

**ANNUAL REPORT
OF THE
CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA**

FOR THE YEAR ENDED DECEMBER 31, 2017

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 12
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	16
Statement of Revenue, Expenditures, and Changes in Fund Balance - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Fiduciary Net Position - Fiduciary Funds	19
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	20
Notes to Financial Statements	21 - 89
REQUIRED SUPPLEMENTARY INFORMATION	
Defined Benefit Pension Plan Information - Schedule of Changes in the Net Pension Liability and Related Ratios	90 - 92
Defined Benefit Pension Plan Information - Schedule of Employer Contributions	93
Defined Benefit Pension Plan Information - Notes to Required Supplementary Information	94
Defined Benefit Postemployment Healthcare Plan	95
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	96
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - Highway Aid Fund	97
Notes to Required Supplementary Information - General Fund and Highway Aid Fund - Budget and Actual	98
SUPPLEMENTARY INFORMATION	
Combining Fund Statements of Primary Government:	
Combining Balance Sheet - Nonmajor Governmental Funds	99
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	100
Combining Statement of Fiduciary Net Position - Pension Trust Funds	101
Combining Statement of Changes in Fiduciary Net Position - Pension Trust Funds	102

C O N T E N T S
(CONTINUED)

	Page
Schedule of Expenditures of Federal Awards	103
Notes to Schedule of Expenditures of Federal Awards	104
Independent Auditor's 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>	105 - 106
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	107 - 108
Schedule of Findings and Questioned Costs	109 - 111
Status of Prior Year's Findings	112

INDEPENDENT AUDITOR'S REPORT

City of Altoona
Mayor and Council Members
City Hall
13th Avenue and 12th Street
Altoona, Pennsylvania 16601

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Altoona, Pennsylvania, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the 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.

Auditor's Responsibility

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

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

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

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Basis for Qualified Opinion on Component Unit

The component units' financial statements were qualified as follows: The Parking Authority of the City of Altoona receives a substantial portion of its revenue consisting of daily rentals and coin collections. It was not practical to satisfy ourselves with respect to such revenues beyond the amounts recorded as received.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on Component Unit* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units of the City of Altoona, Pennsylvania, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units other than The Parking Authority of the City of Altoona, each major fund, and the aggregate remaining fund information of the City of Altoona as of December 31, 2017, and the respective changes in financial position 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, the Defined Benefit Pension Plan information, Defined Benefit Postemployment Healthcare Plan information, and budgetary comparison information on pages 4 to 12 and 90 to 98 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 of Altoona, Pennsylvania's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Other Information (Continued)

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018, on our consideration of the City of Altoona, Pennsylvania'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Altoona, Pennsylvania's internal control over financial reporting and compliance.

Young, Decker, Brown & Company, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Altoona's annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended December 31, 2017. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included.

Financial Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$372,904,568 (*net position*) for the fiscal year reported.
- Total net assets are comprised of the following:
 - (1) Net investment in Capital assets of \$375,224,721 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$9,579,369 are restricted by constraints imposed either (a) externally by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. These restricted net assets are composed of the following:

Capital Expenditures	\$8,003,695
Recreation	225,094
Liquid Fuels	976,583
Shade Tree	27,331
Other Projects	346,666
 - (3) Unrestricted net position represents the portion of net assets available to maintain the City's continuing obligations to citizens and creditors; however, as of December 31, 2017, the City of Altoona had a deficit in unrestricted net position of (\$11,899,522).
- The City's governmental funds reported total ending fund balance of \$25,942,297 this year. This compares to the prior year ending fund balance of \$14,288,735 showing an \$11,653,562 increase during the year. Unassigned fund balance of \$12,947,032 for fiscal year 2017 shows an increase of \$4,932,783 from the prior year.
- At the end of fiscal year 2017, the unassigned fund balance for the General Fund was \$12,947,032.

Overview of the Financial Statements

Management's discussion and analysis introduces the City's basic financial statements. The basic financial statements include the Government-Wide Financial Statements, i.e. the Statement of Net Assets and the Statement of Activities, as well as the Fund Financial Statements, i.e. the Balance Sheet-Governmental Funds, the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, the Statement of Fiduciary Net Assets, and the Statement of Changes in Fiduciary Net Assets-Fiduciary Funds. The City also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the City's net assets changed during fiscal year 2017. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the statement of activities is to show the financial reliance of the City's distinct activities and functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues from business-type activities; however, during 2017, the City operations consisted totally of governmental activities. Governmental activities include general government, public safety, public services, and culture and recreation. Fiduciary activities such as employee pension plans are not included in the government-wide statements since these assets are not available to fund City programs.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

Governmental Funds

Governmental funds are reported in the fund financial statements and encompass basically the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-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 the government-wide statements to assist in understanding the differences between these two perspectives.

The City of Altoona maintains 21 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, the Highway Aid fund, the Act 205 Pension fund, the Capital Expenditures fund, and the Housing and Community Development fund, all of which are considered to be major funds. Data from the other 16 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Altoona maintains no proprietary funds.

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 statement because the resources of those funds are *not* available to support the City of Altoona's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Altoona's progress in funding its obligation to provide pension benefits to its employees. In addition, the City of Altoona adopts an annual appropriated budget for its General fund and Highway Aid fund. Budgetary comparison schedules, another component of *required supplementary information*, have been provided for these funds to demonstrate compliance with this budget.

The combining statements for non-major governmental funds referred to earlier are presented immediately following the required supplementary information on pensions.

Government-wide Financial Analysis

- As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Altoona, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$372,904,568, at the close of fiscal year 2017.

A significant portion of the City of Altoona's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Altoona's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, the other significant portions of the City of Altoona's restricted net assets are reflected below:

Capital Expenditures	\$8,003,695
Recreation	225,094
Liquid Fuels	976,583
Shade Tree	27,331
Other Projects	346,666

CITY OF ALTOONA
Net Assets

**Governmental
Activities**

	2016	2017	% Change
Current and other Assets	\$24,764,134	\$35,422,711	43.04%
Capital Assets	\$89,197,816	\$417,268,008	367.80
Total Assets	\$113,961,950	\$452,690,719	297.23
Deferred Outflows of Resources	\$9,199,855	\$6,783,547	(26.26)
Long-term liabilities outstanding	\$29,075,875	\$70,171,555	141.34
Other Liabilities	\$48,863,023	\$ 8,139,875	(83.34)
Total Liabilities	\$79,624,431	\$78,311,430	(1.65)
Deferred Inflows of Resources	\$ 1,652,081	\$ 8,258,268	399.87
Net Assets:			
Invested in capital assets, net of related debt	\$64,415,712	\$375,224,721	482.50
Restricted	\$3,038,950	\$9,579,369	215.22
Unrestricted	(\$25,569,369)	(\$11,899,522)	53.46
Total Net Assets/Position	\$41,885,293	\$372,904,568	790.30

At the end of fiscal year 2017, the City of Altoona is able to report positive balances in the first two categories of net assets; however, for the unrestricted portion, a deficit of (\$11,899,522) is reported.

Governmental activities. Governmental activities increased the City of Altoona's net assets/net position by \$331,019,275. Key elements of the changes are as follows:

CITY OF ALTOONA
Changes in Net Assets
Governmental Activities
2016 - 2017

	<u>2016</u>	<u>2017</u>	<u>% Change</u>
Revenues:			
Program Revenues:			
Charges for Services	2,863,544	6,937,448	142.27 %
Operating Grants and Contributions	6,084,164	6,888,262	13.22
General Revenues and Transfers:			
Taxes	22,116,485	23,039,288	4.17
Payments In Lieu of Taxes	255,454	280,759	9.91
Other Agreements	3,017,752	0	(100.00)
Land Related to Watershed Protection	0	132,253,550	N/A
Unrestricted Investment Income	171,584	190,096	10.79
Gain (Loss) on Disposal of Assets	1,677	(21,470)	(138.03)
Intra-Entity Transfer	0	223,701,014	N/A
Total Revenues	<u>\$34,510,660</u>	<u>\$393,268,947</u>	1039.56
Expenses:			
General Government	\$3,919,670	\$5,220,876	33.20
Public Safety	20,134,357	18,556,814	(7.84)
Public Works-Highways	7,941,638	27,525,867	246.60
Public Works-Sanitation	0	28,340	N/A
Culture-Recreation	778,961	751,106	(3.58)
Conservation and Development	2,606,598	3,001,180	15.14
Miscellaneous	7,855	14,800	88.42
Water and Wastewater	0	5,950,731	N/A
Interest on Long-Term Debt & Related Items	<u>977,840</u>	<u>1,199,958</u>	22.72
Total Expenses	<u>\$36,366,919</u>	<u>\$62,249,672</u>	71.17
Change in Net Assets/Position	(1,856,259)	\$331,019,275	
Net Assets/Position-Beginning	<u>43,741,552</u>	<u>\$41,885,293</u>	
Net Assets/Position-Ending	<u>\$41,885,293</u>	<u>\$372,904,568</u>	

