

City of Williamsport, Pennsylvania

Basic Financial Statements and
Supplementary Information

December 31, 2013



City of Williamsport, Pennsylvania

Table of Contents
December 31, 2013

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	20
Statement of Net Position - Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds	23
Statement of Fiduciary Net Position	24
Statement of Changes in Fiduciary Net Position	25
Notes to Financial Statements	26

City of Williamsport, Pennsylvania

Table of Contents
December 31, 2013

Required Supplementary Information (Unaudited):

Schedule of Funding Progress - Pension Trust Funds	64
Schedule of Employer Contributions - Pension Trust Funds	65
Notes to Required Supplementary Information - Pension Trust Funds	66
Schedule of Funding Progress - Other Postemployment Benefits	67

Supplementary Information (Unaudited):

Combining Balance Sheet - Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	69
Statement of Fiduciary Net Position - Private Purpose Trust Fund	70
Statement of Changes in Fiduciary Net Position - Private Purpose Trust Fund	71
Combining Statement of Fiduciary Net Position - Agency Funds	72

Schedule of Expenditures of Federal Awards 73

Single Audit Reports:

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 <i>Government Auditing Standards</i>	76
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	78
Schedule of Findings and Questioned Costs	80
Summary Schedule of Prior Audit Findings	84

Independent Auditors' Report

Honorable Members of City Council
City of Williamsport, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Williamsport, Pennsylvania (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Municipal Authority of the City of Williamsport (the "Municipal Authority"), which represents 100% of the assets, liabilities, net position, revenues and expenses of that discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Municipal Authority, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Williamsport, Pennsylvania, as of December 31, 2013, and the respective changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13, Schedule of Funding Progress - Pension Trust Funds on page 64, Schedule of Employer Contributions - Pension Trust Funds on page 65, and the Schedule of Funding Progress - Other Postemployment Benefits on page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The schedule of expenditures of federal awards on pages 73 through 75, required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The combining nonmajor governmental and fiduciary fund financial statements on pages 68 through 72 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the City's internal control over financial reporting and compliance.

ParenteBeard LLC

Williamsport, Pennsylvania
September 29, 2014

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the City of Williamsport, Pennsylvania (the "City") for the year ended December 31, 2013. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

Financial Highlights

- The City's total net position decreased by \$318,000. Net assets related to governmental activities decreased by \$4,186,000, whereas net position of the City's business-type activity increased by \$3,868,000.
- As of December 31, 2013, net position of the City's governmental activities were \$3,695,000.
- The unassigned fund balance of the General Fund was \$2,976,000, or 14.9 percent of total General Fund expenditures and transfers out.
- The excess of revenues and other financing sources over expenditures and other financing uses was \$114,000 within the City's General Fund for the year ended December 31, 2013. This is in contrast to the \$2,046,000 deficit spending that was anticipated in the City's 2013 General Fund original budget.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

City of Williamsport, Pennsylvania

Management's Discussion and Analysis

December 31, 2013

(Unaudited)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The government activities of the City include general government, public works - highways and streets, other public works enterprises, public safety, culture and recreation, and blight elimination. The sole business-type activity of the City is a mass-transit bus system, the Williamsport Bureau of Transportation (d/b/a River Valley Transit).

The government-wide financial statements include not only the City itself (known as the *primary government*) but also a legally separate public finance authority (the Municipal Authority of the City of Williamsport) (the "Municipal Authority"), a redevelopment authority (the Redevelopment Authority of the City of Williamsport) (the "Redevelopment Authority") and a parking authority (the Williamsport Parking Authority) (the "Parking Authority") for which the City is financially accountable. Financial information for the Municipal Authority is reported separately from the financial information presented for the primary government itself, as the Municipal Authority transacts business with other local governments and non-profit organizations. Financial information for the Parking Authority is reported separately from the financial information presented for the primary government itself, as the Parking Authority transacts business to acquire, hold, construct, improve, maintain, and operate on and off street parking facilities for the general public. The financial information for the Redevelopment Authority is blended with the primary government (i.e., not presented separately), as the Redevelopment Authority primarily transacts business with the primary government only.

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Community Development Block Grant ("CDBG"), Community Development HOME ("HOME"), Capital Projects, Non-Revenue Escrow and Debt Service Funds, each of which is considered to be a "major" fund. Data from the other four governmental funds are combined into a single, aggregated presentation captioned "other Governmental Funds". Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* located on pages 68 and 69 of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget, and is presented on page 20.

The basic governmental fund financial statements can be found on pages 16 and 18 of this report.

Proprietary funds. The City maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for the operations of its mass-transit system, the Williamsport Bureau of Transportation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for City Hall's operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 21 through 23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 24 and 25 of this report. Individual fund data for each of the individual funds that comprise the City's various fiduciary fund types is provided in the form of *combining statements* located on pages 70 through 72 in this report.

Notes to the financial statements. The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 63 of this report.

Other information. The combining statements referred to earlier in connection with governmental and fiduciary fund types are presented on pages 68 through 72.

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at December 31, 2013 and 2012 by approximately \$46,520,000 and \$46,838,000, respectively.

The City's net position reflected an investment in capital assets (e.g. land, buildings and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The City's investment in its capital assets reported net of related debt as related to its governmental activities was \$21,458,000 and \$21,149,000 at December 31, 2013 and 2012, respectively. The City's investment in its capital assets reported net of related debt as related to its business-type activities was \$36,546,000 and \$37,494,000 December 31, 2013 and 2012, respectively.

Condensed Statement of Net Assets December 31, 2013 and 2012 (In Thousands)

	Total Governmental Activities		Business-Type Activity Enterprise Funds		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 14,279	\$ 13,243	\$ 14,127	\$ 5,270	\$ 28,406	\$ 18,513
Capital assets, net	29,180	29,544	44,552	37,420	73,732	66,964
Total assets	43,459	42,787	58,679	42,690	102,138	85,477
Other liabilities	6,324	7,174	5,198	1,628	11,522	8,802
Long-term liabilities outstanding	33,440	27,732	10,656	2,105	44,096	29,837
Total liabilities	39,764	34,906	15,854	3,733	55,618	38,639
Net investment in capital assets	21,458	21,149	36,546	37,494	58,004	58,643
Restricted	2,444	2,508	-	-	2,444	2,508
Unrestricted	(20,207)	(15,776)	6,279	1,463	(13,928)	(14,313)
Total	\$ 3,695	\$ 7,881	\$ 42,825	\$ 38,957	\$ 46,520	\$ 46,838

The restricted portion of the City's net position, \$2,444,000 and \$2,508,000 at December 31, 2013 and 2012, respectively, represent resources that are subject to external restrictions on how they may be used.

At the end of 2013 and 2012 the City is able to report positive balances in net position, for the government as a whole, as well as for its business-type activity. The City's overall financial position weakened slightly in 2013 as reflected in the \$318,000 decrease in total net position for the year ended December 31, 2013.

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
 December 31, 2013
 (Unaudited)

Condensed Statement of Activities December 31, 2013 and 2012 (In Thousands)

	Governmental Activities		Business-Type Activity		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program:						
Charges for services	\$ 1,308	\$ 1,110	\$ 1,476	\$ 1,460	\$ 2,784	\$ 2,570
Operating grants and contributions	2,139	1,737	11,146	5,933	13,285	7,670
Capital grants and contributions	1,243	1,083	-	35	1,243	1,118
General:						
Taxes	17,264	15,473	-	-	17,264	15,473
Grants and Charges – unrestricted	2,330	2,164	-	-	2,330	2,164
Unrestricted investment income	358	352	-	-	358	352
Gain/(Loss) on disposal of assets	(17)	(5)	-	-	(17)	(5)
Miscellaneous	493	398	-	-	493	398
Total revenues	<u>25,118</u>	<u>22,312</u>	<u>12,622</u>	<u>7,428</u>	<u>37,740</u>	<u>29,740</u>
Expenses:						
General government	3,172	2,812	-	-	3,172	2,812
Public works – highways and streets	2,501	2,487	-	-	2,501	2,487
Other public works enterprises	2,812	1,526	-	-	2,812	1,526
Public safety	19,062	18,694	-	-	19,062	18,694
Culture and recreation	795	803	-	-	795	803
Revolving loans and grants	248	256	-	-	248	256
Interest on long-term debt	351	326	-	-	351	326
Williamsport Bureau of Transportation	-	-	9,113	8,806	9,113	8,806
Total expenses	<u>28,941</u>	<u>26,904</u>	<u>9,113</u>	<u>8,806</u>	<u>38,054</u>	<u>35,710</u>
Increase (decrease) in net position before transfers	(3,823)	(4,592)	3,509	7,428	(314)	29,740
Transfers	(363)	(378)	359	347	(4)	(31)
Change in net position	<u>(4,186)</u>	<u>(4,970)</u>	<u>3,868</u>	<u>(1,031)</u>	<u>(318)</u>	<u>(6,001)</u>
Net position, January 1	<u>7,881</u>	<u>12,851</u>	<u>38,957</u>	<u>39,988</u>	<u>46,838</u>	<u>52,839</u>
Net position, December 31	<u>\$ 3,695</u>	<u>\$ 7,881</u>	<u>\$ 42,825</u>	<u>\$ (38,957)</u>	<u>\$ 46,520</u>	<u>\$ 46,838</u>

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

Governmental Activities. Governmental activities decreased the City's net position by \$4,185,000 and \$4,970,000 for the years ended December 31, 2013 and 2012, respectively. The decrease in net position is due to the outlay for post-employment benefits other than pensions.

Business-type activities. The Williamsport Bureau of Transportation (d/b/a "River Valley Transit"), functioning as a business-type activity of the City of Williamsport, experienced an increase in net position of \$3,868,000 and a decrease of \$1,031,000 for the years ended December 31, 2013 and 2012, respectively. The increase in 2013 is due to the fact that user charges (i.e. bus fares) and operating grants sufficiently covered the cost of operations and Federal grants for ongoing capital projects.

Financial Analysis of the Government's Funds

As noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On December 31, 2013 and 2012, the City's governmental funds reported combined ending fund balances of \$6,502,000 and \$6,498,000, respectively. The City's unassigned fund balance, which is available for spending at the government's discretion, was \$2,793,000 and \$2,947,000 at December 31, 2013 and 2012, respectively. The remainder of the fund balance at December 31, 2013 is nonspendable, restricted for Liquid Fuels tax purposes, Community Development activities, debt service payments, and assigned for flood levee accreditation, an emergency site replacement program and street reconstruction projects.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the City's Enterprise funds at December 31, 2013 and 2012 amounted to \$6,278,000 and \$1,463,000, respectively, and those for the Internal Service funds amounted to \$511,000 and \$471,000, respectively. The total change in net position for the Enterprise Fund and Internal Service Fund amounted to an increase of \$3,868,000 and a decrease of \$1,030,000 for the years ending December 31, 2013 and 2012, respectively. Other factors concerning the finances of the Enterprise Funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund expenditure budget for fiscal year 2013, including transfers out, was approximately \$20.2 million; this represents an increase of \$1,728,000 (7.7%) from 2012. The General Fund expenditure budget for fiscal year 2012 was approximately \$18.5 million.

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

The General Fund Budget complied with financial policies required by the Third Class City Code of the Commonwealth of Pennsylvania.

Financial Analysis of the Major Funds

General Fund

The General Fund is the primary operating fund of the City. On December 31, 2013, the *unassigned fund balance* of the General Fund was \$2,976,000. During 2013, the City's General Fund balance increased by \$114,000. As a measure of the General Fund's liquidity, the *unassigned fund balance* represents 14.9 percent of the total General Fund expenditures (including transfers out). Industry guidelines recommend maintaining an unassigned fund balance of no less than two (2) months (or 16.7%) of the general operating fund's annual budget; as such, the City's General Fund unassigned fund balance at December 31, 2013 was slightly below the recommended limits.

Revenues of the General Fund totaled \$20.0 million and \$18.0 million for the years ended December 31, 2013 and 2012, respectively, representing a year-to-year increase of \$2,007,000 (11.15%). The following represents a summary of General Fund revenue by source.

	<u>2013</u>	<u>2012</u>
Revenues (In Thousands)		
Taxes	\$ 16,903	\$ 15,441
Licenses and permits	977	626
Fines and forfeits	191	217
Interest, rents and royalties	10	11
Intergovernmental	1,374	1,217
Charges for services	191	172
Miscellaneous	372	327
	<u> </u>	<u> </u>
Total	<u>\$ 20,018</u>	<u>\$ 18,011</u>

The General Fund's operations were also supported by operating transfers in which totaled \$105,500 and \$22,500 during the years ended December 31, 2013 and 2012, respectively. Additional details relating to interfund transfers can be found in Note 8 on pages 43 and 44.

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

General Fund expenditures totaled \$19,024,000 and \$16,893,000 for the years ended December 31, 2013 and 2012, respectively, which represents an increase of \$2,129,000 (12.6%). The following represents a summary of General Fund expenditures for the years ended December 31, 2013 and 2012, by source:

	<u>2013</u>	<u>2012</u>
Expenses (In Thousands)		
General government	\$ 2,003	\$ 1,756
Public works – highways and streets	1,652	1,789
Other public works enterprises	402	253
Public safety	14,279	12,482
Culture and recreation	685	612
Debt service	3	1
	<u> </u>	<u> </u>
Total	<u>\$ 19,024</u>	<u>\$ 16,893</u>

In addition, the General Fund made operating transfers out to other governmental, proprietary and fiduciary funds in the amount of \$988,000 and \$891,000 during the years ended December 31, 2013 and 2012.

Community Development Block Grant Fund ("CDBG")

The Community Development Block Grant ("CDBG") Fund's revenues are derived from specific sources and are designated for specific uses. Such funds, primarily federal grants, are restricted by law or other formal action to expenditures for specific purposes.

