955 were exceeded by depreciation expense \$808,451, in the current period.	(6,496)
Capital assets used in governmental activities are not reported as assets in the governmental funds. Thus upon the transfer of a capital asset to a component unit of the primary government, there is no activity recorded in the governmental fund, while the statement of activities records a transfer to the component unit.	(161,127)
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, 2021.	(10,144)
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 2021, the following transactions factor into this reconciliation:	
Issuance of long-term debt	(2,709,727)
Retirement of principal of long-term debt	2,817,655
Issuance of extended term financing	(95,334)
Retirement of extended term financing	47,207
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, 2021.	(11,004)
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.	355,401
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.	(669,676)
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.	<u>(11,392)</u>
Change in Net Position of Governmental Activities	<u>\$ (164,917)</u>

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, 2021

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
Revenues			
Taxes	\$ 3,395,459	\$ 3,586,070	\$ 190,611
Licenses and permits	109,754	91,040	(18,714)
Fines and forfeits	119,919	152,921	33,002
Interest, rents and royalties	23,086	21,616	(1,470)
Intergovernmental	370,582	512,433	141,851
Charges for services	304,005	164,546	(139,459)
Miscellaneous	37,500	50,959	13,459
	<u>4,360,305</u>	<u>4,579,585</u>	<u>219,280</u>
Expenditures			
General government	577,025	462,343	114,682
Employee benefits and insurance	1,535,625	1,255,696	279,929
Community and economic development	67,054	116,904	(49,850)
Public safety	1,581,608	1,649,663	(68,055)
Public works, highways and streets	965,115	726,157	238,958
Health and sanitation	200	208	(8)
Culture and recreation	213,896	199,127	14,769
Debt service	328,157	360,825	(32,668)
Capital outlay	19,536	-	19,536
	<u>5,288,216</u>	<u>4,770,923</u>	<u>517,293</u>
Deficiency of revenues over expenditures	<u>(927,911)</u>	<u>(191,338)</u>	<u>736,573</u>
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets	9,863	5,486	(4,377)
Proceeds from long-term debt	-	2,697,863	2,697,863
Proceeds from extended term financing	-	95,334	95,334
Payments to bond refunding agent	-	(2,653,521)	(2,653,521)
Transfers in	291,163	124,435	(166,728)
Transfers out	(202,269)	(52,930)	149,339
Appropriated fund balance	829,154	-	(829,154)
	<u>927,911</u>	<u>216,667</u>	<u>(711,244)</u>
Total other financing source, net	<u>927,911</u>	<u>216,667</u>	<u>(711,244)</u>
Excess of revenues over expenditures after other financing sources (uses)	<u>\$ -</u>	<u>\$ 25,329</u>	<u>\$ 25,329</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

 Statement of Net Position - Proprietary Funds
 December 31, 2021

	Enterprise Funds				Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,703,874	\$ 703,479	\$ -	\$ 2,407,353	\$ (27)
Restricted cash	-	-	33,083	33,083	-
Customer accounts receivable, (net of allowance)	448,307	391,277	60,742	900,326	4,953
Due from other funds	4,072	98,087	40,167	142,326	-
Due from other governments	5,000	5,970	259,827	270,797	-
Other current assets	5,846	-	-	5,846	-
Total current assets	2,167,099	1,198,813	393,819	3,759,731	4,926
Net pension asset	166,992	199,238	2,872	369,102	-
Capital assets:					
Public utility systems (including related equipment)	7,881,176	37,401,658	-	45,282,834	-
Land and improvements	-	510,165	4,116,254	4,626,419	-
Equipment and vehicles	2,228,721	2,949,855	753,220	5,931,796	-
Construction in progress	-	-	1,770	1,770	-
Less accumulated depreciation	(5,957,662)	(12,245,623)	(2,439,434)	(20,642,719)	-
Total capital assets, net	4,152,235	28,616,055	2,431,810	35,200,100	-
Total assets	6,486,326	30,014,106	2,828,501	39,328,933	4,926
Deferred Outflows of Resources					
Pension	76,578	91,365	1,317	169,260	-
Total assets and deferred outflows of resources	\$ 6,562,904	\$ 30,105,471	\$ 2,829,818	\$ 39,498,193	\$ 4,926
Liabilities					
Current liabilities:					
Current portion of bonds and notes payable	\$ 1,581,174	\$ 800,460	\$ 15,442	\$ 2,397,076	\$ -
Current portion of lease payable	14,938	14,583	-	29,521	-
Vouchers (accounts) payable	115,617	47,824	2,663	166,104	4,625
Accrued liabilities	9,170	9,970	178	19,318	3,583
Due to other funds	85,351	1,152,966	443,032	1,681,349	-
Unearned revenues	-	-	2,527	2,527	-
Total current liabilities	1,806,250	2,025,803	463,842	4,295,895	8,208
Noncurrent liabilities:					
Compensated absences	4,259	17,763	-	22,022	-
Long-term portion of bonds and notes payable	2,096,337	16,750,847	333,614	19,180,798	-
Long-term portion of lease payable	27,475	26,822	-	54,297	-
Total noncurrent liabilities	2,128,071	16,795,432	333,614	19,257,117	-
Total liabilities	3,934,321	18,821,235	797,456	23,553,012	8,208
Deferred Inflows of Resources					
Pension	218,613	274,895	3,905	497,413	-
Net Position					
Net investment in capital assets	432,311	11,023,343	2,115,837	13,571,491	-
Restricted	24,957	15,708	33,367	74,032	-
Unrestricted (deficit)	1,952,702	(29,710)	(120,747)	1,802,245	(3,282)
Total net position	2,409,970	11,009,341	2,028,457	15,447,768	(3,282)
Total liabilities, deferred inflows of resources and net position	\$ 6,562,904	\$ 30,105,471	\$ 2,829,818	\$ 39,498,193	\$ 4,926

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, 2021

	Enterprise Funds				Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Total	
Revenues					
Charges for services	\$ 1,502,935	\$ 3,078,229	\$ 259,494	\$ 4,840,658	\$ 61,587
Operating Expenses					
Personnel services	771,607	935,949	16,348	1,723,904	-
Depreciation	387,299	955,784	209,065	1,552,148	-
Utilities (including water filtration costs)	595,218	232,904	28,993	857,115	-
Administrative expense	64,776	389,914	3,988	458,678	72,979
Materials, supplies and maintenance	178,513	198,368	129,691	506,572	-
Sludge disposal	-	384,257	-	384,257	-
Insurance	15,502	4,805	8,436	28,743	-
Miscellaneous	-	22,831	2,036	24,867	-
Total operating expenses	2,012,915	3,124,812	398,557	5,536,284	72,979
Operating loss	(509,980)	(46,583)	(139,063)	(695,626)	(11,392)
Nonoperating Revenues (Expenses)					
Subsidies from other governments:					
State	5,603	-	544,295	549,898	-
Local	288,524	-	-	288,524	-
Investment loss	(3,136)	(2,344)	(2)	(5,482)	-
Rental income	280	878	-	1,158	-
Miscellaneous income	79,395	-	480	79,875	-
Interest expense	(55,223)	(201,842)	(23,285)	(280,350)	-
Total nonoperating revenues (expenses), net	315,443	(203,308)	521,488	633,623	-
(Loss) income before other financig sources (uses)	(194,537)	(249,891)	382,425	(62,003)	(11,392)
Other Financing Sources (Uses)					
Transfers in	32,313	62,783	-	95,096	-
Transfers out	-	-	(10,000)	(10,000)	-
Total other financing sources (uses), net	32,313	62,783	(10,000)	85,096	-
Net (loss) income	(162,224)	(187,108)	372,425	23,093	(11,392)
Net Position, Beginning	2,572,194	11,196,449	1,656,032	15,424,675	8,110
Net Position (Deficit), Ending	<u>\$ 2,409,970</u>	<u>\$ 11,009,341</u>	<u>\$ 2,028,457</u>	<u>\$ 15,447,768</u>	<u>\$ (3,282)</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