- Revenue received through charges for services increased significantly from the prior year.
- Tax revenue increased from the amount received during the prior year.
- The reclamation of assets from the Altoona Water Authority had a dramatic and positive effect on net assets in 2017.
- Expenses related to public safety increased slightly over the prior year expenses.
- Public Works-related expenses increased significantly from the prior year.
- The addition of expenses related to water and wastewater had a substantial effect on increasing overall expenditures in 2017.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Altoona'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 financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2017, the City of Altoona's governmental funds reported combined ending fund balances of \$25,942,297, an increase of \$11,653,562 in comparison to the prior year. The unassigned fund balance is \$12,947,032. The remaining portion of the ending fund balance is restricted, and is not available for spending at the City's discretion, because it has already been committed for the following:

Capital Expenditures	\$8,003,695
Retirement Plans	2,534,672
Employees' Future Worker's Compensation Claims	182,802
Recreation	225,094
Prepaid Expenses	302,429
Inventories	395,993
Highway Aid	976,583
Shade Tree	27,331
Other Projects	346,666

The general fund is the chief operating fund of the City of Altoona. At the end of fiscal year 2017, the unassigned fund balance of the general fund was \$12,947,032 while total fund balance of the general fund increased to \$13,855,587. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 42.79% of general fund expenditures, while total fund balance of the general fund represents 45.79% of general fund expenditures.

The fund balance of the City of Altoona's general fund increased by \$3,575,025 during fiscal year 2017. Key factors of this change are as follows:

- Total Revenues increased by \$2,693,990.
- Total Expenditures increased by \$2,345,407
- Transfers in from other funds, primarily from the Act 205 Fund, amounted to \$4,941,470

General Fund Budgetary Highlights

During the year, actual revenues exceeded budgetary estimates by \$437,792, while actual expenditures were below budget by \$727,833.

Capital Asset and Debt Administration

Capital Assets. The City of Altoona's investment in capital assets for its governmental type activities as of December 31, 2017, amounts to \$417,268,008 (net of accumulated depreciation). This investment in capital assets includes land, building and improvements, machinery and equipment, park facilities, roads, highways, and bridges, as well as all assets reclaimed from the Altoona Water Authority.

Major capital asset events for fiscal year 2017 included the following:

- Capital assets acquired during fiscal year 2017 included vehicles for the police department and public works department, as well as a major road resurfacing program.
- Repair and upgrade of City buildings and facilities.
- Machinery and equipment purchases were made for some City departments.
- Assets reclaimed from the Altoona Water Authority

CITY OF ALTONA'S Capital Assets (Net of Depreciation) Governmental Activities

	<u>2016</u>	<u>2017</u>	<u>% Change</u>
Land	4,347,214	136,600,764	3,042.46%
Construction in Progress	260,867	0	(100.00)
Water and Wastewater Projects in Progress	0	1,750,904	N/A
Land Improvements	75,853,837	53,866,456	(28.99)
Buildings and Improvements	8,726,689	7,531,397	(13.70)
Machinery and Equipment	9,209	1,519,108	16,395.91
Water and Wastewater Related Assets	<u>0</u>	<u>215,999,379</u>	N/A
Total	\$89,197,816	417,268,008	367.80

Additional information on the City of Altoona's capital assets can be found in Note II.C on pages 37-38 of this report.

Long-term debt. At the end of fiscal year 2017, the City of Altoona had total General Obligation Bonds and Notes outstanding of \$33,998,186.

CITY OF ALTOONA'S Outstanding Debt General Obligation Bonds and Notes

	<u>2016</u>	<u>2017</u>	<u>% Change</u>
General Obligation Bonds	\$14,630,000	27,674,000	89.16%
General Obligation Notes	10,665,815	6,324,186	(40.71)
Total	\$25,295,815	33,998,186	34.40

The City of Altoona's total long-term debt increased by \$8,702,371 (net) during fiscal year 2017. The reason for this increase is directly related to the issuance of the General Obligation Bonds.

- The City of Altoona's rating from Standard and Poor's is "A" with a stable outlook in relation to general obligation debt.

Economic Factors and Next Year's Budget and Rates

- The City of Altoona has lost population since the 1930's. This trend continues to adversely affect the City's financial condition.
- A Countywide reassessment has led to an increase in Real Estate Tax Revenues. However, the assessed value of real estate within the City of Altoona is otherwise stagnant and this will adversely affect revenues received from the city's Real Estate Tax going forward.
- The City reclaimed assets managed by the Altoona Water Authority. Although this has, and will, increase the City's cash flow, the liabilities associated with maintaining these assets are not entirely known at this time and have the potential to become a financial burden on the City in the future
- The City's designation as a financially distressed municipality under Pennsylvania Act 47, as amended, was rescinded in September 2017. This rescission eliminated the City's ability to collect an additional Earned Income Tax under Act 47. The affects of this have lowered projected revenues from Earned Income tax collection and may adversely affect the City's financial stability going forward.

Requests for Information

Copies of the audit reports of the City's component units are available for review by contacting the Altoona Water Authority's offices at 900 Chestnut Avenue, Altoona, Pennsylvania 16601; Redevelopment Authority of Altoona's offices at 13th Avenue and 12th Street, Altoona, Pennsylvania 16601; and the Parking Authority of the City of Altoona's offices at 1225 Eleventh Avenue, Altoona, Pennsylvania 16601.

This financial report is designed to provide a general overview of the City of Altoona's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Suite 104, 1301 Twelfth Street, Altoona, PA 16601.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)

	PRIMARY GOVERNMENT	COMPONENT UNITS		
	<u>Governmental Activities</u>	<u>Altoona Water Authority</u>	<u>Redevelopment Authority of Altoona</u>	<u>The Parking Authority of the City of Altoona</u>
ASSETS				
Cash and Cash Equivalents	\$ 23,885,395	\$ 1,187,229	\$ 197,719	\$ 65,427
Investments	231,721	3,009,242	0	0
Taxes Receivable	3,948,291	0	0	0
Accounts Receivable	0	3,728,307	0	0
Intergovernmental Receivables	274,259	0	0	0
Intergovernmental Receivable - Component Unit	2,191	0	0	0
Loans Receivable – Current	973,992	0	8,285	0
Other Receivables	190,733	15,956	529	1,662
Prepaid Expenses	302,429	476,123	0	1,698
Inventory	395,993	0	0	0
Loans Receivable – Long-Term	5,217,707	0	121,314	0
Restricted Investment	0	4,514,917	0	0
Right to Use Asset, Net	0	112,668,376	0	0
Capital Assets, Net of Accumulated Depreciation	<u>417,268,008</u>	<u>0</u>	<u>185,474</u>	<u>2,156,600</u>
TOTAL ASSETS	\$452,690,719	\$125,600,150	\$ 513,321	\$2,225,387
Deferred Outflows of Resources				
Deferred Charges:				
Bond Discounts	\$ 162,435	\$ 0	\$ 0	\$ 0
Defined Benefit Pensions	<u>6,621,112</u>	<u>1,526,330</u>	<u>0</u>	<u>0</u>
Total Deferred Outflows of Resources	\$ 6,783,547	\$ 1,526,330	\$ 0	\$ 0
LIABILITIES				
Accounts Payable	\$ 1,162,498	\$ 1,211,479	\$ 5,230	\$ 2,833
Accounts Payable - Primary Government	0	0	0	2,191
Accrued Payroll	287,058	0	0	1,661
Payroll Taxes and Benefits Payable	124,810	0	0	1,531
Accrued Expenses	0	353,388	0	0
Accrued Payroll and Taxes	0	236,925	0	0
Accumulated Compensated Absences	0	0	0	491
Intergovernmental Payable	0	0	25,000	0
Accrued Interest	209,516	0	0	1,047
Deposits Held	80,655	99,009	0	0
Unearned Revenues - Grants	6,275,338	0	0	0
Unearned Revenues - Rent Received in Advance	0	0	1,599	54,412
Noncurrent Liabilities:				
Due Within One Year	2,061,138	8,722,388	0	30,228
Due in More Than One Year	<u>68,110,417</u>	<u>186,287,636</u>	<u>0</u>	<u>44,068</u>
TOTAL LIABILITIES	\$ 78,311,430	\$196,910,825	\$ 31,829	\$ 138,462
Deferred Inflows of Resources				
Defined Benefit Pensions	\$ 8,258,268	\$ 829,998	\$ 0	\$ 0
NET POSITION				
Net Investment in Capital Assets	\$375,224,721	\$ 0	\$ 185,474	\$2,082,304
Restricted for:				
Highway Aid	976,583	0	0	0
Shade Tree	27,331	0	0	0
Capital Expenditures	8,003,695	0	0	0
Recreation	225,094	0	0	0
Other Projects	346,666	0	292,775	0
Water Authority	0	1,268,210	0	0
Unrestricted (Deficit)	<u>(11,899,522)</u>	<u>(71,882,553)</u>	<u>3,243</u>	<u>4,621</u>
TOTAL NET POSITION	\$372,904,568	(\$ 70,614,343)	\$ 481,492	\$2,086,925