The CDBG Fund had a combined excess of revenues and other financing sources over expenditures and other financing uses of \$71,600 and a combined deficiency of revenues and other financing sources over expenditures and other financing uses of \$9,000 for the years ended December 31, 2013 and 2012. The CDBG Fund's fund balance of \$69,000 and \$24,000 at December 31, 2013 and 2012, respectively, represents expenditures incurred in connection with the CDBG program that the City will liquidate through future grant draw-downs. This fund's financial statements are included with the statements on pages 16 and 18 of this report.

Community Development Home Fund ("Home")

The Community Development HOME ("HOME") Fund's revenues are derived from specific sources and are designated for specific uses. Such funds, primarily federal grants, are restricted by law or other formal action to expenditures for specific purposes.

Capital Projects Fund

The City's Capital Projects fund accounts for financial resources expended to acquire or construct property and capital assets. During the year ended December 31, 2013, the City expended \$501,000 for such projects. The major capital projects in 2013 consisted of work on the Reach Road Reconstruction Project and the installation of a Records Management System. The fund balance of the Capital Projects Fund at December 31, 2013 totaled \$(183,000).

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

Other Governmental – Special Revenue Funds

The City maintains eight Special Revenue funds. Four of these funds have been designated as *nonmajor funds*, which contain the following activities:

<u>Fund</u>	<u>Activities</u>
Community Development Home Rehab	Housing
Liquid Fuels	Maintenance of streets
Redevelopment Authority	Housing
Act 13	Infrastructure/Housing

Operating revenues over expenditures totaled \$323,000 and \$579,000 for 2013 and 2012, respectively, after operating transfers. The nonmajor financial statements can be found on pages 68 and 69.

Pension Trust Funds

The City maintains three single employer defined benefit pension trust funds (Police, Fire Officers & Employees). These funds are used to account for the Employee Retirement Plan contributions of the City and its employees, related benefit payments and other plan costs. The net position held for pension benefits were \$77,391,000 and \$65,156,000 at December 31, 2013 and 2012, respectively, representing a year-to-year increase of \$12,235,000 or 18.8 percent. The City transferred from the General Fund the Annual Required Contribution of \$3,826,734 to the Pension Trust Fund. Additional information on the employee pension funds can be found in Note 11 starting on page 50 of this report.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2013 and 2012 were \$75,300,000 and \$68,576,000, respectively (net of accumulated depreciation) (Business-Type Activity capital assets, as presented below, include certain property held under capital lease, see Note 7 for additional details).

	<u>Governmental Activities</u>		<u>Business-Type Activity</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land & improvements	\$ 3,763,595	\$ 3,834,252	\$ 1,309,294	\$ 1,339,131	\$ 5,072,889	\$ 5,173,383
Infrastructure	20,036,816	20,165,363	-	-	20,036,816	20,165,363
Buildings	1,731,799	1,866,043	27,118,201	27,411,956	28,850,000	29,277,999
Construction in process	938,032	1,266,704	7,760,115	1,091,393	8,698,147	2,358,097
Furniture	1,298,723	855,895	-	-	1,298,723	855,895
Museum exhibits	-	-	536,099	536,099	536,099	536,099
Property held under capital lease	-	-	1,567,687	1,612,585	1,567,687	1,612,585
Vehicles	1,411,027	1,555,524	7,828,592	7,041,087	9,239,619	8,596,611
Total	<u>\$ 29,179,992</u>	<u>\$ 29,543,781</u>	<u>\$ 46,119,988</u>	<u>\$ 39,032,251</u>	<u>\$ 75,299,980</u>	<u>\$ 68,576,032</u>

City of Williamsport, Pennsylvania

Management's Discussion and Analysis
December 31, 2013
(Unaudited)

Long-Term Debt

Changes in the City's notes payable for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
Notes/lease rentals payable at January 1, 2012	\$ 7,950,503	\$ 3,183,658	\$ 11,134,161
Additions	350,000	500,000	850,000
Payments	(133,131)	(1,005,788)	(1,138,919)
Notes/lease rentals payable December 31, 2012	<u>8,167,372</u>	<u>2,677,870</u>	<u>10,845,242</u>
Additions	3,318,659	11,939,969	15,258,628
Payments	(3,947,328)	(3,962,084)	(7,909,412)
Notes/lease payable December 31, 2013	<u>\$ 7,538,703</u>	<u>\$ 10,655,755</u>	<u>\$ 18,194,458</u>

Additional information on the City's long-term debt can be found at Note 9 starting on page 44 of this report.

Economic Condition

Unemployment (as per the U.S. Department of Labor, Bureau of Labor Statistics) in the Williamsport area was 6.8 percent at the end of 2013, which is a decrease compared with 7.9 percent at the end of 2012. The 2013 rate is higher than Pennsylvania's overall unemployment rate (not seasonally adjusted) of 6.2 percent. The City is in a period of economic uncertainty; however, the general economic outlook is positive with major construction occurring in the Central Business District.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information as related to the primary government and its component units should be addressed to the Budget and Fiscal Officer, City of Williamsport, City Hall, 245 West Fourth Street, Williamsport, PA 17701.

City of Williamsport, Pennsylvania

 Statement of Net Position
 December 31, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activity	Total	Municipal Authority	Parking Authority
Assets					
Cash and cash equivalents	\$ 5,855,429	\$ 2,060,060	\$ 7,915,489	\$ 11,386	\$ 326,477
Restricted cash	4,511,623	-	4,511,623	-	-
Receivables (net of allowance for uncollectibles):					
Taxes	1,741,363	-	1,741,363	-	-
Loans	3,829,051	-	3,829,051	-	-
Other	1,383,927	160,064	1,543,991	34,287	133,489
Internal balances	(4,397,274)	4,397,274	-	-	-
Due from fiduciary funds	179,870	-	179,870	-	-
Due from other governments	1,006,853	4,205,726	5,212,579	5,454,552	-
Inventories, at cost	140,138	423,750	563,888	-	-
Prepaid expenses	-	126,632	126,632	-	11,302
Capital assets, net of accumulated depreciation:					
Land, land improvements and monuments	3,763,595	1,309,294	5,072,889	-	1,073,116
Infrastructure	20,036,816	-	20,036,816	-	-
Buildings and improvements	1,731,799	27,118,105	28,849,904	-	3,258,924
Vehicles and equipment	2,709,750	8,364,787	11,074,537	-	41,031
Construction in process	938,032	7,760,115	8,698,147	-	-
Property held under capital lease, net	-	1,567,687	1,567,687	-	-
Net investment in direct financing leases	-	1,082,188	1,082,188	-	-
Prepaid bond insurance and discount	28,306	103,405	131,711	-	-
Total assets	43,459,278	58,679,087	102,138,365	5,500,225	4,844,339
Liabilities					
Accounts payable and accrued expenses	1,467,907	4,345,888	5,813,795	-	68,355
Accrued liabilities	463,222	92,375	555,597	33,887	8,441
Compensated absences	75,858	33,239	109,097	-	-
Matured bonds payable	5,000	-	5,000	-	-
Due to other governments	12,400	-	12,400	-	-
Unearned revenues	3,871,075	284,013	4,155,088	1,000	6,500
Noncurrent liabilities:					
Portion due or payable within one year:					
Capital leases payable	43,444	-	43,444	-	-
Notes and bonds payable	399,228	2,900,071	3,299,299	5,454,552	129,931
Portion due or payable after one year:					
Compensated absences payable	1,795,152	442,989	2,238,141	-	-
Capital leases payable	140,214	-	140,214	-	-
Notes and bonds payable	7,139,475	7,755,684	14,895,159	-	2,029,839
Unearned lease income, net	-	-	-	-	69,355
Other postemployment benefits	23,657,844	-	23,657,844	-	-
Net pension obligation	693,077	-	693,077	-	-
Total liabilities	39,763,896	15,854,259	55,618,155	5,489,439	2,312,421
Net Position					
Net investment in capital assets	21,457,631	36,546,421	58,004,052	-	2,213,301
Restricted for:					
Liquid fuels tax purposes	166,349	-	166,349	-	-
HOME activities	24,431	-	24,431	-	-
Home rehabilitation purposes	40,014	-	40,014	-	-
Debt service	547,739	-	547,739	-	-
Redevelopment activities	3,089	-	3,089	-	-
Reserved for grant purposes	1,351,957	-	1,351,957	-	-
Reserved for encumbrances	311,462	-	311,462	-	-
Unrestricted, undesignated	(20,207,290)	6,278,407	(13,928,883)	10,786	318,617
Total net position	\$ 3,695,382	\$ 42,824,828	\$ 46,520,210	\$ 10,786	\$ 2,531,918

See notes to financial statements

City of Williamsport, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2013

	General Fund	CDBG	HOME	Capital Projects	Non-Revenue Escrow	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 1,823,594	\$ 79,890	\$ 30,501	\$ 312,731	\$ 1,568,841	\$ 45,849	\$ 1,465,504	\$ 5,326,910
Restricted cash	-	-	-	-	-	4,511,623	-	4,511,623
Receivables:								
Taxes	1,741,363	-	-	-	-	-	-	1,741,363
Loans	-	616,351	1,997,514	-	1,159,113	-	56,072	3,829,050
Other	1,137,629	-	-	120,986	8,770	1,329	115,163	1,383,877
Due from other funds	1,337,903	15,316	-	-	12,656	501,890	300	1,868,065
Due from other governments	7,705	48,550	34,582	500,000	1,392	-	414,624	1,006,853
Inventories, at cost	140,138	-	-	-	-	-	-	140,138
Total assets	\$ 6,188,332	\$ 760,107	\$ 2,062,597	\$ 933,717	\$ 2,750,772	\$ 5,060,691	\$ 2,051,663	\$ 19,807,879
Liabilities								
Vouchers payable	\$ 435,236	\$ 36,652	\$ 34,582	\$ 64,003	\$ 6,015	\$ -	\$ 877,685	\$ 1,454,173
Accrued liabilities	453,562	7,723	-	-	824	-	-	462,109
Compensated absences	71,683	4,175	-	-	-	-	-	75,858
Matured bonds payable	5,000	-	-	-	-	-	-	5,000
Due to other funds	279,729	24,167	6,070	1,052,431	207,605	4,512,952	-	6,082,954
Due to other governments	-	2,400	-	-	-	-	10,000	12,400
Unearned revenue	10,064	616,351	1,997,514	-	1,184,371	-	62,776	3,871,076
Total liabilities	1,255,274	691,468	2,038,166	1,116,434	1,398,815	4,512,952	950,461	11,963,570
Deferred Inflows of Resources								
Unearned revenue - taxes	1,341,854	-	-	-	-	-	-	1,341,854
Fund Balances								
Nonspendable	140,138	-	-	-	-	-	-	140,138
Restricted	-	68,639	24,431	-	1,351,957	547,739	1,101,202	3,093,968
Committed	163,446	-	-	-	-	-	-	163,446
Assigned	311,462	-	-	-	-	-	-	311,462
Unassigned	2,976,158	-	-	(182,717)	-	-	-	2,793,441
Total fund balances	3,591,204	68,639	24,431	(182,717)	1,351,957	547,739	1,101,202	6,502,455
Total liabilities, deferred inflows of resources and fund balances	\$ 6,188,332	\$ 760,107	\$ 2,062,597	\$ 933,717	\$ 2,750,772	\$ 5,060,691	\$ 2,051,663	\$ 19,807,879

See notes to financial statements

City of Williamsport, Pennsylvania

Reconciliation of the Balance Sheet of the Governmental Funds
To the Statement of Net Position
December 31, 2013

Total Fund Balance, Governmental Funds	\$ 6,502,455
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of assets is \$52,103,914 and the accumulated depreciation is (\$22,923,922).	29,179,992
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Notes and bonds payable	\$ (7,538,703)
Capital lease payable	(183,658)
Compensated absences (long-term)	(1,795,152)
Other postemployment benefits	(23,657,844)
Net pension obligation	<u>(693,077)</u>
	(33,868,434)
Prepaid bond insurance and discount related to long-term debt are capitalized and amortized over life of the debt in the statement of activities. The unamortized cost of prepaid bond insurance and discount is \$28,306.	28,306
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 unearned revenue in the funds.	1,341,854
Internal service funds are used by management to charge the operating costs of City Hall to individual funds. The assets and liabilities of the internal service fund ("City Hall Operating Fund") are included in the statement of net position.	<u>511,209</u>
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 3,695,382</u>

See notes to financial statements

City of Williamsport, Pennsylvania

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended December 31, 2013

	General Fund	CDBG	HOME	Capital Projects	Non-Revenue Escrow	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 16,902,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,902,990
Licenses and permits	977,428	-	-	-	-	-	-	977,428
Fines and forfeits	190,518	-	-	-	-	-	-	190,518
Interest, rents and royalties	10,513	-	23	-	38,112	-	2,354	51,002
Intergovernmental:								
Federal	-	877,114	252,253	15,204	418,957	-	-	1,563,528
State	980,047	-	-	-	70,358	-	2,023,469	3,073,874
Local	393,897	-	-	146,719	6,495	-	186,772	733,883
Charges for services	191,323	-	-	-	46,039	-	-	237,362
Collection on loans	-	10,856	23,282	-	80,221	-	2,430	116,789
Miscellaneous	371,698	-	-	31,390	31,400	-	124,127	558,615
Total revenues	20,018,414	887,970	275,558	193,313	691,582	-	2,339,152	24,405,989
Expenditures								
Current:								
General government	2,003,311	313,425	108,728	30,500	146,023	-	21,542	2,623,529
Public works	1,651,827	436,369	-	210,404	-	-	1,576,136	3,874,736
Other public works enterprises	401,600	-	-	-	1,392	-	-	402,992
Public safety	14,279,506	1,402	-	260,484	436,760	-	-	14,978,152
Culture and recreation	685,017	7,425	-	-	1,760	-	-	694,202
Revolving loans and grants	-	24,763	205,411	-	-	-	42,763	272,937
Capital outlay	-	32,997	-	-	-	-	263,146	296,143
Total expenditures	19,021,261	816,381	314,139	501,388	585,935	-	1,903,587	23,142,691
Excess (deficiency) of revenues over expenditures	997,153	71,589	(38,581)	(308,075)	105,647	-	435,565	1,263,298
Other Financing Sources (Uses)								
Proceeds from issuance of long-term debt	-	-	-	-	-	3,318,659	-	3,318,659
Debt service	(3,155)	-	-	-	-	(4,262,034)	-	(4,265,189)
Debt issuance costs	-	-	-	-	-	(61,008)	-	(61,008)
Proceeds from sale of capital assets	2,000	-	-	-	-	-	-	2,000
Proceeds from issuance of tax revenue anticipation note (TRAN)	720,000	-	-	-	-	-	-	720,000
Repayment of debt - TRAN	(720,000)	-	-	-	-	-	-	(720,000)
Transfer from component unit	75,000	-	-	-	-	-	-	75,000
Transfers in	30,490	3,000	-	605,906	-	1,185,061	-	1,824,457
Transfers out	(987,907)	(30,000)	-	(785,126)	(490)	(235,906)	(113,065)	(2,152,494)
Total other financing sources (uses)	(883,572)	(27,000)	-	(179,220)	(490)	(55,228)	(113,065)	(1,258,575)
Net Change in Fund Balances	113,581	44,589	(38,581)	(487,295)	105,157	(55,228)	322,500	4,723
Fund Balances - Beginning	3,477,623	24,050	63,012	304,578	1,246,800	602,967	778,702	6,497,732
Fund Balances - Ending	\$ 3,591,204	\$ 68,639	\$ 24,431	\$ (182,717)	\$ 1,351,957	\$ 547,739	\$ 1,101,202	\$ 6,502,455