 Statement of Cash Flows - Proprietary Funds
 Year Ended December 31, 2021

	Enterprise Funds				Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Totals	
Cash Flows From Operating Activities					
Cash received from users	\$ 1,309,522	\$ 3,403,415	\$ 497,479	\$ 5,210,416	\$ 61,330
Cash payments to employees for services	(840,237)	(1,036,250)	(17,764)	(1,894,251)	(72,117)
Cash paid to suppliers for goods and services	(808,106)	(1,272,824)	(181,522)	(2,262,452)	
Net cash (used in) provided by operating activities	(338,821)	1,094,341	298,193	1,053,713	(10,787)
Cash Flows Provided by (Used in) Noncapital Financing Activities					
Operating subsidies and transfers from (to) other funds	32,313	62,783	(10,000)	85,096	-
Cash Flows From Investing Activities					
Rental income	280	878	-	1,158	-
Loss on investments	(3,136)	(2,344)	(2)	(5,482)	-
Net cash used in investing activities	(2,856)	(1,466)	(2)	(4,324)	-
Cash Flows From Capital and Related Financing Activities					
Payments for capital acquisitions	(872,632)	(66,036)	(544,565)	(1,483,233)	-
Capital subsidies from other governments	294,127	-	284,468	578,595	-
Principal payments on long-term debt	(123,190)	(789,996)	(304,346)	(1,217,532)	-
Principal payments on lease liabilities	(14,409)	(14,067)	-	(28,476)	-
Proceeds from long-term debt	537,244	-	299,057	836,301	-
Miscellaneous income	79,395	-	480	79,875	-
Interest paid	(55,223)	(201,842)	(23,285)	(280,350)	-
Net cash used in capital and related financing activities	(154,688)	(1,071,941)	(288,191)	(1,514,820)	-
(Decrease) increase in cash and cash equivalents	(464,052)	83,717	-	(380,335)	(10,787)
Cash and Cash Equivalents, Beginning	2,167,926	619,762	33,083	2,820,771	10,760
Cash and Cash Equivalents, Ending	<u>\$ 1,703,874</u>	<u>\$ 703,479</u>	<u>\$ 33,083</u>	<u>\$ 2,440,436</u>	<u>\$ (27)</u>
Displayed as:					
Cash and cash equivalents	\$ 1,703,874	\$ 703,479	\$ -	\$ 2,407,353	\$ (27)
Restricted cash	-	-	33,083	33,083	-
Total	<u>\$ 1,703,874</u>	<u>\$ 703,479</u>	<u>\$ 33,083</u>	<u>\$ 2,440,436</u>	<u>\$ (27)</u>
Reconciliation of Operating Loss to Net Cash (Used in) Provided by Operating Activities					
Operating loss	\$ (509,980)	\$ (46,583)	\$ (139,063)	\$ (695,626)	\$ (11,392)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:					
Depreciation	387,299	955,784	209,065	1,552,148	-
Changes in assets and liabilities:					
Accounts receivable, other	(148,082)	(35,817)	(1,413)	(185,312)	(257)
Due from/to other governments and funds	(45,331)	361,003	239,398	555,070	-
Other current assets	8,349	-	-	8,349	-
Net pension asset	(109,532)	(106,454)	(1,633)	(217,619)	-
Deferred outflows of resources, pension	(69,999)	(80,741)	(1,176)	(151,916)	-
Vouchers payable	45,903	(39,745)	(8,378)	(2,220)	862
Accrued and other liabilities	(18,660)	(30,721)	(412)	(49,793)	-
Deferred inflows of resources, pension	121,212	117,615	1,805	240,632	-
Net cash (used in) provided by operating activities	<u>\$ (338,821)</u>	<u>\$ 1,094,341</u>	<u>\$ 298,193</u>	<u>\$ 1,053,713</u>	<u>\$ (10,787)</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2021

	Pension and OPEB Trust Funds	Custodial Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 615,681	\$ 4,939
Accrued interest receivable	89,202	-
Total current assets	<u>704,883</u>	<u>4,939</u>
Investments:		
Fixed income securities	5,578,834	-
Equity securities	8,327,280	-
Mutual funds	<u>1,922,009</u>	<u>-</u>
Total investments	<u>15,828,123</u>	<u>-</u>
Total assets	<u><u>\$ 16,533,006</u></u>	<u><u>\$ 4,939</u></u>
Liabilities		
Due to brokers	<u>\$ 60,000</u>	<u>\$ -</u>
Net Position		
Restricted for pensions and postemployment benefits other than pensions	16,473,006	-
Restricted for other governments	<u>-</u>	<u>4,939</u>
Total net position	<u>16,473,006</u>	<u>4,939</u>
Total liabilities and net position	<u><u>\$ 16,533,006</u></u>	<u><u>\$ 4,939</u></u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2021

	Pension and OPEB Trust Funds	Custodial Funds
Additions		
Contributions:		
Commonwealth of Pennsylvania	\$ 263,633	\$ -
Employees	124,151	-
Other	24	-
Total contributions	<u>387,808</u>	<u>-</u>
Investment earnings:		
Net increase in fair value of investments	1,556,191	-
Interest and dividends	795,771	-
Total investment gain	<u>2,351,962</u>	<u>-</u>
Rent	-	52,920
Miscellaneous	-	4,939
Total additions	<u>2,739,770</u>	<u>57,859</u>
Deductions		
Benefits	828,927	-
Investment fees and other	89,987	-
Distributions to City	-	52,920
Total deductions	<u>918,914</u>	<u>52,920</u>
Change in net position	1,820,856	4,939
Net Position, Beginning	<u>14,652,150</u>	<u>-</u>
Net Position, Ending	<u>\$ 16,473,006</u>	<u>\$ 4,939</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Combining Statement of Net Position - Discretely Presented Component Units
December 31, 2021

	Lock Haven Area Flood Protection Authority	Redevelopment Authority of the City of Lock Haven	Total
Assets			
Cash and cash equivalents	\$ 1,895	\$ -	\$ 1,895
Due from primary government	-	98,765	98,765
	<u>1,895</u>	<u>98,765</u>	<u>100,660</u>
Total current assets			
	<u>1,895</u>	<u>98,765</u>	<u>100,660</u>
Assets held for sale	-	77,964	77,964
	<u>-</u>	<u>77,964</u>	<u>77,964</u>
Capital assets:			
Infrastructure and infrastructure in progress	84,590,355	-	84,590,355
Less accumulated depreciation	(19,455,781)	-	(19,455,781)
	<u>65,134,574</u>	<u>-</u>	<u>65,134,574</u>
Total capital assets			
	<u>65,134,574</u>	<u>-</u>	<u>65,134,574</u>
Total assets	<u>\$ 65,136,469</u>	<u>\$ 176,729</u>	<u>\$ 65,313,198</u>
Net Position			
Net investment in capital assets	\$ 65,134,574	\$ -	\$ 65,134,574
Unrestricted	1,895	176,729	178,624
	<u>1,895</u>	<u>176,729</u>	<u>178,624</u>
Total net position	<u>\$ 65,136,469</u>	<u>\$ 176,729</u>	<u>\$ 65,313,198</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Combining Statement of Activities - Discretely Presented Component Units
Year Ended December 31, 2021

	Lock Haven Area Flood Protection Authority	Redevelopment Authority of the City of Lock Haven	Total
Revenues			
Charges for services	\$ -	\$ 18,087	\$ 18,087
Expenditures			
Depreciation	845,903	-	845,903
Other services and charges	2,131	2,485	4,616
Total operating expenses	848,034	2,485	850,519
Operating (loss) income	(848,034)	15,602	(832,432)
Nonoperating Revenues			
Other nonoperating revenues	1,000	-	1,000
Income (loss) before other financing sources	(847,034)	15,602	(831,432)
Other Financing Sources			
Transfers in	-	161,127	161,127
Net income (loss)	(847,034)	176,729	(670,305)
Net Position, Beginning	65,983,503	-	65,983,503
Net Position, Ending	<u>\$ 65,136,469</u>	<u>\$ 176,729</u>	<u>\$ 65,313,198</u>

See notes to financial statements

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

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 (GAAP) 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, 2021

The financial statements of the City include the accounts of the City's primary government and three 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 all of its 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. The Redevelopment Authority of the City of Lock Haven does not issue separate financial statements.

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 Units	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).
The Redevelopment Authority of the City of Lock Haven (the Redevelopment Authority) was established pursuant to the provisions of the Pennsylvania Urban Redevelopment Law, Act of 1945. The Redevelopment Authority provides for the acquisition, demolition or sale of blighted properties, economic development and historical rehabilitation and preservation.	The Redevelopment Authority's Board of Directors, consisting of five members, is appointed by City Council.

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 Plans 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.

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 Other Postemployment Benefits (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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

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.
- The ARP Fund accounts for the City's share of the federal State and Local Fiscal Recovery Funds received under provisions of the American Rescue Plan Act.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

Capital Projects Fund

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

Proprietary Funds

Enterprise Funds, Water, Sewer and Airport Funds

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

Internal Service Fund, Inventory Fund

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

Fiduciary Funds

Pension and 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.

Custodial Funds

Custodial funds are used to report resources held by the City in a purely custodial capacity. Custodial funds reported by the City in the accompanying financial statements include cash and other assets held for Act 98 Fire Escrow and Central Clinton County Council of Governments.

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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

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.

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, 2021 amounted to \$175,006. The allowance for doubtful accounts related to the Water, Sewer and Airport proprietary funds amounted to \$23,032, \$27,199 and \$6,736, respectively, as of December 31, 2021.

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 lives 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

Unearned Revenues

Unearned revenues consist 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, 2021, the General, Nonmajor Governmental and Airport Operating Funds had unearned revenues of \$7,401, \$470,766 and \$2,527, respectively. The General Fund also had unearned tax revenues of \$379,426 at December 31, 2021.

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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Principles

The City adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, for the year ended December 31, 2021. This statement eliminates the requirement to capitalize interest on ongoing debt financed projects. The adoption of this standard did not have a significant impact on the City's financial statements.

Conduit Debt Obligations, Redevelopment Authority

The Redevelopment Authority issued its Guaranteed Tax Increment Note, Series of 2008, which does not constitute a debt of the Redevelopment Authority or the City. The debt instrument is a limited obligation of the Redevelopment Authority, payable solely from payments made by the Trust Revenues. The Redevelopment Authority has no general liability with respect to this obligation and any specific beneficial interest in the related assets held by the Redevelopment Authority are pledged as collateral to the trustee. Acting primarily as a financing agent, the Redevelopment Authority serves as a conduit, bringing the ultimate borrower and the ultimate lender together. The Redevelopment Authority has no further limited commitments with regard to this instrument.