See Accompanying Notes and Independent Auditor's Report

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>PROGRAM REVENUES</u> <u>Operating Grants and Contributions</u>
<u>Primary Government</u>			
<u>Governmental Activities</u>			
General Government	\$ 5,220,876	\$ 1,615,613	\$1,755,246
Public Safety (Protection to Persons and Property)	18,556,814	361,833	904,807
Public Works - Sanitation	28,340	2,324	0
Public Works, Highways, Roads, and Streets	27,525,867	543,827	1,649,179
Culture – Recreation	751,106	32,842	0
Conservation and Development	3,001,180	281,009	2,579,030
Water and Wastewater	5,950,731	4,100,000	0
Miscellaneous	14,800	0	0
Interest on Long-Term Debt and Related Expenses	<u>1,199,958</u>	<u>0</u>	<u>0</u>
Total Primary Government	<u>\$62,249,672</u>	<u>\$ 6,937,448</u>	<u>\$6,888,262</u>
<u>Component Units</u>			
Water	\$14,428,293	\$19,841,205	\$ 16,825
Wastewater	11,148,524	11,784,605	0
Redevelopment and Housing	91,931	92,283	0
Parking	<u>259,023</u>	<u>270,999</u>	<u>0</u>
Total Component Units	<u>\$25,927,771</u>	<u>\$31,989,092</u>	<u>\$ 16,825</u>
Total	<u>\$88,177,443</u>	<u>\$38,926,540</u>	<u>\$6,905,087</u>
<u>General Revenues and Transfers</u>			
Taxes			
Payments in Lieu of Taxes			
Land Related to Watershed Protection			
Unrestricted Investment Income			
Gain (Loss) on Disposal of Assets			
Intra-Entity Transfer			
Total General Revenues			
Change in Net Position			
<u>Net Position</u> – Beginning			
<u>Net Position</u> – Ending			

See Accompanying Notes and Independent Auditor's Report

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

----- NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION -----

PRIMARY GOVERNMENT

COMPONENT UNITS

<u>Governmental Activities</u>	<u>Altoona Water Authority</u>	<u>Redevelopment Authority of Altoona</u>	<u>The Parking Authority of the City of Altoona</u>
(\$ 1,850,017)	\$ 0	\$ 0	\$ 0
(17,290,174)	0	0	0
(26,016)	0	0	0
(25,332,861)	0	0	0
(718,264)	0	0	0
(141,141)	0	0	0
(1,850,731)	0	0	0
(14,800)	0	0	0
<u>(1,199,958)</u>	<u>0</u>	<u>0</u>	<u>0</u>
(\$ 48,423,962)	\$ 0	\$ 0	\$ 0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
\$ 0	\$ 5,429,737	\$ 0	\$ 0
0	636,081	0	0
0	0	352	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>11,976</u>
\$ 0	\$ 6,065,818	\$ 352	\$ 11,976
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(\$ 48,423,962)	\$ 6,065,818	\$ 352	\$ 11,976
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
\$ 23,039,288	\$ 0	\$ 0	\$ 0
280,759	0	0	0
132,253,550	0	0	0
190,096	80,223	0	279
(21,470)	45,961	(16,176)	0
<u>223,701,014</u>	<u>(223,701,014)</u>	<u>0</u>	<u>0</u>
\$379,443,237	(\$223,574,830)	(\$ 16,176)	\$ 279
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
\$331,019,275	(\$217,509,012)	(\$ 15,824)	\$ 12,255
<u>41,885,293</u>	<u>146,894,669</u>	<u>497,316</u>	<u>2,074,670</u>
\$372,904,568	(\$ 70,614,343)	\$ 481,492	\$2,086,925
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

See Accompanying Notes and Independent Auditor's Report

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

	<u>General Fund</u>	<u>Highway Aid Fund</u>	<u>Act 205 Pension Fund</u>
<u>ASSETS</u>			
Cash	\$11,920,974	\$1,057,189	\$1,598,167
Investments	0	0	0
Taxes Receivable	3,011,786	0	936,505
Intergovernmental Receivables	75,678	0	0
Loans Receivable - Current	0	0	0
Other Receivables	185,661	5,072	0
Inventory - Highway Yard	395,993	0	0
Due From Other Funds	616,274	0	0
Loans Receivable - Long-Term	0	0	0
Prepaid Expenses	<u>302,429</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$16,508,795	\$1,062,261	\$2,534,672
<u>LIABILITIES</u>			
Accounts Payable	\$ 613,989	\$ 77,526	\$ 0
Accrued Payroll	287,058	0	0
Payroll Taxes and Benefits Payable	124,810	0	0
Accumulated Compensated Absences	98,672	0	0
Due to Other Funds	3,226	8,152	0
Deposits Held	43,407	0	0
Unavailable Revenues - Property Taxes	1,451,383	0	0
Unearned Revenues - Grants	<u>30,663</u>	<u>0</u>	<u>0</u>
Total Liabilities	\$ 2,653,208	\$ 85,678	\$ 0
<u>FUND BALANCE</u>			
Nonspendable: Inventory and Prepaid Expenses	\$ 698,422	\$ 0	\$ 0
Committed for Employees' Future Worker's Compensation Claims	182,802	0	0
Restricted for Retirement Plans	0	0	2,534,672
Restricted for Shade Tree	27,331	0	0
Restricted for Highway Aid	0	976,583	0
Restricted for Capital Expenditures	0	0	0
Assigned for Projects	0	0	0
Assigned for Recreation	0	0	0
Unassigned Fund Balance	<u>12,947,032</u>	<u>0</u>	<u>0</u>
Total Fund Balance	\$13,855,587	\$ 976,583	\$2,534,672
TOTAL LIABILITIES AND FUND BALANCE	\$16,508,795	\$1,062,261	\$2,534,672

See Accompanying Notes and Independent Auditor's Report

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

<u>Capital Expenditures</u>	<u>Housing and Community Development</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$8,692,560	\$ 85,999	\$ 530,506	\$23,885,395
0	0	231,721	231,721
0	0	0	3,948,291
0	200,772	0	276,450
0	973,992	0	973,992
0	0	0	190,733
0	0	0	395,993
0	0	3,226	619,500
0	5,217,707	0	5,217,707
0	0	0	302,429
<u>\$8,692,560</u>	<u>\$6,478,470</u>	<u>\$ 765,453</u>	<u>\$36,042,211</u>
\$ 374,534	\$ 96,186	\$ 263	\$ 1,162,498
0	0	0	287,058
0	0	0	124,810
0	0	0	98,672
314,331	143,291	150,500	619,500
0	37,248	0	80,655
0	0	0	1,451,383
0	6,201,745	42,930	6,275,338
<u>\$ 688,865</u>	<u>\$6,478,470</u>	<u>\$ 193,693</u>	<u>\$10,099,914</u>
\$ 0	\$ 0	\$ 0	\$ 698,422
0	0	0	182,802
0	0	0	2,534,672
0	0	0	27,331
0	0	0	976,583
8,003,695	0	0	8,003,695
0	0	346,666	346,666
0	0	225,094	225,094
0	0	0	12,947,032
<u>\$8,003,695</u>	<u>\$ 0</u>	<u>\$ 571,760</u>	<u>\$25,942,297</u>
<u>\$6,692,560</u>	<u>\$6,478,470</u>	<u>\$ 765,453</u>	<u>\$36,042,211</u>