See notes to financial statements

City of Williamsport, 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, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 4,723
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is for the amount by which depreciation exceeds capital outlays in the current period.	(346,692)
Capital outlays and depreciation expense related to the City's Internal Service Fund (included within the City's governmental activities) (also included in net loss of the Internal Service Fund below; amount is segregated here for ease of tie-in to changes in capital assets).	14,735
Capital assets used in governmental activities are not reported as assets in the governmental funds. Thus, upon the disposal of a capital asset, the statement of activities records a net loss (cost less accumulated depreciation less proceeds).	(17,097)
The repayment of principal on capital leases is expensed in the funds; however, such payments reduce the capital lease liability within the statement of net position. This amount represents the dollar value of principal payments made on capital leases payable during 2013.	43,593
Certain compensated absences payable are considered long-term in nature, 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, 2013.	(78,089)
The net pension obligation related to the City's pension plans is considered long-term in nature, and is not reported as a liability within the funds. This liability is, however, reported within the statement of net position, and changes in this liability are reflected within the statement of activities.	92,993
Other postemployment benefits payable are considered long-term in nature, 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.	(4,898,181)
Internal service funds are used by management to charge the operating costs of City Hall to individual funds. The operating income of the internal service fund (City Hall Operating Fund) is reported within the governmental activities.	25,587
The repayment of principal on notes and bonds payable is expensed in the funds; however, such payments reduce the notes and bonds payable liability within the statement of net position. This amount represents the dollar value of principal payments made on notes payable during 2013.	3,947,328
Reconciling items relating to long-term debt activities are as follows:	
Issuance of debt	(3,318,659)
Current year prepaid bond insurance and discount	28,306
Amortization of debt issuance costs	(25,269)
Revenues related to real estate taxes in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	<u>341,301</u>
Change in Net Position of Governmental Activities	<u>\$ (4,185,421)</u>

See notes to financial statements

City of Williamsport, Pennsylvania

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual - General Fund
 Year Ended December 31, 2013

	Budgeted Amounts		Actual Amount	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 15,909,253	\$ 15,909,253	\$ 16,902,990	\$ 993,737
Licenses and permits	778,000	778,000	977,428	199,428
Fines and forfeits	202,000	202,000	190,518	(11,482)
Interest, rents, royalties and investment gains	9,500	9,500	10,513	1,013
Intergovernmental:				
State	890,000	890,000	980,047	90,047
Local	358,543	358,543	393,897	35,354
Charges for services	173,000	173,000	191,323	18,323
Miscellaneous	378,200	378,200	371,698	(6,502)
Total revenues	18,698,496	18,698,496	20,018,414	1,319,918
Expenditures				
Current:				
General government	2,218,518	2,170,387	2,003,311	167,076
Public works - highways and streets	1,858,864	1,831,864	1,651,827	180,037
Other public works enterprises	565,035	560,085	401,600	158,485
Public safety	14,819,150	14,886,405	14,279,506	606,899
Culture and recreation	721,902	734,728	685,017	49,711
Debt service	10,000	10,000	3,155	6,845
Total expenditures	20,193,469	20,193,469	19,024,416	1,169,053
(Deficit) Excess of Revenues Over Expenditures	(1,494,973)	(1,494,973)	993,998	2,488,971
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	3,000	3,000	2,000	(1,000)
Proceeds from issuance of tax revenue anticipation note (TRAN)	-	-	720,000	720,000
Repayment of debt - TRAN	-	-	(720,000)	(720,000)
Transfer from component unit	75,000	75,000	75,000	-
Transfers in	30,500	30,500	30,490	(10)
Transfers out	(660,000)	(660,000)	(987,907)	(327,907)
Total other financing uses	(551,500)	(551,500)	(880,417)	(328,917)
Net Change in Fund Balances	(2,046,473)	(2,046,473)	113,581	2,160,054
Fund Balances, Beginning	2,226,316	2,226,316	3,477,623	1,251,307
Fund Balances, Ending	\$ 179,843	\$ 179,843	\$ 3,591,204	\$ 3,411,361

See notes to financial statements

City of Williamsport, Pennsylvania

Statement of Net Position

Proprietary Funds

December 31, 2013

	<u>Business-Type Activity (RVT)</u>	<u>Internal Service Fund (CHO)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,060,060	\$ 528,521
Other accounts receivable	160,064	50
Due from other funds	4,517,378	1,913
Due from other governments	4,205,726	-
Inventories, at cost	423,750	-
Prepaid expenses	126,632	-
Prepaid bond insurance and discount	103,405	-
Total current assets	<u>11,597,015</u>	<u>530,484</u>
Capital assets:		
Land and improvements	1,526,768	1
Buildings and improvements	34,718,957	1,381,036
Equipment	21,042,558	138,362
Construction in progress	7,760,115	-
Less accumulated depreciation	<u>(20,496,097)</u>	<u>(1,137,571)</u>
Net capital assets	<u>44,552,301</u>	<u>381,828</u>
Net investment in direct financing leases	<u>1,082,188</u>	<u>-</u>
Property held under capital lease, net	<u>1,567,687</u>	<u>-</u>
Total assets	<u>\$ 58,799,191</u>	<u>\$ 912,312</u>
Liabilities and Net Position		
Current liabilities:		
Current portion of notes and bonds payable	\$ 2,900,071	\$ -
Vouchers payable:		
Trade	219,186	13,734
Capital assets, including retainage	4,126,702	-
Accrued liabilities	92,375	1,113
Compensated absences	33,239	-
Due to other funds	120,104	4,428
Unearned revenue	<u>284,013</u>	<u>-</u>
Total current liabilities	<u>7,775,690</u>	<u>19,275</u>
Non-current liabilities:		
Compensated absences	442,989	
Long-term portion of notes and bonds payable	<u>7,755,684</u>	<u>-</u>
Total non-current liabilities	<u>8,198,673</u>	<u>-</u>
Net position		
Net investment in capital assets	36,546,421	381,828
Unrestricted	<u>6,278,407</u>	<u>511,209</u>
Total net position	<u>42,824,828</u>	<u>893,037</u>
Total liabilities and net position	<u>\$ 58,799,191</u>	<u>\$ 912,312</u>

See notes to financial statements

City of Williamsport, Pennsylvania**Statement of Revenues, Expenses, and Changes in Fund Net Position**

Proprietary Funds

Year Ended December 31, 2013

	Business-Type Activity (RVT)	Internal Service Fund (CHO)
Operating Revenues		
Charges for services	\$ 1,476,100	\$ 306,650
Operating Expenses		
Wages and salaries	3,470,725	25,642
Depreciation	2,358,565	37,615
Employee benefits	970,536	28,508
Administrative expense	673,022	-
Materials and supplies	1,068,034	136,379
Maintenance	231,481	21,973
Insurance	246,844	-
Total operating expenses	9,019,207	250,117
Operating (Loss) Income	(7,543,107)	56,533
Nonoperating Revenues (Expenses)		
Subsidies from other governments:		
State	4,299,284	-
Federal	6,685,200	-
Local	161,076	4,054
Miscellaneous	-	-
Interest expense	(94,005)	-
Total nonoperating revenues (expenses)	11,051,555	4,054
Income Before Other Financing Sources (Uses)	3,508,448	60,587
Other Financing Sources (Uses)		
Operating transfers in	359,663	-
Operating transfers out	(558)	(35,000)
Total other financing sources (uses), net	359,105	(35,000)
Net Income	3,867,553	25,587
Net Position, Beginning	38,957,275	867,450
Net Position, Ending	\$ 42,824,828	\$ 893,037

See notes to financial statements

City of Williamsport, Pennsylvania

Statement of Cash Flows

Proprietary Funds

Year Ended December 31, 2013

	Business-Type Activity (RVT)	Internal Service Fund (CHO)
Cash Flows from Operating Activities		
Cash received from users	\$ 1,419,260	\$ 306,650
Cash payments to employees for services	(4,390,667)	(53,886)
Cash paid to suppliers for goods and services	(2,425,235)	(162,186)
Internal activity - receipts from other funds	(4,553,263)	(81,038)
	<u>(9,949,905)</u>	<u>9,540</u>
Net cash (used in) provided by operating activities		
Cash Flows from Non-Capital Financing Activities		
Operating subsidies and transfers from (to) other funds	<u>5,797,353</u>	<u>(35,000)</u>
Cash Flows from Capital and Related Financing Activities		
Subsidies received from other governments	2,742,492	4,054
Payments for capital acquisitions	(5,319,600)	(22,880)
Principal payments on long-term debt	(3,962,084)	-
Interest payments on long-term debt	(94,005)	-
Proceeds from long-term debt	11,939,969	-
Payments received under direct financing leases	57,490	-
	<u>5,364,262</u>	<u>(18,826)</u>
Net cash provided by (used in) capital and related financing activities		
Increase (Decrease) in Cash and Cash Equivalents	1,211,710	(44,286)
Cash and Cash Equivalents, Beginning	<u>848,350</u>	<u>572,807</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,060,060</u>	<u>\$ 528,521</u>
Reconciliation of Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities		
Operating (loss) income	\$ (7,543,107)	\$ 56,533
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation	2,358,565	37,615
Changes in assets and liabilities:		
Other accounts receivable	(56,840)	-
Due to/from other funds, net	(4,553,263)	(81,038)
Prepays	(160,776)	-
Inventories	(17,134)	-
Vouchers payable, trade	(27,944)	(3,834)
Other operating liabilities	50,594	264
	<u>(9,949,905)</u>	<u>9,540</u>
Net Cash (Used in) Provided by Operating Activities		
Supplemental Disclosure of Non-Cash Capital and Related Financing Activities		
Capital assets, including retainage, in vouchers payable	<u>\$ 4,126,702</u>	<u>\$ -</u>

See notes to financial statements

City of Williamsport, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2013

	Pension Trust Funds	Private Purpose Trusts	Agency Funds
Assets			
Cash and cash equivalents	\$ 2,920,631	\$ -	\$ 630,898
Receivables, Other	139,744	-	-
Due from other funds	29,729	-	-
Investments, at fair value:			
U.S. Government securities	5,257,402	-	-
Corporate bonds	8,743,028	-	-
Domestic equity securities	46,758,918	-	-
Certificates of deposit	6,825,961	-	-
Mutual funds	6,734,459	-	-
Total investments	74,319,768	-	-
Total assets	<u>\$ 77,409,872</u>	<u>\$ -</u>	<u>\$ 630,898</u>
Liabilities			
Vouchers payable	\$ -	\$ -	\$ 158,853
Due to other funds	19,300	-	190,299
Due to other taxing units	-	-	281,746
Total liabilities	<u>19,300</u>	<u>-</u>	<u>\$ 630,898</u>
Net Position			
Held in trust for pension benefits	<u>77,390,572</u>	<u>-</u>	
Total liabilities and net position	<u>\$ 77,409,872</u>	<u>\$ -</u>	

See notes to financial statements

City of Williamsport, Pennsylvania

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year Ended December 31, 2013

	<u>Pension Trust Funds</u>	<u>Private Purpose Trusts</u>
Additions		
Contributions:		
Employer	\$ 2,875,067	\$ -
Transfers in	-	3,932
Commonwealth of Pennsylvania	951,667	-
Employees	561,352	-
Miscellaneous	13,103	-
	<u>4,401,189</u>	<u>3,932</u>
Total contributions		
Investment earnings:		
Interest and dividends	1,537,737	-
Net appreciation in fair value of investments	10,651,524	-
	<u>12,189,261</u>	<u>-</u>
Total investment gains		
Less Investment Expense	<u>(219,726)</u>	<u>-</u>
Net Investment Income	<u>11,969,535</u>	<u>-</u>
Total additions	<u>16,370,724</u>	<u>3,932</u>
Deductions		
Benefits	4,109,100	3,932
Administrative	27,072	-
	<u>4,136,172</u>	<u>3,932</u>
Total deductions		
Change in Net Position	12,234,552	-
Net Position, Beginning	<u>65,156,020</u>	<u>-</u>
Net Position, Ending	<u>\$ 77,390,572</u>	<u>\$ -</u>

See notes to financial statements

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

1. Summary of Significant Accounting Policies

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

Reporting Entity

Williamsport is the largest city in north-central Pennsylvania. It is a city of the third class, incorporated on January 15, 1866, and operates under an elected Mayor-Council form of government. The City provides many services to its estimated 30,000 residents, including general government services, public safety (police, fire, emergency management and protective inspection), maintenance of streets and parks, and community enrichment programs.