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.

GAAP requires 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 2021, the City had no major special revenue funds.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

3. Cash, Cash Equivalents and Investments

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

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its 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, 2021, the aggregate bank balance of bank deposits was \$4,112,464, of which \$501,895 was covered by federal depository insurance and \$500,000 was covered by Securities Investor Protection Corporation (SIPC) insurance. Of the uninsured remaining bank deposits, \$2,744,888 was 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 \$365,681 was unsecured. The carrying amount of these bank deposits was \$3,713,316 at December 31, 2021.

PLGIT is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase shares in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities or political subdivisions and deposits in savings accounts, time deposits or share accounts of institutions insured by the FDIC to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository. Shares may be withdrawn at any time in any amount, with no liquidity fees or redemption gates. PLGIT/PLGIT PLUS have received an AAAM rating from Standard and Poor's, an independent credit rating agency. At December 31, 2021, both the carrying amount and the bank balance of the City's deposits with PLGIT was \$256,606.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

Investments, Pension and OPEB Trust Funds

As of December 31, 2021, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Equity securities	N/A	\$ 8,327,280
Corporate bonds	Average of 5 years	1,789,326
Certificates of deposit	Average of 6 years	925,367
Mutual funds	N/A	1,922,009
U.S. Treasury securities	Average of 6 years	309,821
Government mortgage pools	Average of 20 years	1,111,365
Corp. mortgage/asset backed securities	Average of 22 years	745,150
Government asset backed securities	Average of 3 years	697,805
Total		<u>\$ 15,828,123</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, 2021, all of the City's Pension and OPEB Trust Fund investments were held by Huntington Bank 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, 2021, the City's credit quality distribution of securities as a percentage of total fixed income investments is as follows:

Corporate bonds	BBB- to AA+	25.48 %
Certificates of deposit	A+ to AA+	13.18
U.S. Treasury securities	AA+	4.41
Government mortgage pools	AA+ to AAA	15.83
Corp. mortgage/asset backed securities	AA to AAA	30.16
Government asset backed securities	AA+	10.94
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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

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.

4. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The City has the following recurring fair value measurements as of December 31, 2021:

	December 31, 2021			
	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				
Equity mutual funds	\$ 1,922,009	\$ -	\$ 1,922,009	\$ -
Fixed income:				
U.S. Treasury securities	309,821	-	309,821	-
Corporate bonds	1,789,326	-	1,789,326	-
Government mortgage pools	1,111,365	-	1,111,365	-
Corp. mortgage/asset backed securities	745,150	-	745,150	-
Government asset backed securities	697,805	-	697,805	-
Certificates of deposit	925,367	-	925,367	-
Common stocks:				
Information technology	2,388,551	2,388,551	-	-
Communication services	1,218,667	1,218,667	-	-
Industrials	1,001,085	1,001,085	-	-
Consumer discretionary	934,785	934,785	-	-
Financials	940,765	940,765	-	-
Healthcare	721,346	721,346	-	-
Consumer staples	390,876	390,876	-	-
Energy	351,664	351,664	-	-
Materials	140,206	140,206	-	-
Utilities	85,144	85,144	-	-
Other equity mutual funds	154,191	154,191	-	-
Total investments	\$ 15,828,123	\$ 8,327,280	\$ 7,500,843	\$ -

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

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

- Equity securities (common and preferred stocks) classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.
- Fixed income securities and mutual funds 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.

5. Property Taxes

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

The assessed value at January 1, 2021, upon which the 2021 levy was based, was \$267,635,400 of taxable property, which approximates the estimated market value of taxable property. Current tax collections for the year ended December 31, 2021 were 89.24 percent of the tax levy.

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

The City's equivalent single tax rates at December 31, 2021 for General Government Services was 9.17 mills. The City has a tax margin of 20.83 mills (30.00 mills limit less 9.17 mills for general government = 20.83 mills).

6. Due From Other Governments

The amount reported in the City's various governmental and proprietary funds at December 31, 2021 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 59,254	\$ 59,254
Other Nonmajor Governmental Funds	-	-	3,706	3,706
Water Fund	-	-	5,000	5,000
Airport Fund	<u>259,827</u>	<u>-</u>	<u>-</u>	<u>259,827</u>
Total	<u>\$ 259,827</u>	<u>\$ -</u>	<u>\$ 67,960</u>	<u>\$ 327,787</u>

Amounts due from the federal and state government are primarily grants receivable related to the City's various federal and state grant programs. Amounts due from local governments are primarily reimbursements for intergovernmental services performed during 2021.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

7. Capital Assets

The City's capital asset activity as of and for the year ended December 31, 2021 is as follows:

	<u>Balance, January 1, 2021</u>	<u>Acquisitions</u>	<u>Transfer to Component Unit</u>	<u>Internal Transfers</u>	<u>Balance, December 31, 2021</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 3,642,272	\$ -	\$ (161,127)	\$ -	\$ 3,481,145
Construction in progress	30,728	114,777	-	-	145,505
Total capital assets, not being depreciated	<u>3,673,000</u>	<u>114,777</u>	<u>(161,127)</u>	<u>-</u>	<u>3,626,650</u>
Capital assets, being depreciated:					
Land improvements	2,349,032	146,500	-	-	2,495,532
Buildings and improvements	4,704,197	-	-	-	4,704,197
Furniture and equipment	3,380,720	9,227	-	-	3,389,947
Transportation	2,017,075	95,334	-	-	2,112,409
Infrastructure	8,443,576	436,117	-	-	8,879,693
Total capital assets, being depreciated	<u>20,894,600</u>	<u>687,178</u>	<u>-</u>	<u>-</u>	<u>21,581,778</u>
Less accumulated depreciation:					
Land improvements	(1,935,184)	(84,221)	-	-	(2,019,405)
Buildings and improvements	(3,008,938)	(95,235)	-	-	(3,104,173)
Furniture and equipment	(2,659,417)	(131,410)	-	-	(2,790,827)
Transportation	(1,749,795)	(147,077)	-	-	(1,896,872)
Infrastructure	(3,137,039)	(350,508)	-	-	(3,487,547)
Total accumulated depreciation	<u>(12,490,373)</u>	<u>(808,451)</u>	<u>-</u>	<u>-</u>	<u>(13,298,824)</u>
Net capital assets, being depreciated	<u>8,404,227</u>	<u>(121,273)</u>	<u>-</u>	<u>-</u>	<u>8,282,954</u>
Governmental activities, net	<u>\$ 12,077,227</u>	<u>\$ (6,496)</u>	<u>\$ (161,127)</u>	<u>\$ -</u>	<u>\$ 11,909,604</u>

During 2021, the City transferred certain undeveloped properties, amounting to \$161,127, to the Redevelopment Authority to enable such properties to be sold and returned to the active tax roll. See additional information in Note 18.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

	Balance, January 1, 2021	Acquisitions	Disposals	Transfers	Balance, December 31, 2021
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	49,142,685	935,417	-	(4,795,268)	45,282,834
Land improvements	3,402,688	547,816	-	-	3,950,504
Equipment and vehicles	1,136,528	-	-	4,795,268	5,931,796
Total capital assets, being depreciated	53,681,901	1,483,233	-	-	55,165,134
Less accumulated depreciation:					
Utility system	(16,580,487)	(1,305,457)	-	-	(17,885,944)
Land improvements	(1,553,880)	(197,364)	-	-	(1,751,244)
Equipment and vehicles	(956,204)	(49,327)	-	-	(1,005,531)
Total accumulated depreciation	(19,090,571)	(1,552,148)	-	-	(20,642,719)
Business-type activities capital assets, net	\$ 35,269,015	\$ (68,915)	\$ -	\$ -	\$ 35,200,100

Governmental activity depreciation expense, which amounted to \$808,451 for the year ended December 31, 2021, was not allocated to functional expense categories in the accompanying financial statements. Business-type activities depreciation expense, which amounted to \$387,299, \$955,784 and \$209,065 for the year ended December 31, 2021, was charged to the Water, Sewer and Airport Funds in the accompanying financial statements, respectively.