See Accompanying Notes and Independent Auditor's Report

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

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

Total Fund Balances	\$ 25,942,297
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	417,268,008
Other long-term assets are not available to pay for current period expenditures, and, are therefore, deferred or not recorded in the funds:	
Property Tax Receivable	1,451,383
Deferred charges related to bonds discounts are not reflected in the funds because they are measured on the accrual basis.	162,435
Deferred outflows/(inflows) of resources related to the defined benefit pension plans are not reflected in the funds because they are measured on the accrual basis. The effect is	(1,637,156)
The net pension liability is not due and payable in the current period, and, therefore, are not reported in the funds.	(25,361,924)
Certain liabilities are not due and payable currently, and, therefore, are not reported in the funds:	
Other Postretirement Benefits	(6,868,383)
Accrued Interest on Long-Term Debt	(209,516)
Long-Term Notes and Bonds Payable	(33,998,186)
Long-Term Capital Lease Obligation	(41,406)
Long-Term Portion of Vacation and Sick Payable	(3,226,059)
Long-Term Portion of Workers' Compensation Payable	(576,925)
Net Position of Governmental Activities	<u>\$372,904,568</u>

See Accompanying Notes and Independent Auditor's Report

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)

	<u>General Fund</u>	<u>Highway Aid Fund</u>	<u>Act 205 Pension Fund</u>
Revenue			
Taxes	\$18,249,869	\$ 0	\$4,805,626
Licenses and Permits	1,588,656	0	0
Investment Earnings, Rents, and Royalties	181,549	4,961	1,958
Intergovernmental Revenue	3,975,423	1,435,622	0
Fines and Forfeits	198,655	0	0
Charges for Services (Departmental Earnings)	4,667,947	0	0
Miscellaneous Revenue	<u>5,722</u>	<u>20,502</u>	<u>0</u>
Total Revenue	<u>\$28,867,821</u>	<u>\$1,461,085</u>	<u>\$4,807,584</u>
Expenditures			
Current Expenditures			
General Government	\$ 4,473,343	\$ 0	\$ 144,169
Public Safety (Protection to Persons and Property)	18,020,258	0	0
Public Works - Sanitation	28,340	0	0
Public Works - Highways, Roads, and Streets	2,752,374	551,695	0
Culture - Recreation	312,379	0	0
Conservation and Development	1,055,636	0	0
Miscellaneous Expenditures or Expenses	11,088	0	0
Capital Expenditures			
General Government	374,574	0	0
Public Safety	357,879	0	0
Public Works - Highways, Roads, and Streets	197,867	185,086	0
Culture - Recreation	11,154	0	0
Conservation and Development	0	0	0
Debt Service			
Debt Service - Principal	2,002,675	0	0
Debt Service - Interest	658,267	0	0
Bond Issuance Costs	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$30,255,834</u>	<u>\$ 736,781</u>	<u>\$ 144,169</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(\$ 1,388,013)</u>	<u>\$ 724,304</u>	<u>\$4,663,415</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	\$ 16,699	\$ 0	\$ 0
Transfer In	4,941,470	0	0
Transfer Out	(33,046)	(456,700)	(4,481,962)
Proceeds from Borrowings	0	0	0
Proceeds from Capital Lease	37,915	0	0
Payments to Refunded Bond Escrow Agent	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>\$ 4,963,038</u>	<u>(\$ 456,700)</u>	<u>(\$4,481,962)</u>
Excess (Deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 3,575,025</u>	<u>\$ 267,604</u>	<u>\$ 181,453</u>
Fund Balance - Beginning	<u>\$10,280,562</u>	<u>\$ 708,979</u>	<u>\$2,353,219</u>
Fund Balance - Ending	<u>\$13,855,587</u>	<u>\$ 976,583</u>	<u>\$2,534,672</u>

See Accompanying Notes and Independent Auditor's Report

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

<u>Capital Expenditures</u>	<u>Housing and Community Development</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 0	\$ 0	\$ 0	\$23,055,495
0	0	0	1,588,656
7,950	281,009	33,906	511,333
0	1,750,057	7,918	7,169,020
0	0	0	198,655
0	0	134,729	4,802,676
0	0	0	26,224
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
\$ 7,950	\$2,031,066	\$ 176,553	\$37,352,059
<u>7,950</u>	<u>2,031,066</u>	<u>176,553</u>	<u>37,352,059</u>
\$ 71,994	\$ 0	\$ 3,407	\$ 4,692,913
108,320	0	30,131	18,158,709
0	0	0	28,340
18,644	0	0	3,322,713
6,680	0	8,468	327,527
2,500	1,743,578	0	2,801,714
0	0	3,712	14,800
80,676	0	0	455,250
730,906	0	5,110	1,093,895
1,706,236	0	0	2,089,189
19,381	0	0	30,535
0	287,488	0	287,488
0	0	0	2,002,675
0	0	0	658,267
<u>73,850</u>	<u>0</u>	<u>0</u>	<u>73,850</u>
\$ 2,819,187	\$2,031,066	\$ 50,828	\$36,037,865
<u>2,819,187</u>	<u>2,031,066</u>	<u>50,828</u>	<u>36,037,865</u>
(\$ 2,811,237)	\$ 0	\$ 125,725	\$ 1,314,194
<u>2,811,237</u>	<u>0</u>	<u>125,725</u>	<u>1,314,194</u>
\$ 4,371	\$ 0	\$ 0	\$ 21,070
46	0	33,000	4,974,516
0	0	(2,808)	(4,974,516)
12,452,116	0	0	12,452,116
0	0	0	37,915
<u>(2,171,733)</u>	<u>0</u>	<u>0</u>	<u>(2,171,733)</u>
\$10,284,800	\$ 0	\$ 30,192	\$10,339,368
<u>10,284,800</u>	<u>0</u>	<u>30,192</u>	<u>10,339,368</u>
\$ 7,473,563	\$ 0	\$ 155,917	\$11,653,562
<u>7,473,563</u>	<u>0</u>	<u>155,917</u>	<u>11,653,562</u>
\$ 530,132	\$ 0	\$ 415,843	\$14,288,735
<u>530,132</u>	<u>0</u>	<u>415,843</u>	<u>14,288,735</u>
\$ 8,003,695	\$ 0	\$ 571,760	\$25,942,297
<u>8,003,695</u>	<u>0</u>	<u>571,760</u>	<u>25,942,297</u>

See Accompanying Notes and Independent Auditor's Report

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

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

Net Change in Fund Balances – Total Governmental Funds	\$ 11,653,562
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which depreciation exceeded capital outlays in the current period.	(27,841,832)
Certain gains/losses related to disposal of capital assets have been reduced by the basis of these assets.	(42,540)
Intra-Entity Transfers of Capital Assets do not affect governmental funds. In addition, value of land related to watershed protection recognized for the first time did not impact the funds.	355,954,564
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Net change during the period is a decrease for property tax revenue.	(16,207)
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Accrued Interest on Bonds (Net Change)	70,526
Accrued Vacation and Sick Pay (Net Change)	(122,162)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither has any effect on net position. Also, governmental funds report the effect of premium and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these items:	
Proceeds from Capital Lease	(37,915)
Repayment on Capital Lease Obligation	12,930
Proceeds from Notes Issued	(12,452,116)
Repayment of Bonded Debt/Notes	4,109,745
Amortization of Discounts	(486,634)
The reduction in pension expense associated with the defined benefit plans that do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	1,525,559
The additional other postemployment benefit expense associated with the defined benefit plans that do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(<u>1,308,205</u>)
Change in Net Position of Governmental Activities	<u>\$331,019,275</u>

See Accompanying Notes and Independent Auditor's Report

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)

	<u>Pension Trust Funds</u>
<u>ASSETS</u>	
Investments	\$99,342,481 <hr/>
<u>LIABILITIES</u>	
	\$ 0 <hr/>
<u>NET POSITION</u>	
Held in Trust for Pension Benefits	\$99,342,481 <hr/>