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). The City Council and/or the City's Mayor appoints a voting majority to the Board of Directors of all component units. The Municipal Authority of the City of Williamsport (the "Municipal Authority") issues separately audited financial statements, which can be obtained from the Municipal Authority Offices at 245 West Fourth Street, Williamsport, Pennsylvania 17701. The Williamsport Parking Authority (the "Parking Authority") issues separately audited financial statements, which can be obtained from the Parking Authority Offices at 1500 West Third Street, Williamsport, Pennsylvania 17701. Separately issued financial statements of the Redevelopment Authority of the City of Williamsport (the "Redevelopment Authority") can also be obtained from its office, located at 245 West Fourth Street, Williamsport, Pennsylvania 17701.

Discretely Presented Component Unit	Brief Description of Activities and Relationship to the City
The Municipal Authority functions as a financing medium for various public entities.	The City Council appoints a voting majority to the Municipal Authority's board of directors, and the City has guaranteed Municipal Authority debt.

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Discretely Presented Component Unit	Brief Description of Activities and Relationship to the City
The Parking Authority was formed by the City, with its purpose being to acquire, hold, construct, improve, maintain and operate on and off street parking facilities for the general public.	The Mayor of the City appoints all Authority board members and, through these appointments, the City is able to impose its will on the Authority.
Blended Component Unit	Brief Description of Activities and Relationship to the City
The Redevelopment Authority provides for the acquisition and demolition of properties, economic development and shopsteading loans, and historic rehabilitation and preservation. This assistance is funded primarily through federal grants from the City's Community Development Block Grant ("CDBG") program.	A continuing financial relationship exists between the City and the Redevelopment Authority under the terms of a cooperative agreement between the City and the Redevelopment Authority. According to the terms of this agreement, the Redevelopment Authority will, among other things, provide CDBG and other funding as necessary, prepare loan agreements and mortgages and obtain collateral for loans. In addition, the City's Mayor appoints a voting majority to the Board of Directors of the Redevelopment Authority.

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 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

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

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 fund are charges for services (primarily bus fares and rental income). Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Governmental Funds

General Fund

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

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to specified purposes. The major Special Revenue Funds reported by the City under this generic heading include the Community Development Block Grant ("CDBG") Fund, the HOME Fund and the Non-Revenue Escrow Fund. The CDBG and HOME Funds do not adopt an annual operating budget; rather, the City prepares multi-year budgets that coincide with the federally mandated period of availability of funds. The Non-Revenue Escrow Fund also does not adopt an annual operating budget, as the fund primarily consists of capital escrow funds and grant proceeds, which will be spent over several years.

Other nonmajor Special Revenue funds reported by the City include:

- The Liquid Fuels Fund accounts for state aid revenues used for building, improving and maintaining City streets.
- The Home Rehabilitation Fund accounts for the operations of the City's Home Rehabilitation program, which was funded in part by federal funds whose use is restricted for the provision of specified home rehabilitation services to eligible City residents.
- The Redevelopment Authority of the City of Williamsport is a blended component unit of the City. Additional details pertaining to the operations of the Redevelopment Authority may be found elsewhere in this section.
- The Act 13 Fund accounts for funds received from the Pennsylvania Public Utility Commission under Act 13 - The Unconventional Gas Well Impact Fee. These funds may be used for a number of eligible purposes including roadways, bridges, public infrastructure, housing, information systems, and planning, among other things.

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 major capital facilities or assets (other than those financed by proprietary funds and trust funds).

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Debt Service Fund

The Debt Service Fund (a major fund) is used to account for financial resources to be used for the payment of principal and interest on the City's long-term debt obligations.

Proprietary Funds

Enterprise Fund - Williamsport Bureau of Transportation (d/b/a River Valley Transit)

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 sole enterprise fund accounts for the operations of River Valley Transit, a regional mass transit system.

Internal Service Fund - City Hall Operating 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 City Hall Operating Fund comprises this fund type. The City Hall Operating Fund is used to allocate the cost of the operations of City Hall among the various departments and programs that occupy the building.

Fiduciary Funds

Pension Trust Funds

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

Private Purpose Trust Fund

Private purpose trust funds are used to report trust arrangements under which the principal and income benefit individuals, private organizations or other governments. The City's Unemployment Compensation Trust Fund is reported within the accompanying financial statements as a private purpose trust fund.

Agency Funds

Agency funds are used to report resources held by the City in a purely custodial capacity (i.e., assets = liabilities.) Agency funds reported by the City in the accompanying financial statements include the Tax Collecting Fund, Payroll Revolving Fund, and certain sub-funds the City holds as a fiscal agent that are accounted for within the Non-Revenue Escrow Fund (which are presented separately for financial reporting purposes).

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

New Accounting Principles

The City adopted Governmental Accounting Standards Board (“GASB”) Statement No. 61, *The Financial Reporting Entity: Omnibus*, for the year ended December 31, 2013. GASB No. 61 addresses certain issues with distinguishing a government’s control over another government in the reporting of component units. The City implemented the accounting and reporting requirement of GASB 61 as of January 1, 2013. This implementation did not materially change the City’s accounting and reporting policies.

The City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. GASB No. 65 provides financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as changes in the use of the term “deferred” in the financial statement presentations. In addition, this statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to more consistently align with asset, liability, deferred inflow of resources and deferred outflow of resources definitions. The City implemented the accounting and reporting requirements of GASB No. 65 as of January 1, 2013. The effect of this adoption did not materially change the City’s accounting and reporting policies.

The City adopted GASB Statement No. 66, *Technical Corrections - 2012*, an amendment of GASB Statements No. 10 and No. 62, for the year ended December 31, 2013. GASB No. 66 provides technical corrections to resolve conflicting guidance related to accounting for risk financing activities and the treatment of leases with scheduled rent increases. The City implemented the accounting and reporting requirements of GASB No. 66 as of January 1, 2013. The effect of this adoption did not materially change the City’s accounting and reporting policies.

Cash Equivalents

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

Investments

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

Receivables

All trade and property tax receivables are shown net of allowance for uncollectibles.

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Property Tax Calendar

The City is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions, including the schools and special districts within the City. Taxes are due in one installment on or before 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 Lycoming County Delinquent Tax Office for further collection and possible tax sales over an additional 36-month period. Current tax collections for the year ended December 31, 2013 were 92.2% of the tax levy.

Inventory

Inventories in the General Fund consist of gasoline and postage. Inventory is valued at the lower of cost (first-in, first-out) or market.

Inventory of the Enterprise Fund, consisting of bus parts and supplies, is stated at the lower of cost (determined on a basis that approximates the weighted average cost) or market. The cost of inventory is recorded as an expenditure at the time individual inventory items are consumed (consumption method).

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.

Beginning on January 1, 2003, 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. During 2007, the City retroactively reported its major general infrastructure acquired, significantly reconstructed, or significantly improved from January 1, 1980 through December 31, 2002, pursuant to GASB Statement No. 34. As a general rule, infrastructure acquired prior to 1980 is not capitalized.

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

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

	Governmental Activities	Business-Type Activities
Buildings and improvements	40 years	40 years
Machinery and equipment	10-20 years	10-20 years
Furniture and fixtures	15-20 years	15-20 years
Office equipment	5-15 years	5-15 years
Computer equipment	5 years	4 years
Vehicles	5-10 years	5-12 years
Streets and roadways	20 years	-
Curbing and sidewalks	20 years	-

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Liabilities for Compensated Absences

City employees are awarded vacations each year based 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 earned but unused vacation at retirement or termination.

The City's sick leave policy provides sick time to each employee. Employees are permitted unlimited accumulation of sick time. Detail of the sick leave policies in effect for the individual labor contracts are as follows:

- City Firemen are compensated at the rate of 30% of the employee's regular rate at retirement, for all unused sick time accumulated from January 1, 1999 through the date of retirement, not to exceed 120 days. In addition to this, City Firemen are compensated at the rate of one day per three days of sick leave accumulated through December 31, 1998, at the employee's regular rate at that date;
- City Policemen are compensated at the rate of 15% of the employee's regular rate for accumulated sick leave upon retirement, up to a maximum of 240 days;
- Transit employees have an attendance incentive plan whereby an employee with three or less sick occurrences per calendar year will be paid 5% and employees with perfect attendance per calendar year will be paid 10% of their accumulated sick leave at a rate of \$18 for every eight hours accumulated up to a maximum of \$6,500 upon retirement or termination. All other accumulated sick time is forfeited at that time;
- Employees covered under the AFSCME labor contract are compensated \$20 for each three day unit of unused sick time, up to a maximum of 120 three day units (360 days) for a maximum of \$2,400 upon retirement. All other accumulated sick time is forfeited at that time, and;
- Non-contract RVT employees follow the sick leave policy of the Transit Employees, all other non-contract employees utilize the same plan as the employees covered under the AFSCME contract.

Under the Fair Labor Standards Act, employees are permitted to accrue up to 240 hours (480 hours for police and firemen) of compensatory ("Comp") time for hours worked beyond 40 hours in any one week. Comp time is awarded at the premium rate of time and one-half for hours worked over a 40 hour period. Upon termination of employment, any accumulated Comp time will be paid at a rate not less than the average regular rate of pay over the employee's last three years of employment or the final regular rate, whichever is higher.

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Unearned Revenue

Unearned revenue consists of receivables not collected within 60 days subsequent to the City's year-end (fund-perspective financial statements), advance billings by the River Valley Transit for each local municipality's share of its budgeted operating deficit, grant revenues received but not yet expended, and loans receivable associated with grant-funded revolving loan pools. It is expected that these items will be included in revenues of future fiscal years.

At December 31, 2013, the General, CDBG, HOME, Non-Revenue Escrow, Non-major and Enterprise funds had unearned revenues of \$1,351,918, \$616,351, \$1,997,514, \$1,184,371, \$62,776, and \$284,013, respectively.

Governmental Fund Balance Classification/Policies and Procedures

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

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints, such as inventory
- *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 a formal board motion
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City
 - City Council authorized the City Budget & Fiscal Officer to assign funds to specific purposes
 - City Council passed a board motion authorizing assignments for activities as contemplated by Council
- *Unassigned* - includes positive fund balances within the General Fund which have not been classified within the above mentioned categories and negative fund balances in other governmental funds

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

When a governmental funds 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, Police and Fire department personnel. It is the City's policy to fund its annual required contribution.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

2. Budgetary Procedures and Budgetary Accounting

The City utilizes the Executive Budget approach to budgetary control. This approach requires the chief executive (i.e., Mayor), together with the Department of Accounts and Finance, to prepare and submit a governing financial plan to the legislative body on an annual basis. The City prepares its budgets for each fund type in accordance with accounting principles generally accepted in the United States of America ("GAAP" basis).

All transfers or supplemental appropriations must be enacted by City Council. During the year, all transfers and appropriations were approved by City Council, in accordance with the Pennsylvania Third Class City Code. 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.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which *annual* budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is presented on page 20 of the accompanying financial statements. The City does not adopt *annual* budgets for its Community Development Block Grant Fund, HOME Fund and Non-Revenue Escrow Fund, the three major special revenue fund types. Rather, program year budgets are adopted for these funds. These program year budgets, which are in effect through program conclusion (typically a three to five year period), are not required to be presented.

3. Cash, Cash Equivalents, and Investments

Primary Government

Pennsylvania statutes provide for the investment of governmental funds in certain authorized investment types, including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for cash management and investment purposes, which the City does. In addition to the investments authorized for governmental funds, pension trust fund investments may be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practices. Act 72 requires all governmental (public funds) deposits not insured by the Federal Depository Insurance Corporation ("FDIC") to be collateralized by the financial institution.

The deposit and investment policies of the City adhere to state statutes. Deposits of the governmental funds are either maintained in demand deposits, Pennsylvania Local Government Investment Trust ("PLGIT") or pooled for investment purposes in certificates of deposit. The deposits and investments of the three pension trust funds are administered by trustees and are held separately from those of other City funds.

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

Deposits

Custodial Credit Risk is the risk that, in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2013, the City's total deposits were \$16,721,283. Of this amount, \$386,162 was insured by the FDIC and \$250,000 was insured by the SIPC. The remaining deposits of \$16,085,121 were exposed to custodial credit risk, since the deposits were collateralized with securities held by the pledging financial institutions, but not in the City's name.

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Investments

As of December 31, 2013, the City had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	Average of 3 years	\$ 6,825,961
Corporate bonds	Average of 5 years	6,758,207
Foreign bonds	Average of 5 years	892,587
Corp. mortgage/asset backed securities	Average of 7 years	1,092,234
Government bonds	Average of 8 years	5,251,646
Government asset backed securities	Average of 15 years	5,756
Investments subject to maturity		20,826,391
Equity securities		53,493,377
Total investments		<u>\$ 74,319,768</u>

Credit Ratings

The City's investments had the following credit ratings:

Equity securities	NR	71.98	%
Certificates of deposit	NR	9.18	
Corporate bonds	AA1 to BAA2	9.09	
Government bonds	AAA	7.07	
Corp. mortgage/asset backed securities	AA2 to A3	1.47	
Foreign bonds	AAA to A3	1.20	
Government asset backed securities	NR	0.01	

The City's investment policy limits investments as follows:

- Only corporate or tax exempt debt issues that meet or exceed a credit rating of A from Standard & Poor's and/or an A rating from Moody's may be purchased;
- Preferred stock must be rated A or better by Standard & Poor's and or Moody's at the time of purchase;
- No issues may be purchased with more than 30 years to maturity.

Interest Rate Risk

As a means of limiting its exposure to fair-value losses arising from interest rates, the City's investment policy allows the investment manager to invest the fixed income components of the portfolio so as to prevent the returns for the fixed income portfolio from underperforming the fixed income index by more than 3% in any quarter.

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

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, 2013, all of the City's investments were held by Wells Fargo Advisors, LLC, and were insured by SIPC or to the extent that the City's investments exceed SIPC coverage, are insured up to \$50,000,000 per account.