	Balance, January 1, 2021	Additions	Disposals	Balance, December 31, 2021
Component unit:				
Flood Protection Authority:				
Infrastructure	\$ 84,590,355	\$ -	\$ -	\$ 84,590,355
Accumulated depreciation	(18,609,878)	(845,903)	-	(19,455,781)
Component unit - capital asset, net	\$ 65,980,477	\$ (845,903)	\$ -	\$ 65,134,574

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

8. Interfund Balances and Activity

Balances Due to/From Other Funds

Balances due to/from other funds are primarily the result of interfund 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, 2021 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 403,451	\$ 98,130
Capital Projects Fund	136,041	-
Nonmajor Governmental Funds	1,098,490	829
Enterprise Funds:		
Water Fund	4,072	85,351
Sewer Fund	98,087	1,152,966
Airport Fund	40,167	443,032
Total	<u>\$ 1,780,308</u>	<u>\$ 1,780,308</u>

Transfers to/From Other Funds

Interfund transfers for the year ended December 31, 2021 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 124,435	\$ 52,930
Capital Projects Fund	51,909	-
Nonmajor Governmental Funds	11,729	220,239
Enterprise Funds:		
Water Fund	32,313	-
Sewer Fund	62,783	-
Airport Fund	-	10,000
Total	<u>\$ 283,169</u>	<u>\$ 283,169</u>

During the year ended December 31, 2021, the City made transfers from its General Fund to the City's Capital Projects Fund for \$51,909 for annual projects, and to the Interchange Fund for an annual allocation of \$4,000. The City also made transfers from its ARP Fund, a nonmajor governmental fund, to the General Fund \$124,435, Water Fund \$32,313 and Sewer Fund \$62,783, for project costs incurred as part of the City's American Rescue Plan program.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

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

As of December 31, 2021, the City's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance, January 1, 2021	Additions	Retirements	Balance, December 31, 2021	Current Portion
PennVEST Note Payable, Sewer Fund *	1.156 %	\$ 2,638,730	\$ 544,897	\$ -	\$ 136,793	\$ 408,104	\$ 138,377
PennVEST Note Payable, Water Fund *	1.00	6,122,000	2,343,937	-	123,185	2,220,752	124,418
PennVEST Note Payable, Sewer Fund *	1.00	18,074,732	14,528,410	-	551,210	13,977,200	556,746
2013 General Obligation Bond	2.46 - 5.50	2,118,000	1,813,000	-	1,813,000	-	-
2016 General Obligation Bond, Series A	1.30 - 3.50	3,430,000	3,322,000	-	106,000	3,216,000	107,000
2018 General Obligation Note, Series A *	3.938	1,060,000	1,021,000	-	1,021,000	-	-
2018 General Obligation Note, Series B *	4.90	292,000	284,000	-	284,000	-	-
2018 General Obligation Note, Series C *	3.31	2,500,000	919,513	537,244	-	1,456,757	1,456,756
2021 General Obligation Note, Series A *	1.33 - 4.25	5,707,000	-	2,725,425	-	2,725,425	123,056
2021 General Obligation Note, Series B *	1.68 - 5.25	671,000	-	283,359	-	283,359	13,070
Total, net			<u>\$ 24,776,757</u>	<u>\$ 3,546,028</u>	<u>\$ 4,035,188</u>	<u>\$ 24,287,597</u>	<u>\$ 2,519,423</u>

* Direct Borrowings

Amounts are reported in the accompanying financial statements as follows:

	Current Portion	Long-Term Portion	Total
Governmental activities	\$ 122,347	\$ 2,587,376	\$ 2,709,723
Business-type activities	<u>2,397,076</u>	<u>19,180,798</u>	<u>21,577,874</u>
Total	<u>\$ 2,519,423</u>	<u>\$ 21,768,174</u>	<u>\$ 24,287,597</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 Ohi Dam Grouting Project. The note is secured by the City's pledge of all gross receipts and revenues of the water system and a lien position thereto. 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. During 2021, the City currently refunded in full its General Obligation Bond, Series of 2013 with the issuance of its General Obligation Note, Series A of 2021.

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, 2021), bearing interest at 1.30 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 3.50 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.

General Obligation Note, Series A of 2018, Governmental Activities (Direct Borrowing)

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 note is secured by the general taxes and other general revenues of the city; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable. During 2021, the City currently refunded in full its General Obligation Note, Series A of 2018 with the issuance of its General Obligation Note, Series A of 2021.

General Obligation Note, Series B of 2018, Airport Fund (Direct Borrowing)

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 note is secured by the general taxes and other general revenues of the city; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable. During 2021, the City currently refunded in full its General Obligation Note, Series B of 2018 with the issuance of its General Obligation Note, Series B of 2021.

General Obligation Note, Series C of 2018, Water Fund (Direct Borrowing)

In 2018, the City entered into a loan agreement with a maximum balance of \$2,500,000 (only \$1,456,757 was drawn as of December 31, 2021). 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 note is secured by the general taxes and other general revenues of the City; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

General Obligation Note, Series A of 2021 (Direct Borrowing)

In 2021, the City entered into a loan agreement with a maximum balance of \$5,707,000 (only \$2,725,425 was drawn as of December 31, 2021). The City can draw on this note through November 1, 2023. This note is due in semi-annual installments of principal and interest at 1.33 percent through November 1, 2031, at which time the interest rate continually resets to a rate equal to 79 percent of the Wall Street Journal Prime rate, not to exceed 4.25 percent. The proceeds of the note were used to (A) acquire and construct improvements to City-owned administrative and operation buildings; (B) acquire and construct improvements to City-owned water system; (C) refunding of certain outstanding indebtedness of the City; and (D) pay the costs of issuing the note. This note is secured by the general taxes and other general revenues of the City; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

This refunding decreased the City's total debt service payments over the next 17 years by approximately \$492,000, resulting in a net economic gain of approximately \$540,000.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

General Obligation Note, Series B of 2021 (Direct Borrowing)

In 2021, the City entered into a loan agreement with a maximum balance of \$671,000 (only \$283,359 was drawn as of December 31, 2021). The City can draw on this note through November 1, 2023. The note is due in varying semi-annual installments of principal and interest at 1.68 percent through November 1, 2031, at which time the interest rate continually resets to a rate equal to 52 percent of the Wall Street Journal Prime rate, not to exceed 5.25 percent. The proceeds of the note will be used to (A) acquire and construct improvements to the self-fueling station and hangars at the City-owned airport; (B) refund certain outstanding indebtedness of the City; and (C) pay the costs of issuing the note. This note is secured by the general taxes and other general revenues of the City; and contains a provision that if amounts are not paid when due, all outstanding principal with all accrued, unpaid, interest and all fees and costs, if any, shall be due and payable.

This refunding decreased the City's total debt service payments over the next 13 years by approximately \$74,000, resulting in a net economic gain of approximately \$75,500.

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, 2021 amounted to \$357,687.

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, 2021:

	Direct Borrowings		General Obligation Debt		Total
	Principal	Interest	Principal	Interest	
Years ending December 31:					
2022	\$ 2,412,423	\$ 243,530	\$ 107,000	\$ 41,808	\$ 2,804,761
2023	970,122	193,550	109,000	40,417	1,313,089
2024	967,765	183,076	123,000	39,000	1,312,841
2025	845,974	173,393	267,000	37,401	1,323,768
2026	854,006	164,379	271,000	33,930	1,323,315
2027-2031	4,393,264	683,702	1,041,000	363,938	6,481,904
2032-2036	4,606,046	445,354	1,298,000	150,337	6,499,737
2037-2041	4,309,282	204,465	-	-	4,513,747
2042-2046	1,712,715	22,212	-	-	1,734,927
Total	<u>\$ 21,071,597</u>	<u>\$ 2,313,661</u>	<u>\$ 3,216,000</u>	<u>\$ 706,831</u>	<u>\$ 27,308,089</u>

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 3.94 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 \$36,100 for the year ended December 31, 2021. Interest paid on these capital leases amounted to \$3,493 during the year ended December 31, 2021.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

As of December 31, 2021, the City's governmental activities capital leases consisted of the following:

Capital Leases	Balance, January 1, 2021	Additions	Payments	Balance, December 31, 2021	Due Within One Year
Various vehicles	\$ 108,097	\$ 95,334	\$ 47,207	\$ 156,224	\$ 56,544

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, 2021, as related to the City's governmental activities:

Years ending December 31:

2022	\$ 61,456
2023	46,597
2024	27,925
2025	21,129
2026	<u>10,741</u>
Total minimum lease payments	167,848
Less amounts representing interest	<u>(11,624)</u>
Present value of net minimum lease payments	156,224
Less current portion	<u>(56,544)</u>
Present value of net minimum lease payments, long-term	<u><u>\$ 99,680</u></u>

Business-Type Activities

The City leases two vehicles under the terms of one capital lease, allocated between both the Water and Sewer Funds. The vehicles leased are 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 \$29,300 for the year ended December 31, 2021. Interest paid on these capital leases amounted to \$7,079 for the year ended December 31, 2021.

As of December 31, 2021, the City's governmental activities capital leases consisted of the following:

Capital Leases	Balance, January 1, 2021	Additions	Payments	Balance, December 31, 2021	Due Within One Year
Various vehicles, Water	\$ 56,822	\$ -	\$ 14,409	\$ 42,413	\$ 14,938
Various vehicles, Sewer	<u>55,472</u>	<u>-</u>	<u>14,067</u>	<u>41,405</u>	<u>14,583</u>
Total	<u><u>\$ 112,294</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 28,476</u></u>	<u><u>\$ 83,818</u></u>	<u><u>\$ 29,521</u></u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

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, 2021, as related to the City's business-type activities:

Years ending December 31:		
2022	\$	32,062
2023		32,062
2024		<u>24,046</u>
Total minimum lease payments		88,170
Less amounts representing interest		<u>(4,352)</u>
Present value of net minimum lease payments		83,818
Less current portion		<u>(29,521)</u>
Present value of net minimum lease payments, long-term	\$	<u><u>54,297</u></u>

11. Conduit Debt Obligation, Redevelopment Authority

As of December 31, 2021, the Redevelopment Authority's conduit debt obligation consisted of the following:

Obligation	Balance, January 1, 2021	Additions	Repayments by Obligors	Balance, December 31, 2021	Due Within One Year
Guaranteed Tax Increment Note, Series of 2008	\$ 800,000	\$ -	\$ 330,000	\$ 470,000	\$ 345,000

The Redevelopment Authority's conduit debt consists of a single outstanding Guaranteed Tax Increment Financing Note, Series of 2008 in the maximum principal amount of \$3,327,000. The Note will be repaid in varying semi-annual installments of principal and interest at 4.15 percent per annum through maturity in December 2023. As part of the plan of financing, the Redevelopment Authority, the City, the County of Clinton, Pennsylvania and Keystone Central School District agreed that certain incremental real estate tax revenues attributable to the parcels of real property located within the Tax Increment Financing District will be applied to pay debt service and annual charges on the Note. Further, the Commonwealth Finance Authority (CFA), pursuant to a guarantee agreement dated March 1, 2008, guaranteed the full repayment of principal and interest through the entire term of the obligation. At December 31, 2021, the CFA had not made any repayments under its guarantee agreement.