See Accompanying Notes and Independent Auditor's Report

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)

	<u>Pension Trust Funds</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 5,803,235
Plan Members	<u>645,072</u>
Total Contributions	<u>\$ 6,448,307</u>
Investment Income:	
Net Realized and Unrealized Gains	\$ 8,909,719
Interest and Dividend Income	<u>4,051,278</u>
Total Investment Income	\$12,960,997
Less: Investment Expense	(<u>235,247</u>)
Net Investment Income	<u>\$12,725,750</u>
Total Additions	<u>\$19,174,057</u>
<u>Deductions</u>	
Benefits	\$ 7,112,469
Administrative Expenses	<u>28,215</u>
Total Deductions	<u>\$ 7,140,684</u>
Net Increase	\$12,033,373
<u>Net Position Being Held in Trust for Pension Benefits</u> – Beginning of Year	<u>87,309,108</u>
<u>Net Position Being Held in Trust for Pension Benefits</u> – End of Year	<u>\$99,342,481</u>

See Accompanying Notes and Independent Auditor's Report

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

I. Summary of Significant Accounting Policies

A. Description of Government-Wide 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. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately in the government-wide financial statements. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

The City of Altoona (the "City"), which is located in Blair County, Pennsylvania, was incorporated in 1868 under the provisions of the Commonwealth of Pennsylvania. In May 2012, the City was designated a distressed municipality under the Commonwealth of Pennsylvania's Act 47 Financial Recovery Program. Act 47 provides for the restructuring of debt; enhances the City's ability to obtain government funding; and other provisions to relieve financial distress. In December 2012, the City adopted a Recovery Plan designed to assist the City in its ongoing struggle with fiscal distress. On September 13, 2017, the City came out of Act 47 status. The City of Altoona is a third-class Pennsylvania City organized under a council-manager form of government in which the seven-member council, including the mayor, are elected officials. City council appoints the city manager, who in turn, appoints department heads. The City council on behalf of the City makes policy decisions, borrows money, levies local taxes, and authorizes expenditures in accordance with the third-class city code of the Commonwealth of Pennsylvania. In addition, the City provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units, none of which exists for the City, would be combined with data of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a December 31 year-end.

Discretely Presented Component Unit

The Altoona Water Authority is responsible for operating the water and sewer systems of the City of Altoona. The members of the Authority's board are appointed by the City. The City is financially accountable for the Authority, considering the significance of its operational and financial relationship with the City.

The Redevelopment Authority of Altoona is responsible for implementing urban renewal initiatives, eliminating blight, and assisting in economic development. The members of the Authority's board are appointed by the City. The City, with respect to the Authority, has the ability to impose its will and incur a financial burden.

The Parking Authority of the City of Altoona is responsible for managing the City's public parking. The City appoints the Authority's board. The Authority is fiscally dependent upon the City because the City has provided advances for debt service and guarantees the Authority's bond issue.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

I. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit (Continued)

Complete financial statements for each component unit may be obtained at the entities' administrative office.

Altoona Water Authority 900 Chestnut Avenue Altoona, Pennsylvania 16601	Redevelopment Authority of Altoona City Hall 13 th Avenue and 12 th Street Altoona, Pennsylvania 16601	The Parking Authority of the City of Altoona 1225 11 th Avenue Altoona, Pennsylvania 16601
---	---	---

For purposes of these financial statements, it is the policy of the City not to eliminate transactions between the City and its component units.

C. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the government has two discretely presented component units. While neither the Redevelopment Authority of Altoona nor the Parking Authority of the City of Altoona are considered to be a major component unit, they are nevertheless shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions between the City and its component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds

The City reports the following major governmental funds:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those accounted for in another fund.
- The *Highway Aid Fund* is used to account for financial resources received for the Commonwealth of Pennsylvania's Department of Transportation's Liquid Fuels Taxes from the State's Motor License Fund, which must be used on the roads and streets for which the City is responsible.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

Governmental Funds (Continued)

- The *Act 205 Pension Fund* is used to account for the portion of the earned income tax which accumulates resources to provide for the payment of pension expenses.
- The *Capital Projects Fund* accounts for financial resources used to acquire or construct major capital facilities.
- The *Community Development Block Grant Fund* is used to account for funds received from the U.S. Department of Housing and Urban Development to develop viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low or moderate income.

Fiduciary Fund Types

Additionally, the City reports the following fund type:

- The *pension trust funds* report fiduciary resources held in trust and the receipt, investment, and distribution of retirement contributions.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being *measured such as current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

The 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, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The pension benefit trust *funds are reported using the economic resources measurement focus and the accrual basis of accounting.*

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City maintains a cash and investment pool that is available for use by the general and capital expenditures fund. Each fund's portion of this pool is displayed on the combined balance sheet as cash. Deposits are stated at cost. Cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Insurance Trust (PLGIT).

2. Investments

Investments are separately held by several of the City's funds. Investments are reported at fair value. Changes in the fair value of investments are recorded as investment income. Cash deposits are reported at carrying amounts which approximate fair values.

3. Inventories and Prepaid Items

Inventories consist of items used at the Highway Yard and are valued at cost, using the first-in, first-out (FIFO) method. The cost of such inventories is recorded as expenditures when consumed rather than when purchased.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

I. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont.)

3. Inventories and Prepaid Items (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements for the Parking Authority of the City of Altoona. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets with useful lives of more than one year, which include land, land improvements, buildings, building improvements, computer hardware, office furniture and equipment, other equipment, and vehicles are reported in the government-wide financial statements. The City defines capital assets as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

In 2005, dollar thresholds changed and various asset classes were valued and depreciated in accordance with the following chart:

GASB 34 Asset Class	Examples	Estimated Useful Life	Dollar Threshold
Land		N/A Non-depreciable	\$ 3,000
Land Improvements	Parking lots, curbs, sidewalks	15 - 20 years	\$10,000
Buildings	HVAC, electrical, capitalized interest	30 - 40 years	\$10,000
Building/Leasehold Improvements	Renovations, major repairs	30 - 40 years	\$10,000
Computer Hardware	PC's, printers, network hardware	3 years	\$ 3,000
Office Furniture	Office furniture, appliances	10 years	\$ 3,000
Office Equipment	Fax, copiers, telephone system	5 years	\$ 3,000
Vehicles	Autos, trucks	5 years	\$ 3,000

In order to comply with GASB 34 requirements, all infrastructure assets were inventoried and assigned a dollar threshold and useful life during calendar year 2007. Therefore, beginning in year 2007, the various infrastructure asset classes were valued and depreciated in accordance with the following chart:

GASB 34 Infrastructure Asset Class	Examples	Estimated Useful Life	Dollar Threshold
Roads	Streets and Avenues	20 years	\$ 5,000/Mile
Bridges and Culverts	Eighth Street Bridge	50 years	\$20,000/Project
Storm Sewers	Storm Sewers	40 years	\$20,000/Project
Signs	Stop Sign, Speed Limit Sign	10 years	\$10,000 Project
Street Lights	Street Light	25 years	\$ 5,000/Project
Traffic Signals	Traffic Signal	20 years	\$ 5,000/Project
Handicap Ramps	Handicap Ramp	50 years	\$ 5,000/Project
Guiderail	Guiderail	50 years	\$ 5,000/Project

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont.)

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category. The first represents unamortized discounts on bonds, which will be amortized through September 1, 2033. The second represents the differences between expected and actual experience related to defined benefit pension plans, which will be amortized through 2022; changes in assumptions related to defined benefit pension plans, which will be amortized through 2020; the third represents the net difference between projected and actual earnings on defined pension plan investments, which will be amortized through 2019.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has two items, which arises only under the accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, which represents differences between expected and actual experience of the defined benefit pension plans and will be amortized through 2021; and net difference between projected and actual earnings on defined pension plan investments, which will be amortized through 2034 and are not reported in the governmental funds balance sheet.

6. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

7. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont.)

7. Fund Balance Flow Assumptions (Continued)

depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by Mayor and Council policy (e.g., encumbrances or future anticipated costs). The governing council is the highest level of decision-making authority for the government that can, prior to the end of the fiscal year, commit fund balance. Once committed, the limitation imposed by the policy remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The mayor and council assign fund balance. The mayor and council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - amounts that cannot be spent because they are in a nonspendable form (e.g., inventory or prepaid expenses) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

Restricted - amounts limited by external parties or legislation (e.g., grants or donations).