Component Unit - Municipal Authority

Cash

At December 31, 2013 the carrying amount and bank balance of the Municipal Authority's deposits was \$11,386, all of which was covered by federal depository insurance.

Component Unit - Parking Authority

Cash

At December 31, 2013 the carrying amounts of the Parking Authority's deposits were \$326,477 and bank balance was \$422,592. Of this amount, \$250,000 was insured by the FDIC. The remaining deposits of \$172,592 were exposed to custodial credit risk, since the deposits were collateralized with securities held by the pledging financial institutions, but not in the Parking Authority's name.

4. Due from Other Governments

The amounts reported in the City's various governmental and proprietary funds at December 31, 2013 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 2,705	\$ -	\$ 5,000	\$ 7,705
CDBG Fund	48,550	-	-	48,550
HOME Fund	34,582	-	-	34,582
Non-Revenue Escrow	1,392			1,392
Capital Projects	-	500,000	-	500,000
Non-Major Funds	-	412,224	2,400	414,624
Enterprise Fund	3,836,082	245,079	91,565	4,172,726
Total	<u>\$ 3,923,311</u>	<u>\$ 1,157,303</u>	<u>\$ 98,965</u>	<u>\$ 5,179,579</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

5. Direct Financing Leases - Business-Type Activity

The City's direct financing lease activities consist of long-term office space rentals in a building owned by the River Valley Transit (the "RVT"). Such leases expire in 2028.

Following is a summary of the components of the RVT's net investment in direct financing leases at December 31, 2013:

Total minimum lease payments to be received	\$ 1,078,812
Estimated residual value of leased property	65,327
Unearned income	<u>(61,951)</u>
Net investment	<u>\$ 1,082,188</u>

Unearned income is amortized using the straight-line method over the lease term, 29 years.

Minimum lease payments to be received as of December 31, 2013 for each of the next five years and thereafter are as follows:

2014	\$ 63,463
2015	67,869
2016	67,869
2017	67,869
2018	67,869
2019-2023	360,931
2024-2028	<u>382,942</u>
Total	<u>\$ 1,078,812</u>

6. Property Taxes

The City's property tax is levied each January 1 on the assessed values as of the date of levy for all taxable real property located in the City. The assessed value at January 1, 2013, upon which the 2013 levy was based, was \$960,185,300. The estimated market value was \$960,185,300 making the assessed value 100% of the estimated market value.

The City is permitted by state law to levy taxes up to \$25 per \$1,000 of assessed valuation for general governmental services. The tax rate to finance general governmental services for the year ended December 31, 2013, was \$11.58 per \$1,000, which means that the City has a tax margin of \$13.42 per \$1,000.

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

7. Capital Assets

Primary Government

	<u>Balance January 1, 2013</u>	<u>Acquisitions</u>	<u>Disposals/ Transfers</u>	<u>Balance December 31, 2013</u>
Governmental activities:				
Cost:				
Land, improvements and monuments	\$ 4,411,976	\$ 62,175	\$ -	\$ 4,474,151
Infrastructure	33,578,029	808,614	673,855	35,060,498
Buildings and improvements	4,794,260	10,486	(26,474)	4,778,272
Furniture and equipment	2,117,361	541,417	(22,140)	2,636,638
Transportation	4,178,573	171,002	(133,252)	4,216,323
Construction in progress	1,266,704	385,740	(714,412)	938,032
Total cost	<u>50,346,903</u>	<u>1,979,434</u>	<u>(222,423)</u>	<u>52,103,914</u>
Less accumulated depreciation:				
Land, improvements and monuments	(577,724)	(132,832)	-	(710,556)
Infrastructure	(13,412,666)	(1,611,016)	-	(15,023,682)
Buildings and improvements	(2,928,217)	(138,773)	20,517	(3,046,473)
Furniture and equipment	(1,261,467)	(131,881)	55,433	(1,337,915)
Transportation	(2,623,048)	(311,624)	129,376	(2,805,296)
Total accumulated depreciation	<u>(20,803,122)</u>	<u>(2,326,126)</u>	<u>205,326</u>	<u>(22,923,922)</u>
Governmental activities, net	<u>\$ 29,543,781</u>	<u>\$ (346,692)</u>	<u>\$ (17,097)</u>	<u>\$ 29,179,992</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

	Balance January 1, 2013	Acquisitions	Disposals/ Transfers	Balance December 31, 2013
Business-type activity:				
Cost:				
Land and land improvements	\$ 1,525,878	\$ 890	\$ -	\$ 1,526,768
Buildings and improvements	33,881,527	837,430	-	34,718,957
Machinery and equipment	18,567,199	1,939,260	-	20,506,459
Museum exhibits	536,099	-	-	536,099
Property held under capital lease	2,277,644	-	-	2,277,644
Construction in progress	1,091,393	6,668,722	-	7,760,115
Total cost	57,879,740	9,446,302	-	67,326,042
Less accum. depreciation:				
Land improvements	(186,747)	(30,727)	-	(217,474)
Buildings and improvements	(6,469,571)	(1,131,185)	-	(7,600,756)
Machinery and equipment	(11,526,112)	(1,151,755)	-	(12,677,867)
Property held under capital lease	(665,059)	(44,898)	-	(709,957)
Total accumulated depreciation	(18,847,489)	(2,358,565)	-	(21,206,054)
Business-type activities capital assets, net	\$ 39,032,251	\$ 7,087,737	\$ -	\$ 46,119,988

Property Held Under Capital Lease - Governmental Activities

The City has entered into several agreements that have been accounted for as capital leases. These agreements cover vehicles and streets equipment. 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 \$71,000 for the year ended December 31, 2013.

Capital Leases	Balance January 1, 2013	Additions	Payments	Balance December 31, 2013	Due Within One Year
Various vehicles and equipment	\$ 227,251	\$ -	\$ (43,593)	\$ 183,658	\$ 43,444

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

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, 2013, as related to the City's governmental activities:

Years ending December 31:	
2014	\$ 50,238
2015	50,238
2016	50,238
2017	<u>50,237</u>
Total minimum lease payments	200,951
Less amounts representing interest	<u>(17,293)</u>
Present value of net minimum lease payments	183,658
Less current portion	<u>(43,444)</u>
Present value of net minimum lease payments, long term	<u>\$ 140,214</u>

Property Held Under Capital Lease - Business-Type Activities

During December 1999, River Valley Transit ("RVT") became the lessee of a portion of a new parking deck (consisting of 150 parking spaces and an enclosed area for the exclusive use of its "Park and Ride" passenger program) under a capital lease agreement with the Williamsport Parking Authority. This lease term expires in 2029, with two bargain renewal options, which extend the term to 2049. Under the terms of this capital lease agreement, RVT was required to make the full lease payment upon commencement of the lease.

These assets are being amortized over their respective lease terms, which approximate their estimated productive lives. Amortization of assets under capital leases amounted to \$44,898 for the year ended December 31, 2013.

Following is a summary of property held under capital lease as related to the City's business-type activities:

150 parking spaces	\$ 2,100,000
Enclosed waiting area for "Park & Ride" Program	100,000
Radio system	<u>77,644</u>
Total	2,277,644
Less accumulated amortization	<u>(709,957)</u>
Property held under capital leases, net	<u>\$ 1,567,687</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

Component Unit - Parking Authority

	Balance January 1, 2013	Acquisitions	Disposals/ Transfers	Balance December 31, 2013
Cost:				
Land improvements	\$ 1,274,462	\$ 19,980	\$ -	\$ 1,294,442
Parking deck/buildings	4,695,945	-	-	4,695,945
Machinery and equipment	313,808	11,203	-	325,011
Total cost	6,284,215	31,183	-	6,315,398
Less accumulated depreciation for:				
Land improvements	(213,022)	(8,305)	-	(221,327)
Parking deck/buildings	(1,316,055)	(120,966)	-	(1,437,021)
Machinery and equipment	(270,805)	(13,174)	-	(283,979)
Total accumulated depreciation	(1,799,882)	(142,445)	-	(1,942,327)
Business-type activities capital assets, net	\$ 4,484,333	\$ (111,262)	\$ -	\$ 4,373,071

8. Interfund Balances and Activity

Balances Due To/From Other Funds

Individual fund receivable and payable amounts at December 31, 2013 were as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,337,903	\$ 279,729
Special Revenue Funds:		
Community Development Block Grant	15,316	24,167
Home Rehab	300	-
HOME	-	6,070
Non-Revenue Escrow	12,656	207,605
Debt Service Fund	501,890	4,512,952
Capital Projects Fund	-	1,052,431
Enterprise Fund	4,517,378	120,104
Internal Service Fund (City Hall Operating)	1,913	4,428
Fiduciary Funds	29,729	19,300
Agency Funds	-	190,299
Total	\$ 6,417,085	\$ 6,417,085

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

Balances due to/from other funds primarily represent interfund borrowings for ongoing capital projects and amounts due between funds for debt service requirements, salary reimbursements and other cost allocations.

Transfers To/From Other Funds

Interfund transfers for the year ended December 31, 2013 were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 30,490	\$ (987,907)
Special Revenue Funds:		
Community Development Block Grant	3,000	(30,000)
Home Rehab	-	(3,000)
Non-Revenue Escrow	-	(490)
Liquid Fuels	-	(110,065)
Capital Projects	605,906	(785,126)
Debt Service	1,185,061	(235,906)
Proprietary Funds:		
Enterprise Fund (RVT)	359,663	(558)
City Hall Operating	-	(35,000)
Fiduciary Funds,		
Unemployment Compensation	3,932	-
Total	<u>\$ 2,188,052</u>	<u>\$ (2,188,052)</u>

The General Fund made interfund transfers in support of Debt Service, Capital Projects and Enterprise Fund operations, as well as its share of the activity within the Unemployment Compensation Fund. Community Development Block Grant activity is intra-program in nature. The Debt Service Fund made interfund transfers in support of Capital Projects and other City infrastructure improvements, as permitted.

9. Long-Term Debt

Primary Government

A summary of changes in long-term debt for 2013 is as follows:

<u>Notes and Bonds Payable</u>	<u>Balance 1/1/13</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Note Series of 2005-Capital projects (C&N Bank)	\$ 5,601,116	\$ -	\$ (146,564)	\$ 5,454,552	\$ 153,807
Note Series of 2010-Capital projects (M&T Bank)	3,022,278	1,977,722	(5,000,000)	-	-
Note Series B of 2010-Capital projects (M&T bank)	2,221,848	3,485,906	(2,762,848)	2,944,906	2,944,906
General Obligation Bonds, Series of 2013	-	9,795,000	-	9,795,000	200,586
Total	<u>\$ 10,845,242</u>	<u>\$ 15,258,628</u>	<u>\$ (7,909,412)</u>	<u>\$ 18,194,458</u>	<u>\$ 3,299,299</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

The following table summarizes the City's long term debt by activity for the year ended December 31, 2013:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Notes and bonds payable, January 1, 2013	\$ 8,167,372	\$ 2,677,870	\$ 10,845,242
Additions	3,318,659	11,939,969	15,258,628
Payments	<u>(3,947,328)</u>	<u>(3,962,084)</u>	<u>(7,909,412)</u>
Notes and bonds payable, December 31, 2013	7,538,703	10,655,755	18,194,458
Less: current portion	<u>(399,228)</u>	<u>(2,900,071)</u>	<u>(3,299,299)</u>
Notes and bonds payable, long term	<u>\$ 7,139,475</u>	<u>\$ 7,755,684</u>	<u>\$ 14,895,159</u>

Tax Revenue Anticipation Note (TRAN)

In addition, during the year ended December 31, 2013, the City issued a tax revenue anticipation note in the amount of \$720,000, at an interest rate of 1.88%. The note was paid in full during 2013.

Additional information regarding the City's long-term debt obligations is as follows:

Governmental Activities

\$6,000,000 Guaranteed Note, Series of 2005 (C&N Bank)

In February 2005, the City entered into a lease rental agreement with the Municipal Authority in the amount of \$6,000,000 to finance a variety of capital projects, including: a street resurfacing and rehabilitation project; improvements to City storm sewer and fire hydrant systems; improvements to and furnishing of City Hall; purchasing street lights and other capital equipment; paying capitalized interest on the note, and; paying the costs of financing the note. Proceeds of the 2005 note were available to the City as a non-revolving line of credit from the bank. The note bears interest at the rate of 4.875% per annum; interest payments are due semi-annually on May 15 and November 15 of each year. Principal payments commenced on May 15, 2010, and continue through and including May 15, 2034. The outstanding principal balance on this Note was \$5,227,279 at December 31, 2013.

\$5,000,000 General Obligation Note, Series of 2010 (M&T Bank)

In May 2010, the City issued its General Obligation Note, Series of 2010 in the maximum principal amount of \$5,000,000 to acquire, construct, and improve the Church Street Transportation Center, Trade and Transit Center expansion, and other approved Central Business District projects, and to pay related costs and expenses. Proceeds of the note are available to the city on a draw down, line of credit basis for three years from the date of issuance. The note bears interest at a variable rate equal to 65% of the sum of the

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

5-year constant maturity treasury rate, plus 3%. Interest payments are due quarterly during the drawdown period on February 1, May 1, August 1, and November 1 of each year and semi-annually on November 1 and May 1 thereafter. During the year ended December 31, 2013, this Note was currently refunded by the City's General Obligation Bonds, Series of 2013.

\$3,000,000 General Obligation Note, Series B of 2010 (M&T Bank)

In September 2010, the City issued its General Obligation Note, Series B of 2010 in the maximum principal amount of \$3,000,000 to provide interim financing for reimbursable costs associated with approved Central Business District projects. Proceeds of the note are available to the City on a revolving, line of credit basis, until maturity. The note bears interest at a variable rate equal to 65% of the sum of the one-month LIBOR rate plus 3% per annum. Interest payments are due quarterly on February 1, May 1, August 1, and November 1 of each year. The outstanding principal balance on this note was \$194,906 at December 31, 2013. This Note was paid in full in January 2014. Refer to business type activity section for other information on this Note.