The Redevelopment Authority is not obligated for any voluntary commitments or additional commitments as related to this conduit debt obligation.

The annual requirement to amortize this conduit debt obligation at December 31, 2021 is as follows:

	Principal	Interest	Total
2022	\$ 345,000	\$ 18,800	\$ 363,800
2023	<u>125,000</u>	<u>5,000</u>	<u>130,000</u>
Total	<u>\$ 470,000</u>	<u>\$ 23,800</u>	<u>\$ 493,800</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

12. Compensated Absences

The changes in the City's compensated absences in 2021 are summarized as follows:

Governmental activities:	
Balance, January 1, 2021	\$ 93,753
Increase	29,108
Decrease	<u>(18,104)</u>
Balance, December 31, 2021	<u>\$ 104,757</u>
Business-type activities:	
Balance, January 1, 2021	\$ 19,930
Increase	10,524
Decrease	<u>(8,432)</u>
Balance, December 31, 2021	<u>\$ 22,022</u>

13. 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

Notes to Financial Statements

December 31, 2021

14. Combining Fiduciary Information

The following is a summary of the individual plan financial statements as of and for the year ended December 31, 2021:

	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	\$ 344,225	\$ 262,939	\$ 607,164	\$ 8,517	\$ 615,681
Accrued interest receivable	37,419	47,809	85,228	3,974	89,202
Total	381,644	310,748	692,392	12,491	704,883
Investments:					
Fixed income securities	2,423,529	3,074,018	5,497,547	81,287	5,578,834
Equity securities	3,628,927	4,698,353	8,327,280	-	8,327,280
Mutual funds	788,985	910,170	1,699,155	222,854	1,922,009
Total investments	6,841,441	8,682,541	15,523,982	304,141	15,828,123
Total assets	\$ 7,223,085	\$ 8,993,289	\$ 16,216,374	\$ 316,632	\$ 16,533,006
Liabilities:					
Benefits payable	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ 60,000
Net position:					
Held in trust for benefits	7,163,085	8,993,289	16,156,374	316,632	16,473,006
Total liabilities and net position	\$ 7,223,085	\$ 8,993,289	\$ 16,216,374	\$ 316,632	\$ 16,533,006

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

	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	\$ 170,776	\$ 92,857	\$ 263,633	\$ -	\$ 263,633
Employees	13,583	110,568	124,151	-	124,151
Other	-	-	-	24	24
Total contributions	<u>184,359</u>	<u>203,425</u>	<u>387,784</u>	<u>24</u>	<u>387,808</u>
Investment earnings:					
Net increase in fair value of investments	663,455	870,693	1,534,148	22,043	1,556,191
Interest and dividends	351,683	417,779	769,462	26,309	795,771
Total investment earnings	<u>1,015,138</u>	<u>1,288,472</u>	<u>2,303,610</u>	<u>48,352</u>	<u>2,351,962</u>
Total additions	<u>1,199,497</u>	<u>1,491,897</u>	<u>2,691,394</u>	<u>48,376</u>	<u>2,739,770</u>
Deductions:					
Benefits	385,897	443,030	828,927	-	828,927
Investment fees and other	42,095	46,849	88,944	1,043	89,987
Total deductions	<u>427,992</u>	<u>489,879</u>	<u>917,871</u>	<u>1,043</u>	<u>918,914</u>
Change in net position	771,505	1,002,018	1,773,523	47,333	1,820,856
Net position, beginning	<u>6,391,580</u>	<u>7,991,271</u>	<u>14,382,851</u>	<u>269,299</u>	<u>14,652,150</u>
Net position, ending	<u>\$ 7,163,085</u>	<u>\$ 8,993,289</u>	<u>\$ 16,156,374</u>	<u>\$ 316,632</u>	<u>\$ 16,473,006</u>

*See Note 16

15. Employee Pension Funds

Plan Descriptions

The Lock Haven City Employees Retirement Pension Fund (the CERF) and the Lock Haven Police Pension Fund (the 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 Plans 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 Plans.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

As of December 31, 2021, the City reported the following amounts in the accompanying financial statements related to the CERF and the Police Plans:

	<u>CERF</u>	<u>Police</u>	<u>Total</u>
Deferred outflows of resources	\$ 331,363	\$ 434,641	\$ 766,004
Net pension (liability) asset	722,594	807,099	1,529,693
Deferred inflows of resources	976,441	1,161,029	2,137,470

As of December 31, 2021, 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	\$ 596,744	\$ 169,260	\$ 766,004
Net pension (liability) asset	1,160,591	369,102	1,529,693
Deferred inflows of resources	1,640,057	497,413	2,137,470

At January 1, 2021, 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	32	18
Terminated employees entitled to benefits but not yet receiving them	4	-
Active plan participants	44	14
Total	<u>80</u>	<u>32</u>
Number of participating employers	<u>1</u>	<u>1</u>

Benefits Provided

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

	<u>CERF</u>	<u>Police</u>
Employee groups covered	All nonuniformed employees, also, elected officials and City police officers hired prior to 1/1/1978	All City police officers
Legislative body governing plan and responsible for management of plan assets	Council of the City of Lock Haven	Council of the City of Lock Haven
Normal retirement age	65	50
Years of service requirement prior to retirement	10	20 (Vested at 12 years)
Monthly retirement benefits	Will receive monthly benefit based on the following: (1) Elected officials received \$7 times years of service as an elected official; (2) City employees receive 1.8% of average monthly earnings in the highest 5 consecutive years of the 10 years immediately preceding retirement or termination times years of service; and (3) Police officers hired prior to 1/1/1978, will receive monthly benefit equal to \$3 times years of service	Will receive annual benefit equal to 50% of the highest one years' W-2 earnings during the last 3 years of service preceding retirement

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

	CERF	Police
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.

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, 2021. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 6.5 percent per year compounded annually; (b) no projected salary increases; and (c) no postretirement benefit increases. The rate of return includes an inflation component of 3 percent. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

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:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
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 2021 measurement period are listed in the table above.

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return (loss) on pension plan investments, net of Plan investment expense, was 16.0 percent and 15.8 percent for the CERF and Police Plans, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability (Asset)

The City's net pension liability (asset) was measured at December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2021, rolled forward to December 31, 2021. The components of the net pension liability (asset) of the Plans as of December 31, 2021 were as follows:

	<u>CERF</u>	<u>Police</u>
Total pension liability	\$ 8,270,696	\$ 6,355,985
Plan fiduciary net position	<u>8,993,290</u>	<u>7,163,085</u>
Plan net pension liability (asset)	<u>\$ (722,594)</u>	<u>\$ (807,100)</u>
Plan fiduciary net pension as a percentage of total pension liability	<u>108.74%</u>	<u>112.70%</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

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, 2021 are as follows:

	Increase (Decreases)		
	Total Pension Liability (a)	Plan Net Fiduciary Position (b)	Net Position Liability (Asset) (a) - (b)
Balances, December 31, 2020	\$ 7,690,148	\$ 7,991,271	\$ (301,123)
Changes for the year:			
Service cost	193,789	-	193,789
Interest	494,949	-	494,949
Differences between expected and actual experience	(29,361)	-	(29,361)
Changes of benefit terms	-	-	-
Changes of assumptions	364,201	-	364,201
Employer contributions	-	92,857	(92,857)
Plan member contributions	-	110,263	(110,263)
Net investment income	-	1,259,007	(1,259,007)
Benefit payments, including refunds of employee contributions	(443,030)	(443,030)	-
Administrative expenses	-	(17,078)	17,078
Net changes	580,548	1,002,019	(421,471)
Balances, December 31, 2021	\$ 8,270,696	\$ 8,993,290	\$ (722,594)

The changes in the City's Police Plan net pension liability (asset) during the year ended December 31, 2021 are as follows:

	Increase (Decreases)		
	Total Pension Liability (a)	Plan Net Fiduciary Position (b)	Net Position Liability (Asset) (a) - (b)
Balances, December 31, 2020	\$ 6,228,490	\$ 6,391,580	\$ (163,090)
Changes for the year:			
Service cost	177,368	-	177,368
Interest	377,658	-	377,658
Differences between expected and actual experience	(386,710)	-	(386,710)
Changes of benefit terms	-	-	-
Changes of assumptions	345,076	-	345,076
Employer contributions	-	170,776	(170,776)
Plan member contributions	-	12,939	(12,939)
Net investment income	-	992,321	(992,321)
Benefit payments, including refunds of employee contributions	(385,897)	(385,897)	-
Administrative expenses	-	(18,634)	18,634
Net changes	127,495	771,505	(644,010)
Balances, December 31, 2021	\$ 6,355,985	\$ 7,163,085	\$ (807,100)

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

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, 2021, using the following actuarial methods and assumptions:

	CERF	Police
Actuarial valuation date	January 1, 2021	January 1, 2021
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	6.50%	6.50%
Asset valuation method	Market	Market

Mortality rates were based on the RP-2000 Mortality Table. The actuarial assumptions used in the January 1, 2021 valuation were based upon a study of plan experience, provisions in the current collective bargaining agreement and future expectations.