Committed - amounts limited by the Mayor and Council policy (e.g., encumbrances or future anticipated costs).

Assigned - amounts that are intended for a particular purpose, such as a rate stabilization fund or segregation of an amount intended to be used at some time in the future.

Unassigned - amounts available for consumption or not restricted in any manner.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont.)

8. Fund Balance Policies (Continued)

Management ensures that fund balance reporting be consistent with Governmental Accounting Standards Board (GASB) statements.

All references to fund balance shall be assumed to be unrestricted, undesignated, and unassigned unless specifically stated otherwise.

The responsibility for designating fund to specific classifications shall be as follows:

1. Nonspendable - shall be assigned by the finance director.
2. Restricted - shall be assigned by the finance director.
3. Committed - shall be assigned by the Mayor and Council.
4. Assigned - shall be assigned by the Mayor and Council.

Management shall be responsible for the enforcement of this policy.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied as of January 1 on land property values assessed on the same date. The tax levy was billed in March 2017.

A levy of 5.129 mills was made for general expenses. A 2% discount is given to taxpayers if paid by April 30. The face amount of the taxes are then due until June 30; and thereafter, a 10% penalty is charged on the taxes.

Taxes not collected by the tax collector by December 31, 2017 are returned to the Blair County Tax Claim Bureau for collection.

In the governmental fund financial statements, property taxes receivable are recorded at year-end. These receivables represent delinquent taxes. Any delinquent taxes not paid within 60 days after year-end are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due to the City regardless of when cash is received. Over time, substantially all property taxes are collected.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

I. **Summary of Significant Accounting Policies** (Continued)

G. **Revenues and Expenditures/Expenses** (Continued)

3. **Intergovernmental Receivables and Unavailable Revenue**

Intergovernmental receivables are comprised of amounts due from other governments. Revenue is recorded as earned when eligibility requirements are met. Revenue received prior to meeting all eligibility requirements are considered unavailable until such time as the eligibility requirements are met.

4. **Compensated Absences**

It is the City's policy to permit employees to accumulate a limited amount of earned but unused sick leave. Sick leave is accumulated continuously for full-time employees at rates determined by contracts to a maximum specified in these contracts. Police are paid for 50% of the accumulated sick leave upon retirement or termination up to 250 days, and firemen are paid for 40% of the accumulated sick leave upon retirement or termination up to 175 days.

AFSCME non-uniformed employees may accumulate their unused sick leave up to a maximum of 120 days. When these employees retire, they shall be paid for their accumulated unused sick leave in accordance with the schedule below:

<u>Days Available at Retirement</u>	<u>Percentage Buyout</u>
51 - 100	40%
101 - 175	50%
176 - 250	60%

AFSCME School Crossing Guard employees may accumulate their unused sick leave up to a maximum of 200 days. When these employees retire with at least 15 years of service they shall be paid for their accumulated unused sick leave in accordance with the schedule below:

<u>Days Available at Retirement</u>	<u>Percentage Buyout</u>
0 - 100	30%
101 and above	50%

Full-time employees have various days of vacation leave per year dependent upon employment classification and length of service. Vacation leave may be carried beyond the leave year of January 1 to December 31 only with the City Manager's approval. In the government-wide financial statements, the cost of vacation and sick leave is recognized when incurred. In governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

G. Revenues and Expenditures/Expenses (Continued)

4. Compensated Absences (Continued)

Employees who subsequently accumulate over 120 days will receive an annual sick leave incentive bonus, as follows:

<u>Number of Full Days</u>	<u>Percentage of Pay Buyout</u>
0 - 5	10% of pay rate for each day
6 - 10	30% of pay rate for each day
11 - 15	50% of pay rate for each day

As of December 31, 2013, any employee who had a maximum accumulation for sick and vacation leave exceeding the stated maximum specified within the Fire, Police, and AFSCME contracts were entitled to maintain those total number of days accumulated.

II. Detailed Notes on All Activities and Funds

A. Cash and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy permits assets pledged as collateral to be pooled in accordance with Act 72, relating to pledges of assets to secure deposits of public funds, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). The City encourages the purchase and sale of securities and certificates of deposit through a competitive and negotiated process involving telephone solicitation of at least three bids for each transaction. **Custodial credit risk** for deposits is not formally addressed by pension trust policies.

Deposits of the City's reporting entity are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City or applicable public trust. At year end, the City's carrying amount of bank deposits was \$23,885,395 and the bank balance was \$24,110,122. Of the bank balance, \$990,235 was covered by federal depository insurance and \$15,735,364 was covered by collateral held in the pledging bank's trust department, but not in the City's name. In addition, \$7,384,523 of the bank balance and book balance was invested in an external investment pools from which the City purchased a prorata share of all investments and deposits, which are held in the name of the fund, which is considered to be a cash equivalent by the City.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

A. Cash and Investments (Continued)

Investments

As of December 31, 2017, the City's reporting entity had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Months to Maturity (2)</u>
<u>Primary Government</u>				
Non-Pooled Investments:				
Cash and Cash Equivalents	\$ 6,383	\$ 6,383	N/A	N/A
Taxable Fixed Income Funds	67,914	68,185	(3)	(3)
Domestic Equity Mutual Funds	83,376	73,852	N/A	N/A
Closed End Equity Mutual Fund	24,227	21,164	N/A	N/A
International Funds	27,264	21,735	N/A	N/A
International Closed-End Equity Mutual Fund	22,517	18,866	N/A	N/A
Accrued Interest	<u>40</u>	<u>40</u>	N/A	N/A
 Total Primary Government Investments (non-fiduciary)	 \$ 231,721	 \$ 210,225		
<u>Fiduciary Funds</u>				
Cash and Cash Equivalents	\$ 176,620	\$ 176,620	N/A	N/A
Open-End Mutual Fund	96,840,592	91,747,982	(3)	(3)
Unclassified	<u>2,325,269</u>	<u>2,325,269</u>	N/A	(3)
 Total Fiduciary Investments	 <u>\$99,342,481</u>	 <u>\$94,249,871</u>		

Fair Value is determined by comparison to readily available market prices.

- (1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.
- (2) **Interest Rate Risk** is estimated using either duration or weighted average months to maturity depending on the respective policy. Amounts are shown in months except as otherwise noted. The City manages its exposure to decline in fair value by limiting maturity of Certificates of Deposit to original maturity of one year.
- (3) Information unavailable.

Investments Policies

Investment policies for the City's reporting entity are maintained by the City's Chief Finance Officer. Summarizations follow in subsequent sections of this Note.

City Policy

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City's Chief Finance Officer, except for the Martin Goodman Trust for which greater flexibility in investments exists in comparison to the following information. Investing is performed in accordance with investment policies adopted by the City Council complying with State Statutes and the City Charter. City funds may be invested in: (1) United States Treasury bills; (2) short-term obligations of the United States Government or its agencies or instrumentalities; (3) deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or Federal Savings & Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund or

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

A. Cash and Investments (Continued)

City Policy (Continued)

their successor agencies; (4) obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision; (5) shares of an investment company registered under the Investment Company Act of 1940, whose share are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for Municipal funds listed in (1) through (4); (6) certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. For deposits in savings accounts, time deposits, share accounts, or certificates of deposit the City's policy requires that any amount above the insured maximum be collateralized by a pledge or assignment of assets of the institution.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. **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 in the possession of an outside party. Interest Rate Risk and Custodial Credit Risk are not addressed by the City's investment policy.

Pension Trust Policy

The City's three pension trusts are the City of Altoona Non-Uniformed Employees' Pension Plan, the Firefighter's Pension Fund of the City of Altoona, and the Altoona Police Pension Fund Association. The Council of the City of Altoona is authorized to hold and supervise the investment of the assets of the Non-Uniformed Employees' Pension Plan. Funds in the Non-Uniformed Plan may be invested in securities which are at the time legal investments for fiduciaries under the Pennsylvania Fiduciaries Investment Act or funds may be placed in a deposit bank. The Firefighter's Pension Fund plan authorized the Board of Managers to make investment decisions on its own or to retain an investment counselor or broker. Firefighter's Pension Fund Plan funds are to be invested as authorized under Chapter 73 of the *Probate Estates and Fiduciaries Code Laws of 1972*, Act No. 164, effective July 1, 1972, as amended. The Police Pension Fund Board has full charge and management of all matters pertaining to investment of the Altoona Police Pension Fund. The Police plan does not specify authorized types of investments.