\$9,795,000 General Obligation Bonds, Series 2013

In December 2013, the City issued its General Obligation Bonds, Series 2013, in the face amount of \$9,795,000 for the purpose of currently refunding of the City's \$5,000,000 General Obligation Note, Series of 2010, the acquisition, and construction of various capital improvement and capital asset projects of the City, including for the River Valley Transit, that include, Trade and Transit II, the Public Service Building, other City facilities and paying allocable financing costs and the costs of issuance of the bonds. The bonds bear interest at variable rates ranging from 2.0% to 4.7%; interest payments are due semi-annually on June 1 and December 1 of each year. Principal payments commence of June 1, 2014, and continue through and including June 1, 2038. The outstanding principal balance on these bonds was \$2,116,518 at December 31, 2013.

The following is a schedule, by year, of the future minimum principal and interest payments required under the note payable agreements of the City's governmental activities as of December 31, 2013:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 399,228	\$ 281,071	\$ 680,299
2015	273,706	304,279	577,985
2016	285,860	294,827	580,687
2017	294,518	283,554	578,072
2018	308,110	272,526	580,636
2019-2023	1,748,746	1,173,983	2,922,729
2024-2028	2,165,326	771,934	2,937,260
2029-2033	1,676,552	310,514	1,987,066
2034-2038	386,657	9,477	396,134
Total	<u>\$ 7,538,703</u>	<u>\$ 3,702,165</u>	<u>\$ 11,240,868</u>

Business-Type Activity

Lease Rental Payable - Municipal Authority

In December 1998, RVT entered into a lease rental agreement with the Municipal Authority in the amount of \$3,000,000 to finance a construction project. Lease rental payments were deferred until January 2000, at which time monthly payments began. Monthly payments of \$12,500 plus accrued interest at 3.93% were required through December 31, 2005, with a final payment of all unpaid principal and interest due on January 1, 2006. During 2005, this note was paid by the City and RVT is repaying the note to the City according to the terms of the City's Guaranteed Note, Series of 2005 (C&N Bank) as described above. The outstanding principal on this Note was \$227,273 at December 31, 2013.

\$5,000,000 General Obligation Note, Series of 2010 (M&T Bank)

In May 2010, the City issued its general obligation Note, Series of 2010 in the maximum principal amount of \$5,000,000 to acquire, construct, and improve the Church Street Transportation Center, Trade and Transit Center expansion, and other approved Central Business District projects, and to pay related costs and expenses. Proceeds of the note are available to the city on a draw down, line of credit basis for three years from the date of issuance. The note bears interest at a variable rate equal to 65% of the sum of the 5-year constant maturity treasury rate, plus 3%. Interest payments are due quarterly during the drawdown period on February 1, May 1, August 1, and November 1 of each year and semi-annually on November 1 and May 1 thereafter. During the year ended December 31, 2013, this Note was currently refunded by the City's General Obligation Bonds, Series of 2013.

\$3,000,000 General Obligation Note, Series B of 2010 (M&T Bank)

Refer to the "Governmental Activities" section of this note for information on the terms of this borrowing. The outstanding business-type activity principal balance on this note was \$2,750,000 at December 31, 2013.

\$9,795,000 General Obligation Bonds, Series 2013

Refer to the "Governmental Activities" section of this note for information on the terms of this borrowing. The outstanding business-type activity principal balance on these bonds was \$7,678,482 at December 31, 2013.

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

The following is a schedule by year of the future minimum principal and interest payments required under note payable agreements of the City' business-type activity as of December 31, 2013:

Year Ending December 31	Principal	Interest	Total
2014	\$ 2,900,071	\$ 130,995	\$ 3,031,066
2015	313,865	267,847	581,712
2016	314,168	261,336	575,504
2017	324,452	254,750	579,202
2018	334,726	247,975	582,701
2019-2023	1,828,373	1,117,381	2,945,754
2024-2028	2,157,682	812,038	2,969,720
2029-2033	1,142,927	467,916	1,610,843
2034-2038	1,339,491	193,297	1,532,788
Total	<u>\$ 10,655,755</u>	<u>\$ 3,753,535</u>	<u>\$ 14,409,290</u>

Component Unit - Parking Authority

The following is a summary of changes in long-term debt for the year ended December 31, 2013.

	Balance January 1, 2013	Additions	Payments	Balance December 31, 2013
Note payable, Series of 1999	<u>\$ 2,334,542</u>	<u>\$ -</u>	<u>\$ (174,772)</u>	<u>\$ 2,159,770</u>

As of December 31, 2013 long-term debt consisted of the following:

Note payable, Series of 1999, due in monthly payments of \$16,769 including principal and interest at 2.76% per annum adjusted annually through May 12, 2025. Secured by a perfected security interest in all revenues and receipts (excluding Midtown Parking Deck), accounts, documents, and general intangibles of the Authority.	\$ 2,159,770
Less current maturities	<u>(129,931)</u>
Long-term debt	<u>\$ 2,029,839</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

The annual requirements to amortize the note payable as of December 31, 2013 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 129,931	\$ 47,442	\$ 177,373
2015	147,152	48,479	195,631
2016	150,829	44,802	195,631
2017	154,597	41,035	195,632
2018	158,459	37,172	195,631
2019-2023	853,686	124,469	978,155
2024-2026	565,116	21,777	586,893
Total	<u>\$ 2,159,770</u>	<u>\$ 365,176</u>	<u>\$ 2,524,946</u>

10. Compensated Absences

The liability for compensated absences recorded in the governmental activities column on the statement of net position, was \$1,871,010 at December 31, 2013. The liability for compensated absences for business-type activities amounted to \$476,228 at December 31, 2013. The changes in the City's compensated absences in 2013 are summarized as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Balance January 1, 2013	\$ 1,800,213	\$ 443,869
Increase	1,152,621	284,196
Decrease	(1,081,824)	(251,837)
Balance December 31, 2013	<u>\$ 1,871,010</u>	<u>\$ 476,228</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

11. Employee Pension Funds

Plan Descriptions

The Williamsport Officers' and Employees' Pension Fund ("O&E"), Williamsport Firemen's Pension Fund ("Fire") and Williamsport Police Pension Fund ("Police") (collectively, the "Plans") are single-employer defined benefit pension plans administered by the City. The Plans were established effective May 23, 1945. 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.

	Combining Statement of Fiduciary Net Position			
	Firemen's Pension	Police Pension	O&E Pension	Total
Assets:				
Cash and cash equivalents:	\$ 984,587	\$ 1,196,391	\$ 739,653	\$ 2,920,631
Receivables,				
Other	45,170	62,770	31,804	139,744
Due from other funds	-	29,729	-	29,729
Investments, at fair value:				
U.S. Government securities	1,663,166	2,491,871	1,102,365	5,257,402
Domestic corporate bonds	2,767,429	3,968,370	2,007,229	8,743,028
Certificates of deposit	2,231,744	2,853,969	1,740,248	6,825,961
Domestic equity securities	15,351,728	20,565,168	10,842,022	46,758,918
Mutual funds	2,072,141	3,108,212	1,554,106	6,734,459
Total investments	24,086,208	32,987,590	17,245,970	74,319,768
Total	<u>\$ 25,115,965</u>	<u>\$ 34,276,480</u>	<u>\$ 18,017,427</u>	<u>\$ 77,409,872</u>
Liabilities,				
Payables,				
Other	\$ 6,400	\$ 6,600	\$ 6,300	\$ 19,300
Net Assets,				
Held in trust for benefits and other purposes	25,109,565	34,269,880	18,011,127	77,390,572
Total	<u>\$ 25,115,965</u>	<u>\$ 34,276,480</u>	<u>\$ 18,017,427</u>	<u>\$ 77,409,872</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Combining Statement of Fiduciary Net Position

	<u>Firemen's Pension</u>	<u>Police Pension</u>	<u>O&E Pension</u>	<u>Total</u>
Additions,				
Contributions:				
Employer	\$ 1,272,445	\$ 1,053,374	\$ 549,248	\$ 2,875,067
Commonwealth of Pennsylvania	421,188	348,674	181,805	951,667
Employees	117,573	178,697	265,082	561,352
Miscellaneous	738	1,193	11,172	13,103
Total contributions	<u>1,811,944</u>	<u>1,581,938</u>	<u>1,007,307</u>	<u>4,401,189</u>
Investment earnings:				
Interest and dividends	496,937	685,466	355,334	1,537,737
Net appreciation in fair value of investments	<u>3,356,150</u>	<u>4,895,260</u>	<u>2,400,114</u>	<u>10,651,524</u>
Total investment earnings	3,853,087	5,580,726	2,755,448	12,189,261
Less investment expense (advisory fees)	<u>(70,585)</u>	<u>(99,603)</u>	<u>(49,538)</u>	<u>(219,726)</u>
Net investment earnings	<u>3,782,502</u>	<u>5,481,123</u>	<u>2,705,910</u>	<u>11,969,535</u>
Total additions	<u>5,594,446</u>	<u>7,063,061</u>	<u>3,713,217</u>	<u>16,370,724</u>
Deductions:				
Benefits and refunds of contributions	1,539,130	1,948,452	621,518	4,109,100
Administrative	<u>8,700</u>	<u>9,803</u>	<u>8,569</u>	<u>27,072</u>
Total deductions	<u>1,547,830</u>	<u>1,958,255</u>	<u>630,087</u>	<u>4,136,172</u>
Change in Net Assets	4,046,616	5,104,806	3,083,130	12,234,552
Net Assets, Beginning	<u>21,062,949</u>	<u>29,165,074</u>	<u>14,927,997</u>	<u>65,156,020</u>
Net Assets, Ending	<u>\$ 25,109,565</u>	<u>\$ 34,269,880</u>	<u>\$ 18,011,127</u>	<u>\$ 77,390,572</u>

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Additional information related to each of the plans is as follows:

	Officers' and Employees' Pension Fund	Firemen's Pension Fund	Police Pension Fund
Employee groups covered	Any elected or appointed official, or any person employed by the City on a permanent basis	Any person employed on a full-time basis by the City as a firefighter	Any person employed on a full-time basis by the City as a police officer
Legislative body governing plan and responsible for management of plan assets	Officers' and Employees' Retirement Board	Firemen's Pension Board	Police Pension Board
Normal retirement age	60	50	50
Years of service requirement prior to retirement	12	20	20
Monthly retirement benefits	Two and one-half percent of the participant's average monthly compensation multiplied by years of service up to a maximum benefit of 50% of average monthly compensation.	Fifty percent of the higher of: (1) compensation averaged over the twelve month period prior to termination; or (2) compensation averaged over any five year period prior to termination	Fifty percent of the compensation over the last 365 day period prior to termination or the averaged highest five years, whichever is greater
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; service after age sixty-five shall not be included	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; service after age sixty-five shall not be included
Reduction in monthly retirement benefit	None	None	None
Disability benefits: Eligibility	Upon total and permanent disablement which occurs following the completion of fifteen years of service	Upon total and permanent disablement for service related injuries, regardless of length of service; and upon total and permanent disablement which occurs after five years of service for non-service related injuries	Upon total and permanent disablement which occurs while performing duties of a police officer for the City of Williamsport
Monthly disability benefits	Same as monthly retirement benefit calculated at date of disablement	Equal to the accrued benefit based upon average monthly compensation and years of service at the date of disablement	Same as monthly retirement benefit calculated at date of disablement

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

	Officers' and Employees' Pension Fund	Firemen's Pension Fund	Police Pension Fund
Death benefits - Spouse			
Before retirement	Refund of contributions if any, without interest	Monthly benefit equal to fifty percent of the accrued benefit until death or remarriage for non-service related death; monthly benefit equal to one hundred percent of accrued benefit until death or remarriage for service-related death	Refund of contributions without interest if participant had less than twenty years of service; if after twenty years of service, receives same benefit as if death occurred after retirement
After retirement	Excess of participant's accumulated contributions over the total payment received shall be paid to participant's estate	Monthly benefit equal to 100% of pension participant was receiving or entitled to receive on day of participant's death is payable to spouse until death or remarriage. In the event of the death of the spouse, each of the participant's dependent children will receive an equal share of benefit until their 18 th birthday	Monthly benefit equal to 100% of the pension participant was receiving or entitled to receive on the day of participant's death is payable to spouse

Membership of the Plans consisted of the following at January 1, 2013, the date of the latest actuarial valuation:

	Officers' and Employees Pension Fund	Firemen's Pensions Fund	Police Pension Funds
Retirees and beneficiaries receiving benefits	47	78	73
Terminated members entitled to but not yet receiving benefits	1	-	4
Active plan member	112	29	40
Total	160	107	117

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Funding Policy

The contribution requirements of plan members are established and may be amended by the respective legislative bodies governing each of the plans (see Plan Descriptions). Officers and Employees plan participants are required to contribute five and one half percent of compensation to the plan. Participants in the Police and Fire plans are required to contribute five percent of compensation and an additional \$1 per month until age sixty-five.

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

The Commonwealth of Pennsylvania provides an allocation of funds that must be used for pension funding. The City must fund any financial requirement established by the MMO that exceeds state/member contributions. For the year ended December 31, 2013, the combined City/Commonwealth contributions to the Fire, Police and O&E plans were \$1,693,633, \$1,402,048, and \$731,053, respectively, each of which was equal to the related MMO.