Discount Rate

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

Discount Rate Sensitivity

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

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net pension liability (asset), CERF	\$ 259,762	\$ (722,594)	\$ (1,548,788)
Net pension liability (asset), Police	66,428	(807,099)	(1,520,198)

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

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

For the year ended December 31, 2021, the City recognized pension expense of \$(159,497) CERF and \$(61,173) Police). At December 31, 2021, 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	\$ -	\$ 151,058
Differences between expected and actual experience Police Plan	67,970	516,108
Changes in assumptions, CERF Plan	331,363	4,276
Changes in assumptions, Police Plan	366,671	-
Net difference between projected and actual earnings on investments, CERF Plan	-	821,107
Net difference between projected and actual earnings on investments, Police Plan	-	644,921
Total	<u>\$ 766,004</u>	<u>\$ 2,137,470</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:			
2022	\$ (168,480)	\$ (143,361)	\$ (311,841)
2023	(317,477)	(280,511)	(597,988)
2024	(150,005)	(145,868)	(295,873)
2025	(114,609)	(135,960)	(250,569)
2026	45,869	(7,438)	38,431
Thereafter	59,624	(13,250)	46,374
Total	<u>\$ (645,078)</u>	<u>\$ (726,388)</u>	<u>\$ (1,371,466)</u>

16. Other Postemployment Benefits (OPEB)

At December 31, 2021, the City reported the following amounts in the accompanying financial statements related to participation in the Retiree Medical Benefits and Police Death Benefit Plans:

	Retiree Medical Benefits Plan	Police Death Benefit Plan	Total
Deferred outflow of resources	\$ 2,496,897	\$ 11,815	\$ 2,508,712
Net OPEB (liability) asset	(8,921,056)	300,561	(8,620,495)
Deferred inflow of resources	3,496,295	58,174	3,554,469

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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements

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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, 2021, the following employees were covered by the benefit terms:

	Retiree Medical Benefits Plan	Police Death Benefit Plan
Participants receiving benefit payments	8	11
Terminated participants with deferred benefits	2	0
Active employees	14	14
Total	<u>24</u>	<u>25</u>
Participating employers	<u>1</u>	<u>1</u>

Net OPEB Liability

The City's net Retiree Medical Benefits OPEB liability was measured at December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, rolled forward to December 31, 2021. The City's net Police Death Benefit OPEB liability was measured at December 31, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2021. The components of the net OPEB liability of the Plans as of December 31, 2021 were as follows:

	Retiree Medical Benefits Plan	Police Death Benefit Plan
Total OPEB liability	\$ 8,921,056	\$ 16,071
Plan fiduciary net position	-	316,632
Plan net OPEB liability (asset)	<u>\$ 8,921,056</u>	<u>\$ (300,561)</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.00%</u>	<u>1,970.21%</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

Actuarial Assumptions and Other Inputs

The total OPEB liability in the Retiree Medical Benefits Plan December 31, 2020 and the Police Death Benefit Plan January 1, 2021 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	Retiree Medical Benefits Plan	Police Death Benefit Plan
Actuarial valuations date	December 31, 2020	January 1, 2021
Actuarial cost method	Entry age	Entry age normal
Future annual pay (salary) increases	4.00%	4.00%
Annual administrative expenses	3.25%	N/A
Annual opt-out reimbursements	3.25%	N/A
Discount interest rate	2.25%	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:		
Medical	7.50% in 2021, decreasing from 7.00% in 2022 to 4.00% in 2070 and later	N/A
Medicare Part B	5.50% in 2021, decreasing to 4.00% in 2070 and later	N/A
Dental	4.00%	N/A

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

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

Mortality rates used in the Police Death Benefit Plan were based on 2010 Headcount-weighted mortality tables projected by scale MP-2020. These are the public plan mortality tables for *Public Safety Employees* that were published by the Society of Actuaries in February 2019.

Changes in the Retiree Medical Benefits Plan Total OPEB Liability

	Total OPEB Liability (a)	Plan Net Fiduciary Position (b)	Net OPEB Liability (a) - (b)
Balances, December 31, 2020	\$ 10,912,752	\$ -	\$ 10,912,752
Changes for the year:			
Service cost	714,558	-	714,558
Interest	198,594	-	198,594
Difference between expected and actual experience	(1,261,792)	-	(1,261,792)
Changes in benefit terms	-	-	-
Changes of assumptions or other inputs	(1,491,953)	-	(1,491,953)
Employer contributions	-	151,103	(151,103)
Plan member contributions	-	-	-
Net investment income	-	-	-
Expected benefit payments	(151,103)	(151,103)	-
Administrative expense	-	-	-
Net changes	(1,991,696)	-	(1,991,696)
Balances, December 31, 2021	\$ 8,921,056	\$ -	\$ 8,921,056

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

The discount rate used to measure the total OPEB liability changed from 1.93 percent at December 31, 2020 to 2.25 percent at December 31, 2021.

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, December 31, 2020	\$ 25,657	\$ 269,299	\$ (243,642)
Changes for the year:			
Service cost	129	-	129
Interest	917	-	917
Difference between expected and actual experience	(10,794)	-	(10,794)
Changes in benefit terms	-	-	-
Changes of assumptions or other inputs	162	-	162
Employer contributions	-	-	-
Plan member contributions	-	-	-
Net investment income	-	48,376	(48,376)
Actual benefit payments	-	-	-
Administrative expense	-	(1,043)	1,043
Net changes	(9,586)	47,333	(56,919)
Balances, December 31, 2021	\$ 16,071	\$ 316,632	\$ (300,561)

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:

	Target	Long-Term Expected Real Rate of Return
Fixed income	50 %	1.50 %
Large cap domestic	50	6.00

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on Police Death Benefit Plan investments, net of Plan investment expense, was 18.0 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 2.25 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.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

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	\$ 11,113,328	\$ 8,921,056	\$ 7,279,312
Net OPEB liability (asset):			
Police Death Benefit Plan	(297,797)	(300,561)	(302,724)

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

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

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 6,980,524	\$ 8,921,056	\$ 11,631,262

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

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

For the year ended December 31, 2021, the City recognized OPEB expense of \$846,468 and \$(25,689) for its Retiree Medical Benefits Plan and its Police Death Benefits Plan, respectively. At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience, Retiree Medical Benefits Plan	\$ -	\$ 1,772,240
Difference between expected and actual experience, Police Death Benefit Plan	11,652	9,822
Changes of assumptions, Retiree Medical Benefits Plan	2,496,897	1,724,055
Changes of assumptions, Police Death Benefit Plan	163	-
Net difference between projected and actual earnings on investments, Police Death Benefit Plan	-	48,352
Total	<u>\$ 2,508,712</u>	<u>\$ 3,554,469</u>

City of Lock Haven, Pennsylvania

Notes to Financial Statements

December 31, 2021

	<u>Retiree Medical Benefits Plan</u>	<u>Police Death Benefits Plan</u>	<u>Total</u>
Years ending December 31:			
2022	\$ (66,684)	\$ (11,654)	\$ (78,338)
2023	(66,684)	(15,604)	(82,288)
2024	(66,684)	(9,330)	(76,014)
2025	48,284	(5,955)	42,329
2026	75,284	495	75,779
Thereafter	(922,914)	(4,311)	(927,225)

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 \$151,103 for the year ended December 31, 2021. 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, 2021.

17. 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	\$ 222,956	\$ -	\$ -	\$ 222,956
Restricted for:				
Capital projects	\$ -	\$ 566,625	\$ -	\$ 566,625
Street programs	-	-	443,353	443,353
Recreation	-	-	52,977	52,977
Economic development	-	-	337,966	337,966
Total	\$ -	\$ 566,625	\$ 834,296	\$ 1,400,921
Committed for 2022 Budget	\$ 712,529	\$ -	\$ -	\$ 712,529
Assigned for program purposes	\$ -	\$ -	\$ 18,448	\$ 18,448

18. Assets Held for Sale, Redevelopment Authority

During 2021, in an effort to engage civic improvement and economic development, the City transferred certain blighted parcels of land to the Redevelopment Authority amounting to \$161,127. During February 2021, the Redevelopment Authority transferred certain parcels to adjacent property owners for \$1, resulting in a loss of approximately \$66,000. In addition, the Redevelopment Authority sold certain parcels with a carrying value of approximately \$17,000, resulting in a net gain on sale of approximately \$197,500. These proceeds were shared equally between the City and the Redevelopment Authority.

City of Lock Haven, Pennsylvania

Notes to Financial Statements
December 31, 2021

At December 31, 2021, the City was holding the proceeds from the above sales and recorded a payable to the Redevelopment Authority in the amount of \$98,765. Such amounts were transferred to the Redevelopment Authority during 2022 once it established a bank account.