Credit Risk, Interest Rate Risk, Concentration of Credit Risk, and Custodial Credit Risk are not addressed by the pension trust policies.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

A. Cash and Investments (Continued)

Component Unit - Cash and Investments

Altoona Water Authority

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

The Commonwealth of Pennsylvania recognizes this risk. Under its Act 72, deposits of public funds (in excess of FDIC insurance) held by banks must be collateralized. Banks must place on deposit with a third-party (usually a Federal Reserve Bank) securities with an aggregate market value in excess of all of its uninsured balances. The Authority requires this protection for its funds.

Cash

The table below presents the Authority's deposit risk classifications:

Cash Deposits - Bank Balances

Water Division	\$ 31,550
Wastewater Division	<u>1,143,161</u>
Total	<u>\$1,174,711</u>
FDIC Insured or Collateralized	\$ 500,000
Secured under Pennsylvania Act 72	<u>674,711</u>
Total	<u>\$1,174,711</u>

Investments

Under State Law and its Trust Indenture(s), the Authority is permitted to invest in U.S. Treasury Bills, short-term U.S. Government or agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States, or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities obligations of any state of the United States, or any of its agencies or instrumentalities, commercial paper rated, on the date of acquisition, in one of the two highest categories, and written repurchase agreements.

The Authority is also permitted to invest in mutual funds including those offered through the Pennsylvania Local Government Investment Trust (PLGIT) which are subject to the same types of restrictions described above relating to investments by governments in general.

The table below presents the Authority's investment risk classification, as described above.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

A. Cash and Investments (Continued)

Component Unit - Cash and Investments (Continued)

Altoona Water Authority (Continued)

Investments (Continued)

PLGIT Accounts

Water Division	\$ 6,620
Wastewater Division	1,679

Other - Collateralized Under Act 72

Water Division	1,658,852
Wastewater Division	<u>1,342,091</u>

\$3,009,242

Totals

Water Division	\$1,665,472
Wastewater Division	<u>1,343,770</u>

\$3,009,242

Market Value

Water Division	\$1,665,472
Wastewater Division	<u>1,343,770</u>

\$3,009,242

Restricted Assets

Under the terms of its Trust Indentures securing various issues of its Water Revenue Bonds, the Authority has assets on deposit with the trustee, the use of which is restricted to certain purposes. The investment/credit risk associated with these deposits is shown below.

U.S. Government and Agency Obligations

Water Division	\$1,268,210
Wastewater Division	<u>3,246,707</u>

\$4,514,917

Totals

Water Division	\$1,268,210
Wastewater Division	<u>3,246,707</u>

\$4,514,917

Market Value

Water Division	\$1,268,210
Wastewater Division	<u>3,246,707</u>

\$4,514,917

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

A. Cash and Investments (Continued)

Component Unit - Cash and Investments (Continued)

Redevelopment Authority of Altoona

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party.

The deposit and investments of the Authority adhere to state statutes. Deposits of the governmental funds are maintained in demand deposits.

Deposits of the Authority's reporting entity are insured or collateralized with securities held by the Authority, its agent, or by the pledging financial institution's trust department or agent in the name of the Redevelopment Authority of Altoona.

At year end, the carrying amount of the government's deposits was \$197,719 and the bank balance was \$198,773. All of the bank balance was covered by federal depository insurance.

Investments

At year end, the Redevelopment Authority of Altoona had no investments.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Authority's investing activities are managed under the custody of the Board of Directors. Investing is performed in accordance with state statutes.

Pennsylvania statutes provide for investment of governmental funds into 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 investment purposes.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. **Concentration of credit risk** is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Redevelopment Authority of Altoona will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

A. Cash and Investments (Continued)

Component Unit - Cash and Investments (Continued)

The Parking Authority of the City of Altoona

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party.

The deposit and investments of the Authority adhere to state statutes. Deposits of the fund are maintained in demand deposits.

Deposits of the Authority's reporting entity are insured or collateralized with securities held by the Authority, its agent, or by the pledging financial institution's trust department or agent in the name of the Authority.

At year end, the carrying amount of the government's deposits was \$65,427 and the bank balance was \$64,750. Of the bank balance, all was covered by federal depository insurance.

Investments

As of December 31, 2017, the Parking Authority of the City of Altoona had no investments.

The Authority has not formally adopted deposit and investment policies that limit its allowable deposits or investments and address specific types of risk to which it is exposed.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Authority's investing activities are managed under the custody of the Board of Directors. Investing is performed in accordance with state statutes.

Pennsylvania statutes provide for investment of governmental funds into 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 investment purposes.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. **Concentration of credit risk** is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

B. Receivables

Receivables and Uncollectible Accounts

Significant receivables include amounts due from businesses, landlords, and homeowners who have received loans from the City's Housing and Community Development fund. Once these loans are made, repayment terms are established. Because the City places liens against the property generating the receivable, it is the City's policy to use the direct write-off method for bad debts, which generally is not materially different from the allowance method.

In the General Fund, significant receivables represent moneys due related to the TV Cable franchise fees; a payment in lieu of taxes; and street cuts. Other less significant receivables represent amounts due from licenses, district justices, and other miscellaneous sources. Because most of these material amounts are received in a timely manner, it is the City's policy to use the direct write-off method for bad debts, which generally is not materially different from the allowance method.

In the Highway Aid Fund, other receivables represents amount owed to the City from damage caused by motorists. Because most of these motorists are insured and the fact that the City police are involved, it is the City's policy to use the direct write-off method for bad debts, which generally is not materially different from the allowance method.

C. Capital Assets

Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>					
Capital Assets, not being depreciated:					
Land	\$ 4,347,214	\$132,253,550	\$ 0	\$ 0	\$136,600,764
Projects in Progress	260,867	0	0	(260,867)	0
Water and Wastewater Projects in Progress	0	0	0	1,750,904	1,750,904
Total Capital Assets, Not Being Depreciated	\$ 4,608,081	\$132,253,550	\$ 0	\$ 1,490,037	\$138,351,668
Capital Assets, being depreciated:					
Land Improvements	\$199,456,399	\$ 2,047,149	\$ 0	\$ 260,867	\$201,764,415
Buildings and Improvements	15,584,220	60,286	0	0	15,644,506
Machinery and Equipment	15,883,351	1,848,922	(313,694)	0	17,418,579
Water and Wastewater Related Assets	0	0	0	349,707,576	349,707,576
Total Capital Assets, Being Depreciated	\$230,923,970	\$ 3,956,357	(\$313,694)	\$349,968,443	\$584,535,076
Accumulated Depreciation for:					
Land Improvements	\$123,802,562	\$ 24,295,397	\$ 0	\$ 0	\$147,897,959
Building and Improvements	8,857,531	1,255,578	0	0	8,113,109
Machinery and Equipment	15,874,142	296,483	(271,154)	0	15,899,471
Water and Wastewater Related Assets	0	5,950,731	0	127,757,466	133,708,197
Total Accumulated Depreciation	\$146,334,235	\$ 31,798,189	(\$271,154)	\$127,757,466	\$305,818,736
Total Capital Assets, Being Depreciated, Net	\$ 84,589,735	(\$ 27,841,832)	(\$ 42,540)	\$222,210,977	\$278,916,340
Governmental Activities, Capital Assets, Net	\$ 89,197,816	\$104,411,718	(\$ 42,540)	\$223,701,014	\$417,268,008

The \$223,701,014 net transfer represents an intra-entity transfer of capital assets from the Altoona Water Authority. In addition, the increase in land reflects various City-owned parcels outside the City's limits, used primarily for watershed protection.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities

General Government	\$ 608,508
Public Safety	451,211
Public Works - Highways, Roads, and Streets	24,160,558
Culture and Recreation	423,579
Conservation and Development	203,602
Water and Wastewater	<u>5,950,731</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$31,798,189</u>

Due to the implementation of the City's new software system, management decided to remove the book value of certain assets with remaining residual value, which resulted in an additional depreciation expense of \$21,759,711.