Annual Pension Cost

The City's annual pension cost and net pension obligation for the year ended December 31, 2013 were calculated as follows:

	Officers' and Employees' Pension Funds	Firemen's Pension Fund	Police Pension Funds
Annual required contribution	\$ 731,053	\$ 1,693,633	\$ 1,402,048
Interest on net pension asset	7,732	32,651	16,487
Adjustment to annual required contribution	(18,882)	(88,849)	(42,132)
Annual pension cost	719,903	1,637,435	1,376,403
Contributions made	731,053	1,693,633	1,402,048
(Increase) decrease in net pension obligation	11,150	56,198	25,645
Net pension obligation, beginning of year	(102,636)	(463,297)	(220,137)
Net pension obligation, end of year	\$ (91,486)	\$ (407,099)	\$ (194,492)

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

The annual required contribution ("ARC") for the current year was determined as part of the January 1, 2013 actuarial valuation, which used the following assumptions:

Actuarial Assumption	Officers' and Employees' Pension Fund	Firemen's Pension Fund	Police Pension Fund
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Investment rate of return	8%	7.5%	8%
Projected salary increase	5%	5%	5%
Consumer price index	3%	3%	3%
Asset valuation method	4-Year Smoothing	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	10 years	6 years	10 years

Trend Information

Plan and Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Obligation) Asset
Officers' and Employees' Pension Fund			
12/31/13	\$ 719,903	101.5 %	\$ (91,486)
12/31/12	332,652	86.0	(102,636)
12/31/11	368,772	86.7	(49,344)
Firemen's Pension Fund			
12/31/13	1,637,435	103.4	(407,099)
12/31/12	1,093,123	80.8	(463,297)
12/31/11	1,315,893	81.5	(206,700)
Police Pension Fund			
12/31/13	1,376,403	101.9	(194,492)
12/31/12	752,237	86.7	(220,137)
12/31/11	895,363	88.2	(105,835)

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013, the most recent actuarial valuation date, was as follows:

	Actuarial Value of Plan Assets (A)	Actuarial Accrued Liability (B)	Total Unfunded Actuarial Liability (Asset)	Funded Ratio (A)/(B)	Annual Covered Payroll (C)	Ratio of UAAL to Annual Covered Payroll ((B-A)/C)
Police Pension Fund	\$ 29,039,091	\$ 37,268,768	\$ 8,229,677	77.9 %	\$ 2,791,460	294.82 %
Fireman's Pension Fund	20,852,852	28,913,441	8,060,589	72.1	1,930,525	417.53
O & E Pension Plan	14,889,104	19,254,976	4,365,872	77.3	4,603,251	94.84

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

Summary of Significant Accounting Policies

Basis of Accounting

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

A separate report is not issued for the Plan.

Method Used to Value Investments

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

Contributions

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

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

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

12. Defined Contribution (Section 457) Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Massachusetts Mutual Life Insurance Company. The Plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency, as defined.

13. Postemployment Benefits

Plan Description

The City provides postretirement healthcare benefits for fire and police employees who retire with at least 12 years of service with their respective department and have attained the age of 50; and life insurance benefits to all employees who retire with at least 12 years of service and have attained the age of 50 for fire and police employees and age 60 for all other employees. The cost of such medical, vision and life insurance coverage for retirees and spouses are primarily funded through annual appropriations from the City's General Fund. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired employees who are ineligible under the above requirements and choose to participate in the medical plan must pay 100% of the composite rate cost of such coverage. While no formal plan document currently exists, GASB No. 45 requires the valuation to consider the "substantive plan," meaning the plan terms as understood by the City and plan members, as described in various current and historical employment and union contracts, including any plan changes that have been made and communicated to employees. The plan is an unfunded single employer plan and no financial report is prepared. Stand-alone financial statements are not issued for the plan.

Funding Policy

The contribution requirements of plan members and the City are established and may be amended through negotiations between the City and the respective unions. The plan is funded on a pay-as-you-go basis, eligible retirees premiums are paid annually to fund the health care benefits provided to current retirees. Retirees are currently not required to contribute to the plan. The City made estimated contributions to the plan of approximately \$2,331,360 for the year ended December 31, 2013. Contributions are actuarially determined in accordance with GASB Statement 45.

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 7,537,041
Interest on net OPEB obligation	844,185
Adjustment to annual required contribution	<u>(1,151,685)</u>
Annual OPEB cost (expense)	7,229,541
Contributions made	<u>(2,331,360)</u>
Increase in net OPEB obligation	4,898,181
Net OPEB obligation at January 1, 2013	<u>18,759,663</u>
Net OPEB obligation at December 31, 2013	<u>\$ 23,657,844</u>

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2013, 2012 and 2011 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2013	\$ 7,229,541	32.2%	\$ 23,657,844
December 31, 2012	7,314,642	29.0%	18,759,663
December 31, 2011	4,700,422	40.3%	13,567,926

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$ 86,678,610
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	86,678,610
Funded ratio (actuarial value of plan assets/UAAL)	0.0%
Covered payroll	\$ 11,329,616
UAAL as a percentage of covered payroll	765%

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

The schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

In the January 1, 2012, actuarial valuation, the Entry Age Normal Method was used. Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

The actuarial assumptions included a 4.5% investment rate of return, which is the expected rate to be earned on the City's deposits and investments, an annual healthcare cost trend rate of 10.75% initially, reduced to an ultimate rate of 5.0% in 2022 and later. The UAAL is being amortized as a level dollar over a thirty year open period.

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

14. 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:

	General Fund	CDBG	HOME Fund	Capital Projects	Non-Revenue Escrow	Debt Service	Other Governmental Funds	Total
Non-spendable for,								
Inventory	\$ 140,138	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 140,138
Restricted for:								
HOME activities	-	-	24,431	-	-	-	-	24,431
Grant purposes	-	-	-	-	1,351,957	-	-	1,351,957
Community Development	-	68,639	-	-	-	-	-	68,639
Debt service	-	-	-	-	-	547,739	-	547,739
Liquid fuels tax purposes	-	-	-	-	-	-	166,349	166,349
Home rehabilitation	-	-	-	-	-	-	40,014	40,014
Public works	-	-	-	-	-	-	891,750	891,750
Redevelopment activities	-	-	-	-	-	-	3,089	3,089
Total restricted	\$ -	\$ 68,639	\$ 24,431	\$ -	\$ 1,351,957	\$ 547,739	\$ 1,101,202	\$ 3,093,968
Committed for,								
Debt service	\$ 163,446	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,446
Assigned for:								
Encumbrances	\$ 311,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 311,462

15. Related Organizations

The City's officials are responsible for appointing certain members of the governing boards of other organizations; but the City's accountability for these organizations during 2013 did not extend beyond making the appointments. A majority of the boards of the following organizations are either appointed by City Council or recommended and nominated by the Mayor and approved by City Council:

- Williamsport Municipal Water Authority
- Williamsport Sanitary Authority

City of Williamsport, Pennsylvania

Notes to Financial Statements

December 31, 2013

16. Commitments and Contingent Liabilities

Litigation

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

In addition, the City participates in a variety of other 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 that may be disallowed pursuant to the terms of these grant programs.

Environmental

The City maintains a fuel storage facility. 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. No estimate is currently available for any potential liability for expenditures associated with this fuel storage facility.

Construction

The City has entered into various agreements with contractors related to the Church Street and CNG Fueling Facility Projects. At December 31, 2013, there was approximately \$827,000 remaining under these arrangements.

Insurance

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 \$65,000 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 \$237,194 at December 31, 2013. The City has a surplus deposit related to the plan in the amount of \$733,124 at December 31, 2013. The cost of medical coverage for employees was approximately \$4,620,000 in 2013.

City of Williamsport, Pennsylvania

Notes to Financial Statements
December 31, 2013

17. Pending Changes in Accounting Principles

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The City is required to adopt Statement No. 67 for its 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The City is required to adopt Statement No. 68 for its 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. To the extent applicable, the City is required to adopt Statement No. 69 for its calendar year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. To the extent applicable, the City is required to adopt Statement No. 70 for its calendar year 2014 financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City is required to adopt Statement No. 71 for its fiscal year 2014 financial statements.

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

18. Subsequent Events

Issuance of Long-term Debt

In January 2014, the City issued its General Obligation Bond, Series of 2014, in the maximum principal amount of \$4,000,000 (revolving line of credit), for the purpose of providing interim financing for various capital projects, currently refunding the City's General Obligation Note, Series B of 2010 and to pay the costs of issuing the bond. The bond is due in quarterly installments beginning in March 2014, plus interest equal to the one-month LIBOR plus 1.88%, with the final maturity scheduled for January 2017.

In February 2014, the City issued its General Obligation Bonds, Series of 2014, in the face amount of \$9,280,000, for the purpose of currently refunding the City's Guaranteed Note, Series of 2005, funding various capital projects and to pay the costs of issuing the bonds. The bonds are due in varying annual installments plus interest at rates ranging from 2.0% to 4.25%, with final maturity scheduled for June 2038.

City of Williamsport, Pennsylvania

Required Supplementary Information

Schedule of Funding Progress - Pension Trust Funds

(Unaudited)

Year Ended December 31, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Total Unfunded Actuarial Liability (Asset)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Annual Covered Payroll</u>	<u>Ratio of Unfunded Liability to Annual Covered Payroll</u>
<u>Police Pension Fund</u>						
January 1, 2013	\$29,039,091	\$37,268,768	\$8,229,677	77.92%	\$ 2,791,460	294.82%
January 1, 2011	27,344,895	34,388,866	7,043,971	79.52%	2,826,463	249.22%
January 1, 2009	27,588,362	30,809,261	3,220,899	89.55%	3,201,724	100.60%
<u>Firemen's Pension Fund</u>						
January 1, 2013	\$20,852,852	\$28,913,441	\$8,060,589	72.12%	\$ 1,930,525	417.53%
January 1, 2011	19,061,137	26,980,301	7,919,164	70.65%	1,908,780	414.88%
January 1, 2009	18,825,290	24,621,595	5,796,305	76.46%	1,731,343	334.79%
<u>Officers' and Employees' Pension Plan</u>						
January 1, 2013	\$14,889,104	\$19,254,976	\$4,365,872	77.33%	\$ 4,603,251	94.84%
January 1, 2011	13,194,793	17,046,371	3,851,578	77.41%	4,509,524	85.41%
January 1, 2009	12,910,034	14,557,541	1,647,507	88.68%	4,240,982	38.85%

Note: The January 1, 2009 actuarial valuation recognized one assumption change. (1) The actuarial value of assets was changed from a market value method to a smoothing method whereby one-fourth of market value gains and losses are recognized at each valuation date and the remaining three-fourths are deferred to future biennial valuations.

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

City of Williamsport, Pennsylvania

Required Supplementary Information

Schedule of Employer Contributions - Pension Trust Funds

(Unaudited)

Year Ended December 31, 2013

<u>Year Ended December 31,</u>	<u>Police Pension Fund</u>		<u>Firemen's Pension Fund</u>		<u>Officers' and Employees' Pension Fund</u>	
	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2013	#####	100%	\$ 1,693,633	100%	\$ 731,053	100%
2012	849,605	88%	1,318,714	82%	378,064	87%
2011	895,363	88%	1,313,631	82%	368,772	87%
2010	621,438	100%	1,142,426	100%	229,831	100%
2009	603,863	100%	1,021,811	100%	217,432	100%
2008	616,341	100%	1,006,779	100%	211,965	100%
2007	774,111	100%	1,164,880	100%	186,125	100%
2006	805,191	100%	1,236,659	100%	179,496	100%
2005	828,782	100%	1,208,437	100%	243,320	100%
2004	815,100	100%	1,235,913	100%	238,745	100%
2003	460,182	100%	986,585	100%	22,153	100%
2002	220,316	100%	782,740	100%	-	N/A
2001	192,049	100%	723,253	100%	-	N/A

See note to required supplementary information - pension trust funds

City of Williamsport, Pennsylvania

Notes to Required Supplementary Information – Pension Trust Funds
Year Ended December 31, 2013
(Unaudited)

Actuarial Assumptions

The following actuarial assumptions were used in the January 1, 2013 actuarial valuation, the most recent actuarial valuation:

Actuarial Assumption	Officers' and Employees' Pension Fund	Firemen's Pension Fund	Police Pension Fund
Actuarial cost method	Entry Age Normal Actuarial Cost Method	Entry Age Normal Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Investment rate of return	8%	7.5%	8%
Projected salary increase	5%	5%	5%
Consumer Price Index	3% per annum	3% per annum	3% per annum
Asset valuation method	4-Year Smoothing	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	10 Years	6 years	10 Years

City of Williamsport, Pennsylvania

Required Supplementary Information

Schedule of Funding Progress - Other Postemployment Benefits

(Unaudited)

Year Ended December 31, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Total Unfunded Actuarial Liability (Asset)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Annual Covered Payroll</u>	<u>Ratio of Unfunded Liability to Annual Covered Payroll</u>
January 1, 2012	\$ -	\$ 86,678,610	\$ 86,678,610	0.00%	\$ 11,329,616	765%
January 1, 2010	-	55,492,042	55,492,042	0.00%	10,649,893	521%
January 1, 2008	-	53,701,303	53,701,303	0.00%	4,842,314	1109%

City of Williamsport, Pennsylvania

Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2013
 (Unaudited)

	<u>Liquid Fuels</u>	<u>Home Rehab</u>	<u>Redevelop- ment Authority</u>	<u>Act 13</u>	<u>Total Nonmajor Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 206,230	\$ 39,714	\$ 64,664	\$ 1,154,896	\$ 1,465,504
Receivables:					
Loans	-	56,072	-	-	56,072
Other	-	-	115,163	-	115,163
Due from other funds	-	300	-	-	300
Due from other governments	-	-	414,624	-	414,624
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 206,230</u>	<u>\$ 96,086</u>	<u>\$ 594,451</u>	<u>\$ 1,154,896</u>	<u>\$ 2,051,663</u>
Liabilities and Fund Balances					
Liabilities:					
Vouchers payable	\$ 39,881	\$ -	\$ 574,658	\$ 263,146	\$ 877,685
Due to other governments	-	-	10,000	-	10,000
Unearned revenue	-	56,072	6,704	-	62,776
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>39,881</u>	<u>56,072</u>	<u>591,362</u>	<u>263,146</u>	<u>950,461</u>
Fund balances:					
Restricted	<u>166,349</u>	<u>40,014</u>	<u>3,089</u>	<u>891,750</u>	<u>1,101,202</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 206,230</u>	<u>\$ 96,086</u>	<u>\$ 594,451</u>	<u>\$ 1,154,896</u>	<u>\$ 2,051,663</u>