19. 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, 2021, the City purchased \$536,390 in water filtration services from the Water Filtration Authority. In addition, the City had a receivable of \$142,468 related to watershed maintenance at December 31, 2021.

20. Commitments and Contingent Liabilities

Grant Programs

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

Environmental

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

Contingencies

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

The City has elected to self-insure its employee medical insurance plan. The City has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the City for any medical costs over \$35,000 per covered individual per year. The City believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The City's liability for all asserted and estimated unasserted claims was \$76,191 at December 31, 2021. The City has a surplus deposit related to the plan in the amount of \$299,147 at December 31, 2021, resulting in a net prepaid expense of \$222,956. The cost of medical coverage for employees was approximately \$948,000 in 2021.

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).

21. New Accounting Pronouncements

The GASB has approved the following:

Statement No. 87, *Leases*

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.*

Statement No. 99, *Omnibus 2022*

Statement No. 100, *Accounting Changes and Error Corrections, an amendment of GASB Statement No. 62*

Statement No. 101, *Compensated Absences*

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

During August 2022, the City awarded a construction contract for the repair of the Warren Ohi Dam in the approximately amount of \$4,240,000, with construction to begin in the fall of 2022.

During September 2022, the City issued its General Obligation Bond, Series A of 2022, in the maximum amount of \$1,500,000, bearing interest at 2.21 percent per annum, due October 1, 2024 as interim financing for the Ohi Dam reconstruction project.

The City also issued its General Obligation Bond, Series B of 2022, in the maximum amount of \$1,025,000, bearing interest at 2.11 percent per annum, due in varying semi-annual payments of principal and interest, maturing in full on October 1, 2023 to refinance the City's outstanding General Obligation Note, Series C of 2018.

The City further issued its General Obligation Bond, Series C of 2022, in the maximum amount of \$1,700,000, bearing interest at 2.37 percent per annum, due in varying semi-annual installments of principal and interest through maturing in April 2026 to provide interim financing for its potable water well project.

During September 2022, the City also issued a PennVEST Note Payable in the maximum amount of \$5,000,000, bearing interest at 1.00 percent for the first 5-years and then at 1.743 percent through maturity. The loan is due in varying monthly installments of principal and interest through maturity in October 2042. The proceeds from this borrowing will be utilized for the above-mentioned modifications to the City's Warren Ohi Dam.

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
 Year Ended December 31, 2021
 (Unaudited)

	Police Pension Fund						
	2015	2016	2017	2018	2019	2020	2021
Total Pension Liability							
Service cost	\$ 167,226	\$ 149,903	\$ 158,058	\$ 166,803	\$ 124,315	\$ 126,929	\$ 177,368
Interest changes of benefit terms	354,712	361,769	379,459	388,358	377,423	391,128	377,658
Differences between expected and actual experience	(40,423)	-	159,825	-	(286,497)	-	(386,710)
Changes in assumptions	32,433	-	-	-	94,326	-	345,076
Benefit payments, including refunds of member contributions	(368,357)	(404,727)	(409,833)	(408,966)	(382,067)	(392,713)	(385,897)
Net change in total pension liability	145,591	106,945	287,509	146,195	(72,500)	125,344	127,495
Total Pension Liability, Beginning	5,489,406	5,634,997	5,741,942	6,029,451	6,175,646	6,103,146	6,228,490
Total Pension Liability, Ending (a)	\$ 5,634,997	\$ 5,741,942	\$ 6,029,451	\$ 6,175,646	\$ 6,103,146	\$ 6,228,490	\$ 6,355,985
Plan Fiduciary Net Position							
Employer contributions	\$ 191,163	\$ 182,625	\$ 186,887	\$ 175,574	\$ 168,426	\$ 152,429	\$ 170,776
Employee contributions	13,949	11,216	12,823	12,119	11,079	12,458	12,939
Other contributions	-	327,091	-	-	-	-	-
Net investment income	(32,582)	-	702,413	(310,563)	1,011,424	468,979	992,321
Benefits payments, including refunds of member contributions	(368,357)	(404,727)	(409,833)	(408,966)	(382,067)	(392,713)	(385,897)
Administration	(16,313)	(14,916)	(14,363)	(16,142)	(22,420)	(17,000)	(18,634)
Net change in plan fiduciary net position	(212,140)	101,289	477,927	(547,978)	786,442	224,153	771,505
Plan Fiduciary Net Position, Beginning	5,561,887	5,349,747	5,451,036	5,928,963	5,380,985	6,167,427	6,391,580
Plan Fiduciary Net Position, Ending (b)	\$ 5,349,747	\$ 5,451,036	\$ 5,928,963	\$ 5,380,985	\$ 6,167,427	\$ 6,391,580	\$ 7,163,085
Net Pension Liability (asset), Ending (a) - (b)	\$ 285,250	\$ 290,906	\$ 100,488	\$ 794,661	\$ (64,281)	\$ (163,090)	\$ (807,100)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.94%	94.93%	98.33%	87.13%	101.05%	102.62%	112.70%
Covered-Employee Payroll	\$ 792,288	\$ 755,035	\$ 831,400	\$ 681,554	\$ 820,947	\$ 788,021	\$ 915,339
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	36.0%	38.5%	12.1%	116.6%	-7.8%	-20.7%	-88.2%

	City Employees Retirement Fund						
	2015	2016	2017	2018	2019	2020	2021
Total Pension Liability							
Service cost	\$ 149,426	\$ 140,324	\$ 159,203	\$ 148,430	\$ 152,459	\$ 147,348	\$ 193,789
Interest changes of benefit terms	397,860	430,829	445,939	463,365	466,339	481,458	494,949
Differences between expected and actual experience	(62,327)	-	(108,895)	-	(202,483)	-	(29,361)
Changes in assumptions	260,629	-	(25,651)	-	32,101	-	364,201
Benefit payments, including refunds of member contributions	(212,166)	(243,735)	(252,869)	(341,060)	(390,031)	(432,771)	(443,030)
Net change in total pension liability	533,422	327,418	217,727	270,735	58,385	196,035	580,548
Total Pension Liability, Beginning	6,086,426	6,619,848	6,947,266	7,164,993	7,435,728	7,494,113	7,690,148
Total Pension Liability, Ending (a)	\$ 6,619,848	\$ 6,947,266	\$ 7,164,993	\$ 7,435,728	\$ 7,494,113	\$ 7,690,148	\$ 8,270,696
Plan Fiduciary Net Position							
Employer contributions	\$ 81,381	\$ 110,577	\$ 95,393	\$ 85,550	\$ 86,461	\$ 102,101	\$ 92,857
Employee contributions	138,657	86,666	118,809	103,044	89,386	100,339	110,263
Net investment income	(28,143)	407,095	843,955	(396,453)	1,259,167	585,278	1,259,007
Benefits payments, including refunds of member contributions	(212,166)	(243,735)	(252,869)	(341,060)	(390,031)	(432,771)	(443,030)
Administration	(13,913)	(14,775)	(16,782)	(16,047)	(15,638)	(13,497)	(17,078)
Net change in plan fiduciary net position	(34,184)	345,828	788,506	(564,966)	1,029,345	341,450	1,002,019
Plan Fiduciary Net Position, Beginning	6,085,292	6,051,108	6,396,936	7,185,442	6,620,476	7,649,821	7,991,271
Plan Fiduciary Net Position, Ending (b)	\$ 6,051,108	\$ 6,396,936	\$ 7,185,442	\$ 6,620,476	\$ 7,649,821	\$ 7,991,271	\$ 8,993,290
Net Pension Liability (asset), Ending (a) - (b)	\$ 568,740	\$ 550,330	\$ (20,449)	\$ 815,252	\$ (155,708)	\$ (301,123)	\$ (722,594)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.41%	92.08%	100.29%	89.04%	102.08%	103.92%	108.74%
Covered-Employee Payroll	\$ 1,550,266	\$ 1,644,670	\$ 1,621,000	\$ 1,569,803	\$ 1,667,207	\$ 1,770,101	\$ 1,949,523
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	36.7%	33.5%	-1.3%	51.9%	-9.3%	-17.0%	-37.1%

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

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions - Police Pension Fund
 Year Ended December 31, 2021
 (Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Actuarially determined contribution ⁽¹⁾	\$ 156,821	\$ 155,503	\$ 145,654	\$ 191,163	\$ 182,213	\$ 182,904	\$ 175,574	\$ 168,426	\$ 150,475	\$ 148,754
Contributions in relation to the actuarially determined contribution	156,821	155,503	152,210	191,163	182,625	186,887	175,574	168,426	152,429	170,776
Contribution deficiency (excess)	\$ -	\$ -	\$ (6,556)	\$ -	\$ (412)	\$ (3,983)	\$ -	\$ -	\$ (1,954)	\$ (22,022)
Covered-employee payroll ⁽²⁾	\$ 728,150	\$ 686,000	\$ 660,022	\$ 792,288	\$ 755,035	\$ 831,400	\$ 681,554	\$ 820,947	\$ 788,021	\$ 915,339
Contributions as a percentage of covered-employee payroll	21.54%	22.67%	23.06%	24.13%	24.19%	22.48%	25.76%	20.52%	19.34%	18.66%

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of January 1 of each odd numbered 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	6.50%
Retirement age	Individual entry age
Mortality	RP-2000 Mortality Table

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

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

City of Lock Haven, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions - City Employees Retirement Fund
 Year Ended December 31, 2021
 (Unaudited)

	<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>	<u>2021</u>
Actuarially determined contribution ⁽¹⁾	\$ 90,931	\$ 86,957	\$ 91,331	\$ 138,657	\$ 110,388	\$ 118,809	\$ 85,550	\$ 86,461	\$ 89,264	\$ 85,547
Contributions in relation to the actuarially determined contribution	<u>90,931</u>	<u>86,957</u>	<u>103,387</u>	<u>138,657</u>	<u>110,577</u>	<u>118,809</u>	<u>85,550</u>	<u>86,461</u>	<u>102,101</u>	<u>92,857</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,056)</u>	<u>\$ -</u>	<u>\$ (189)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,837)</u>	<u>\$ (7,310)</u>
Covered-employee payroll ⁽²⁾	\$ 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	\$ 1,949,523
Contributions as a percentage of covered-employee payroll	5.96%	6.33%	6.80%	8.94%	6.72%	7.33%	5.45%	5.19%	5.77%	4.76%

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of January 1 of each odd numbered year.