City of Williamsport, Pennsylvania

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended December 31, 2013

(Unaudited)

	<u>Liquid Fuels</u>	<u>Home Rehab</u>	<u>Redevelop- ment Authority</u>	<u>Act 13</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues					
Interest, rents, royalties	\$ 727	\$ 70	\$ -	\$ 1,557	\$ 2,354
Intergovernmental:					
State	622,599	-	807,378	593,492	2,023,469
Local	-	-	186,772	-	186,772
Collections on loans	-	2,430	-	-	2,430
Miscellaneous	1,500	-	122,627	-	124,127
	<u>624,826</u>	<u>2,500</u>	<u>1,116,777</u>	<u>595,049</u>	<u>2,339,152</u>
Expenditures					
Current:					
General government	-	-	21,542	-	21,542
Public works	520,299	-	1,055,837	-	1,576,136
Revolving loans and grants	-	-	42,763	-	42,763
Capital outlay	-	-	-	263,146	263,146
	<u>520,299</u>	<u>-</u>	<u>1,120,142</u>	<u>263,146</u>	<u>1,903,587</u>
Excess of revenues over expenditures	<u>104,527</u>	<u>2,500</u>	<u>(3,365)</u>	<u>331,903</u>	<u>435,565</u>
Other Financing Sources (Uses)					
Transfers out	<u>(110,065)</u>	<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>(113,065)</u>
Net Change in Fund Balances	(5,538)	(500)	(3,365)	331,903	322,500
Fund Balances, Beginning	<u>171,887</u>	<u>40,514</u>	<u>6,454</u>	<u>559,847</u>	<u>778,702</u>
Fund Balances, Ending	<u>\$ 166,349</u>	<u>\$ 40,014</u>	<u>\$ 3,089</u>	<u>\$ 891,750</u>	<u>\$ 1,101,202</u>

City of Williamsport, Pennsylvania

Statement of Fiduciary Net Position

Private Purpose Trust Fund

December 31, 2013

(Unaudited)

	<u>Unemployment Compensation</u>
Assets	
Due from other funds	\$ -
Total assets	<u>\$ -</u>
Liabilities	
Vouchers payable	\$ -
Net Position	
Reserved for workers' compensation	-
Total liabilities and net position	<u>\$ -</u>

City of Williamsport, Pennsylvania

Statement of Changes in Fiduciary Net Position

Private Purpose Trust Fund

Year Ended December 31, 2013

(Unaudited)

	<u>Unemployment Compensation</u>
Deductions	
Benefits	\$ 3,932
Total deductions	3,932
Other Financing Sources (Uses)	
Operating transfers in	3,932
Total other financing sources (uses)	3,932
Change in Net Position	-
Net Position, Beginning	-
Net Position, Ending	<u>\$ -</u>

City of Williamsport, Pennsylvania

Combining Statement of Fiduciary Net Position

Agency Funds

December 31, 2013

(Unaudited)

	<u>Tax Collecting</u>	<u>Payroll Revolving</u>	<u>Nonrevenue Escrow</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 452,045	\$ 2,902	\$ 175,951	\$ 630,898
Total assets	<u>\$ 452,045</u>	<u>\$ 2,902</u>	<u>\$ 175,951</u>	<u>\$ 630,898</u>
Liabilities				
Vouchers payable	\$ -	\$ 2,902	\$ 155,951	\$ 158,853
Due to other funds	170,299	-	20,000	190,299
Due to other taxing units	<u>281,746</u>	<u>-</u>	<u>-</u>	<u>281,746</u>
Total liabilities	<u>\$ 452,045</u>	<u>\$ 2,902</u>	<u>\$ 175,951</u>	<u>\$ 630,898</u>

City of Williamsport, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Grantor/Program Title	Federal CFDA Number	Program Amount	Total Received for the Year	Accrued (Deferred) Revenue January 1, 2013	Adjustments	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue December 31, 2013
<u>U.S. Department of Housing and Urban Development:</u>								
Community Development Block Grant Entitlement Grants	14.218	\$ 1,150,623	\$ 320,922	\$ 10,464	\$ -	\$ 310,458	\$ 310,458 *	\$ -
Community Development Block Grant Entitlement Grants	14.218	989,506	518,107	-	-	566,657	566,657 *	48,550
Community Development Block Grant Entitlement Grants	14.218	1,033,343	-	-	-	-	- *	-
Community Development Block Grant Entitlement Grants-Program Income	14.218	N/A	13,856	-	-	13,856	13,856 *	-
Community Planning and Development - HOME Program	14.239	1,610,105	224,729	7,059	-	252,252	252,252	34,582
Community Planning and Development - HOME Program - Program Income	14.239	N/A	<u>23,282</u>	<u>-</u>	<u>-</u>	<u>23,282</u>	<u>23,282</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>1,100,896</u>	<u>17,523</u>	<u>-</u>	<u>1,166,505</u>	<u>1,166,505</u>	<u>83,132</u>
<u>U.S. Department of Interior:</u>								
Passed through the Pennsylvania Historical & Museum Commission Historic Preservation Fund Grants-In-Aid	15.904	6,000	<u>3,000</u>	<u>643</u>	<u>-</u>	<u>3,728</u>	<u>3,728</u>	<u>1,371</u>
<u>U.S. Department of Justice:</u>								
Bulletproof Vest Partnership Program	16.607	5,092	5,092	5,092	-	-	-	-
Bulletproof Vest Partnership Program	16.607	2,705	-	-	-	2,705	2,705	2,705
Public Safety Partnership and Community Policing (ARRA)	16.710	450,000	410,565	1,122	-	409,443	409,443 *	-
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program/Grants to Local Government (ARRA)	16.804	70,949	-	(357)	-	-	-	(357)
Edward Byrne Memorial Justice Assistance Program	16.804	16,312	<u>5,121</u>	<u>-</u>	<u>-</u>	<u>16,295</u>	<u>16,295</u>	<u>11,174</u>
Total U.S. Department of Justice			<u>420,778</u>	<u>5,857</u>	<u>-</u>	<u>428,443</u>	<u>428,443</u>	<u>13,522</u>

City of Williamsport, Pennsylvania

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

Grantor/Program Title	Federal CFDA Number	Program Amount	Total Received for the Year	Accrued (Deferred) Revenue January 1, 2013	Adjustments	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue December 31, 2013
U.S. Department of Transportation:								
Federal Transit Administration Capital Improvement Grant	20.500	\$ 1,213,592	\$ 497,494	\$ -	\$ -	\$ 497,494	\$ 497,494 *	\$ -
Federal Transit Administration Capital Improvement Grant	20.500	3,951,000	718,859	-	-	1,012,385	1,012,385 *	293,526
Federal Transit Administration Capital Improvement Grant	20.500	2,002,950	14,168	14,168	-	-	- *	-
Federal Transit Administration Capital Improvement Grant	20.500	1,500,000	-	-	-	-	- *	-
Federal Transit Administration Capital Improvement Grant	20.500	3,500,000	-	-	-	3,415,555	3,415,555 *	3,415,555
Federal Transit Administration Capital and Operating Assistance Grant	20.507	1,200,000	1,200,000	600,000	-	600,000	600,000 *	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	138,000	138,000	138,000	-	-	- *	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	1,602,623	500,000	250,235	-	249,765	249,765 *	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	1,500,000	750,000	-	-	750,000	750,000 *	-
Passed through Pennsylvania Department of Transportation, ARRA - Capital Assistance Program for Reducing Energy Consumption	20.523	160,000	-	-	-	160,000	160,000	160,000
Highway Planning and Construction	20.205	950,000	31,722	16,518	-	15,204	15,204	-
Total U.S. Department of Transportation			<u>3,850,243</u>	<u>1,018,921</u>	<u>-</u>	<u>6,700,403</u>	<u>6,700,403</u>	<u>3,869,081</u>

City of Williamsport, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program Amount</u>	<u>Total Received for the Year</u>	<u>Accrued (Deferred) Revenue January 1, 2013</u>	<u>Adjustments</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue December 31, 2013</u>
<u>U.S Department of Education,</u>								
Passed through the Pennsylvania Department of Labor and Industry Rehabilitation Services Vocational Rehabilitation Grants to States	84.126	\$ 364	\$ -	\$ -	\$ -	\$ 364	\$ 364	\$ 364
Total Federal Financial Assistance			<u>\$ 5,374,917</u>	<u>\$ 1,042,944</u>	<u>\$ -</u>	<u>\$ 8,299,443</u>	<u>\$ 8,299,443</u>	<u>\$ 3,967,470</u>

* Tested as a "major" program.

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

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

Honorable Members of City Council
City of Williamsport, 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 activity, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Williamsport, Pennsylvania (the "City"), as of and for the year ended December 31, 2013, 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 29, 2014. Our report includes a reference to other auditors who audited the financial statements of the Municipal Authority of the City of Williamsport (the "Municipal Authority"), as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control Over Financial Reporting

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

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

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 2013-1 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2013-2 to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied on 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Williamsport, Pennsylvania
September 29, 2014

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Members of City Council,
City of Williamsport, Pennsylvania:

Report on Compliance for Each Major Federal Program

We have audited the City of Williamsport, Pennsylvania's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Internal Control over Compliance

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

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

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Parente Beard LLC". The signature is written in black ink and is positioned in the lower-left area of the page.

Williamsport, Pennsylvania
September 29, 2014

City of Williamsport, Pennsylvania

Schedule of Findings and Questioned Costs
December 31, 2013

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 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 programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG Entitlement Grants
16.710	Public Safety Partnership and Community Policing
	Federal Transit Cluster:
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X No

City of Williamsport, Pennsylvania

Schedule of Findings and Questioned Costs
December 31, 2013

Section II - Financial Statement Findings

Finding No.	Finding/Noncompliance	Questioned Costs
2013-1	Internal Control Over Financial Reporting - City Pension Funds	
	Criteria: The City maintains three single employer defined benefit pension plans for its Police, Fire and Non-uniformed Officers and Employees (the "Pension Funds"). The Pension Funds employ an investment advisor, CS McKee; whereas investment activity is transacted by a separate securities brokerage firm, Wells Fargo (formerly Wachovia Securities), which also holds the related pension assets in safekeeping.	
	At December 31, 2013, the three City pension funds collectively held approximately \$77,000,000 in cash and investments, with each fund having significant activity for the year then ended.	
	Condition/Context: While sophisticated investment policies are in place, and the respective pension boards meet periodically with CS McKee and Wells Fargo (formerly Wachovia) to review investment performance, the City does not maintain its Pension Funds on its general ledger system, nor is the activity within these funds reconciled on a monthly basis by an appropriate individual within City Hall. As such, existing internal control is limited with regard to these funds.	
	Effect: City management cannot be assured that its pension funds have been properly valued, credited for investment earnings and that pension fund disbursements are limited to authorize benefit payments and administrative charges.	N/A
	Cause: Management considers its external professionals (broker/safe keeper, external auditor) to be a part of its internal control over financial reporting as related to its Pension Funds.	
	Recommendation: City management should establish separate pension trust funds on its American Fundware general ledger system, and put in place monthly reconciliation procedures whereby investment activity is tracked, recorded and reconciled by an appropriate individual with adequate training in accounting for investments (e.g., recalculation of interest earned on debt securities, verification of dividends paid on equity securities, recalculation of realized gains and losses on sales, recalculation of investment advisory fees, reconciliation of monthly benefits paid to underlying support, etc.).	
	Views of responsible officials and planned corrective actions: See corrective action plan.	

City of Williamsport, Pennsylvania

Schedule of Findings and Questioned Costs

December 31, 2013

Finding No.	Finding/Noncompliance	Questioned Costs
2013-2	Internal Control Over Financial Reporting - Segregation of Duties	
	Criteria: Adequate segregation of duties between accounting functions is essential to good internal control. The absence of segregation of duties and responsibilities generally precludes meaningful internal accounting controls.	
	Condition/Context: The responsibility for the performance of accounting duties surrounding the cash receipts cycle is vested in a limited number of employees.	
	Effect: Without proper segregation of accounting functions, errors or fraud could occur and go undetected.	N/A
	Cause: The City employs a limited number of accounting personnel.	
	Recommendation: While it is advisable to have adequate segregation of duties among employees, the cost of such implementation must be weighed against the benefits to be derived. The cost which would result from increasing the number of employees to more fully segregate duties in your organization may exceed any internal control benefits to be derived. We feel that this internal control weakness is somewhat mitigated by the active involvement of the Budget and Fiscal Officer and Controller in the City's operational activities. You must, however, be aware of the possible impact of the internal control weaknesses which exist and continue to involve these individuals in financial accounting matters.	
	Views of responsible officials and planned corrective actions: See corrective action plan.	

City of Williamsport, Pennsylvania

Schedule of Findings and Questioned Costs
December 31, 2013

Section III - Federal Award Findings and Questioned Costs

None.

City of Williamsport, Pennsylvania

Summary Schedule of Prior Audit Findings
December 31, 2013

Section IV - Summary of Prior Year's Findings and Questioned Costs

Finding No.	Finding/Noncompliance	Questioned Costs
2012-1	Internal control Over Financial Reporting - City Pension Funds Prior year finding 2012-1 is repeated as current year finding 2013-1.	
2012-2	Internal Control Over Financial Reporting - Segregation of Duties Prior year finding 2012-2 is repeated as current year finding 2013-2.	
2012-3	Federal Award Findings and Questioned Costs - Completion and Submission of Annual Single Audit	
Condition/Context:	The City's Single Audit and reporting package was delayed for the year ended December 31, 2012 beyond the 9-month due date.	
Recommendation:	We recommend that the City develop an internal procedure to ensure that the books are closed expediently to enable the preparation and completion of the Single Audit within the appropriate time frame.	
Resolution:	The City filed their Single Audit and reporting package within the 9-month due date for the year ended December 31, 2013.	