Methods and assumptions used to determine contribution rates:

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

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

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

City of Lock Haven, Pennsylvania

Required Supplementary Information
Schedule of Investment Returns - Pension Trust Funds
Year Ended December 31, 2021
(Unaudited)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</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%	15.8%
City Employees Retirement Fund	6.5%	(0.5)%	6.8%	13.3%	(5.6)%	19.4%	7.8%	16.0%

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, 2021

(Unaudited)

	2017	2018	2019	2020	2021
Total OPEB Liability					
Service cost	\$ 98	\$ 101	\$ 72	\$ 104	\$ 129
Interest	1,487	1,509	1,464	1,485	917
Differences between expected and actual experience	-	-	5,662	10,744	(10,794)
Changes in benefit terms	-	-	-	-	-
Changes in assumptions	-	-	32	-	162
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	(9,586)
Total OPEB Liability, Beginning	<u>25,341</u>	<u>25,738</u>	<u>26,094</u>	<u>25,324</u>	<u>25,657</u>
Total OPEB Liability, Ending (a)	<u>\$ 25,738</u>	<u>\$ 26,094</u>	<u>\$ 25,324</u>	<u>\$ 25,657</u>	<u>\$ 16,071</u>
Plan Fiduciary Net Position					
Employer contributions	\$ 1,588	\$ -	\$ 1,200	\$ -	\$ -
Employee contributions	-	-	-	-	-
Other contributions	-	-	-	-	24
Net investment income (loss)	34,745	(6,689)	45,410	36,447	48,352
Benefits payments, including refunds of member contributions	(1,188)	(4,000)	(8,000)	(12,000)	-
Administration	(756)	(1,128)	(1,125)	(1,198)	(1,043)
Other	-	-	-	-	-
Net change in plan fiduciary net position	34,389	(11,817)	37,485	23,249	47,333
Plan Fiduciary Net Position, Beginning	<u>185,993</u>	<u>220,382</u>	<u>208,565</u>	<u>246,050</u>	<u>269,299</u>
Plan Fiduciary Net Position, Ending (b)	<u>\$ 220,382</u>	<u>\$ 208,565</u>	<u>\$ 246,050</u>	<u>\$ 269,299</u>	<u>\$ 316,632</u>
Net OPEB Liability (Asset), Ending (a) - (b)	<u>\$ (194,644)</u>	<u>\$ (182,471)</u>	<u>\$ (220,726)</u>	<u>\$ (243,642)</u>	<u>\$ (300,561)</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>	<u>1970.21%</u>
Covered-Employee Payroll	<u>\$ 834,504</u>	<u>\$ 867,030</u>	<u>\$ 798,290</u>	<u>\$ 788,021</u>	<u>\$ 887,335</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>	<u>(33.9)%</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, 2021

(Unaudited)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total OPEB Liability				
Service cost	\$ 348,780	\$ 309,076	\$ 392,364	\$ 714,558
Interest	286,043	284,285	265,982	198,594
Differences between expected and actual experience	-	(1,135,241)	-	(1,261,792)
Changes in benefit terms	-	(824,211)	-	-
Changes in assumptions	(826,167)	966,239	2,595,210	(1,491,953)
Benefit payments, including refunds of member contributions	(186,611)	(152,456)	(214,818)	(151,103)
Administrative expense	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in total OPEB liability	(377,955)	(552,308)	3,038,738	(1,991,696)
Total OPEB Liability, Beginning	<u>8,804,277</u>	<u>8,426,322</u>	<u>7,874,014</u>	<u>10,912,752</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>	<u><u>\$ 8,921,056</u></u>
Plan Fiduciary Net Position				
Employer contributions	\$ 186,611	\$ 152,456	\$ 214,818	\$ 151,103
Employee contributions	-	-	-	-
Other contributions	-	-	-	-
Net investment income	-	-	-	-
Benefits payments, including refunds of member contributions	(186,611)	(152,456)	(214,818)	(151,103)
Administration	-	-	-	-
Other	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in plan fiduciary net position	-	-	-	-
Plan Fiduciary Net Position, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position, Ending (b)	<u><u>\$ -</u></u>	<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>	<u><u>\$ 8,921,056</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>	<u>0.00%</u>
Covered-Employee Payroll	<u>\$ 711,867</u>	<u>\$ 798,290</u>	<u>\$ 788,021</u>	<u>\$ 887,335</u>
Total OPEB Liability as a Percentage of Covered-Employee Payroll	<u>1,183.7%</u>	<u>986.4%</u>	<u>1384.8%</u>	<u>1005.4%</u>

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

City of Lock Haven, Pennsylvania

Required Supplementary Information
Schedule of Investment Returns - Police Death Benefit Plan
Year Ended December 31, 2021
(Unaudited)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</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>	<u>18.0%</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 Members of City Council of
City of Lock Haven, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 22, 2022. The financial statements of the Lock Haven Area Flood Protection Authority and the Redevelopment Authority of the City of Lock Haven 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 or the Redevelopment Authority of the City of Lock Haven. 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 these matters.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-002 and 2021-003 to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other 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.

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

Williamsport, Pennsylvania
September 22, 2022

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

To the Members of City Council of
City of Lock Haven, Pennsylvania

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Lock Haven, Pennsylvania's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal controls over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
September 22, 2022

City of Lock Haven, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Program Title	Pass-Through Entity Identification Number	Assistance Listing Number	Program Amount	Total Received for the Year	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 (2017)	C000067319	14.228	\$ 269,615	\$ 53,972	\$ 53,972	\$ -
Community Development Block Grant State's Program (2018)	C000070390	14.228	296,249	197,496	197,496	-
Community Development Block Grant State's Program (2019)	C000073445	14.228	298,504	15,350	15,350	-
Community Development Block Grant State's Program (2020)	C000075229	14.228	193,732	162,750	162,750	-
Total U.S. Department of Housing and Urban Development				<u>429,568</u>	<u>429,568</u>	<u>-</u>
U.S. Department of Justice						
Passed through the Pennsylvania Commission on Crime and Delinquency						
Edward Byrne Memorial Justice Assistance Grant Program	32897	16.738	48,683	48,683	48,683	-
U.S. Department of Transportation						
Passed through the Pennsylvania Department of Transportation						
Airport Improvement Program	ABG-2020-COLH-00052	20.106	600,000	284,468	544,295	-
COVID - Airport Improvement Program	ABG-2020-COLH-00015	20.106	30,000	30,000	-	-
Total Airport Improvement Program/U.S. Department of Transportation				<u>314,468</u>	<u>544,295</u>	<u>-</u>
U.S. Department of the Treasury						
Passed through the Pennsylvania Department of Community and Economic Development						
Coronavirus Relief Fund	N/A	21.019	950,710	475,355	247,092	-
Total Federal Financial Assistance				<u>\$ 1,268,074</u>	<u>\$ 1,269,638</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
Year Ended December 31, 2021

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, 2021. The information in the 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, or 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, 2021

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X 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>
21.019	Coronavirus Relief Fund
20.106	COVID-19 - Airport Improvement Program

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, 2021

Section II - Financial Statement Findings

Finding No. 2021-001: 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:

- Adjustment of various receivable/payable and associated revenue and expense accounts;
- Adjustment of 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;
- Adjustment of Proprietary Fund capital assets and related financing activities;
- Adjustment of Proprietary Fund net pension liability and related deferred outflows of resources and deferred inflows of resources;
- Reconciliation of interfund transfers;
- Adjustment of unearned grant revenue; and
- Adjustment of 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 weakness in internal control over financial reporting. In addition, because of the nature of the above noted adjustments, the periodic internal financial statements may not be complete throughout the year.

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, 2021

Finding No. 2021-002: 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.

Finding No. 2021-003: 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 \$443,032 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, 2021

Section IV - Summary of Prior Year Audit Findings and Questioned Costs

Finding No. 2020-001: 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 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

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

Resolution: See current year finding 2021-001

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

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.

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.

Resolution: During 2021, the City made changes to its IT security processes, including both hardware, software and training for employees to remediate this situation.

City of Lock Haven, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2021

Finding No. 2020-003: 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 2021-002

Finding No. 2020-004: 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 \$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.

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

Resolution: See current year finding 2021-003