Component Units

Altoona Water Authority

Changes in Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2017 are as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Water Division</u>				
Land	\$ 898,622	\$ 0	\$ 898,622	\$0
Machinery and Equipment	5,664,059	28,315	5,692,374	0
Plant and Improvements	<u>156,550,731</u>	<u>745,478</u>	<u>157,296,209</u>	<u>0</u>
Total	<u>\$163,113,412</u>	<u>\$ 773,793</u>	<u>\$163,887,205</u>	<u>\$0</u>
Less: Accumulated Depreciation				
Machinery and Equipment	\$ 3,871,430	\$ 70,738	\$ 3,942,168	\$0
Plant and Improvements	<u>59,247,057</u>	<u>762,166</u>	<u>60,009,223</u>	<u>0</u>
Total Accumulated Depreciation	<u>\$ 63,118,487</u>	<u>\$ 832,904</u>	<u>\$ 63,951,391</u>	<u>\$0</u>
Net Water Division	<u>\$ 99,994,925</u>	<u>(\$ 59,111)</u>	<u>\$ 99,935,814</u>	<u>\$0</u>
<u>Wastewater Division</u>				
Land and Right of Ways	\$ 200,404	\$ 0	\$ 200,404	\$0
Sewer Plant and Renewals	181,521,804	28,752	181,550,556	0
Vehicles	1,141,016	74,399	1,215,415	0
Equipment	<u>2,834,733</u>	<u>0</u>	<u>2,834,733</u>	<u>0</u>
Total	<u>\$185,697,957</u>	<u>\$ 103,151</u>	<u>\$185,801,108</u>	<u>\$0</u>
Less: Accumulated Depreciation				
Sewer Plant and Renewals	\$ 59,966,571	\$1,090,904	\$ 61,057,475	\$0
Vehicles	925,169	18,837	944,006	0
Equipment	<u>2,259,384</u>	<u>24,286</u>	<u>2,283,670</u>	<u>0</u>
Total Accumulated Depreciation	<u>\$ 63,151,124</u>	<u>\$1,134,027</u>	<u>\$ 64,285,151</u>	<u>\$0</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets (Continued)

Component Units (Continued)

Altoona Water Authority (Continued)

Changes in Capital Asset (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Net Wastewater Division	\$122,546,833	(\$1,030,876)	\$121,515,957	\$0
Authority Totals	\$222,541,758	(\$1,089,987)	\$221,451,771	\$0

Right to Use Asset Under Leases and Related Liability

On March 23, 2017 the Authority entered into a series of agreements with the City of Altoona (the "City"). Pursuant to the Water and Sewer System Asset Conveyance Agreement, deeds were signed to convey all the Authority's right, title, and interest to all the real property assets of its water system ("Water") and sewer system ("Sewer") to the City. Accordingly, the Authority expensed this contribution of its assets as shown on the Statement of Revenues, Expenses, and Changes in Net Position. The net book value of the assets contributed was \$101,393,335 and \$122,307,679 for the Water and Sewer systems, respectively.

Concurrently, the City leased the water and sewer systems to the Authority, giving it lawful possession to operate and set rates for the systems. The lease terms extend throughout the remaining term of all PENNVEST loans, provided that either party may terminate the lease after twenty years, with the consent of PENNVEST.

Under the lease agreement, the required annual payments are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2017	\$2,624,000	\$1,476,000	\$4,100,000
2018	\$2,676,480	\$1,505,520	\$4,182,000
2019	\$2,730,010	\$1,535,630	\$4,265,640
2020	\$3,799,870	\$2,137,427	\$5,937,297
2021	\$3,833,628	\$2,156,415	\$5,990,043
2022	\$3,868,060	\$2,175,784	\$6,043,844
2023	\$4,288,000	\$2,412,000	\$6,700,000
2024	\$4,416,000	\$2,484,000	\$6,900,000

Annual lease payments for the remaining years of the term of the lease will be negotiated by the Authority and the City beginning in 2025. If the parties are unable to come to an agreement the lease payments will increase by 3% compounded annually for the remaining year term of the lease.

The Authority has chosen to early-adopt Statement No. 87 of the Government Accounting Standards Board and, in accordance with the statement, capitalize the right to use the water and sewer systems as an asset along with a related long-term liability. In conjunction with this lease the Authority recognized right to use assets of \$63,922,722 for the water system and \$53,449,974 for the sewer system. The Authority also recorded an obligation liability of \$117,372,696.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets (Continued)

Component Units (Continued)

Altoona Water Authority (Continued)

Right to Use Asset Under Leases and Related Liability (Continued)

The right to use asset consists of the following at December 31, 2017:

	<u>Water</u>	<u>Sewer</u>
Right to Use Asset	\$63,922,722	\$53,449,974
Less: Accumulated Amortization	<u>2,384,570</u>	<u>2,319,750</u>
Right to Use Asset, Net	<u>\$61,538,152</u>	<u>\$51,130,224</u>

The right to use assets were computed based on the net present value of the future lease payments (including the default 3% per year increase) discounted using the weighted-average interest rates of the outstanding bonds and PENNVEST loans of the respective systems. Such discount rates were 4.34% and 2.87% for the Water and Sewer right to use assets, respectively.

During the year ended December 31, 2017, the Authority recorded \$4,704,320 of amortization expense as shown.

Future required payments on the lease obligation are as follows:

Water:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 16,115	\$ 2,660,365
2019	1,070,345	2,659,665
2020	1,186,658	2,613,212
2021	1,271,917	2,561,711
2022	1,361,550	2,506,510
2023-2027	11,417,768	11,345,128
2028-2032	18,063,451	8,324,260
2033-2037	<u>26,910,918</u>	<u>3,679,673</u>
Total	<u>\$61,298,722</u>	<u>\$36,350,524</u>

Sewer:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 13,867	\$ 1,491,653
2019	44,375	1,491,255
2020	647,445	1,489,982
2021	685,015	1,471,400
2022	724,044	1,451,740
2023-2027	5,960,404	6,843,726
2028-2032	9,022,021	5,821,070
2033-2037	12,892,749	4,314,465
2038-2042	17,749,854	2,198,024
2043	<u>4,234,200</u>	<u>121,510</u>
Total	<u>\$51,973,974</u>	<u>\$26,694,825</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets (Continued)

Component Units (Continued)

Altoona Water Authority (Continued)

Right to Use Asset Under Leases and Related Liability (Continued)

While the Authority retains nominal title to equipment and other personal property, such titles are for administrative convenience and the assets are considered owned by the City. Under the terms of the leases, the City can compel the Authority to deliver any of its assets to the City upon request.

Subject to the approval of the City the Authority's borrowings are limited to, 1) bridge loans not exceeding a single two year term for any particular project, 2) loans from a government lender, or 3) equipment loans, including, without limitation, lease purchase agreements. The Authority may not issue bonds; the City will issue any required bonded indebtedness and the lease payments will be adjusted to pay 100% of the debt service.

Redevelopment Authority of Altoona

Changes in Capital Assets

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, NOT DEPRECIATED		CAPITAL ASSETS, DEPRECIATED		Totals
	Land	Furniture Machinery, And Equipment	Land Improvement		
<u>Governmental Activities</u>					
Balance - December 31, 2016	\$ 76,195	\$231,094	\$40,400		\$ 347,689
Increases	0	0	0		0
Decreases	(16,176)	0	0		(16,176)
Balance - December 31, 2017	\$ 60,019	\$231,094	\$40,400		\$ 331,513
<u>Accumulated Depreciation</u>					
Balance - December 31, 2016	\$ 0	\$133,733	\$ 6,789		\$ 140,522
Increases	0	4,234	1,283		5,517
Decreases	0	0	0		0
Balance - December 31, 2017	\$ 0	\$137,967	\$ 8,072		\$ 146,039

All depreciation expense was charged to the Redevelopment and Housing function.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets (Continued)

The Parking Authority of the City of Altoona

Changes in Capital Assets

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS NOT DEPRECIATED		CAPITAL ASSETS, ----- DEPRECIATED -----		Totals
	<u>Land</u>	<u>Parking Garage</u>	<u>Improvements</u>	<u>Furniture Machinery, and Equipment</u>	
<u>Business-Type Activities</u>					
Balance - December 31, 2016	\$308,318	\$2,636,394	\$1,670,863	\$123,752	\$4,737,327
Increases	0	0	0	0	0
Balance - December 31, 2017	<u>\$308,318</u>	<u>\$2,636,394</u>	<u>\$1,670,863</u>	<u>\$123,752</u>	<u>\$4,739,327</u>
<u>Accumulated Depreciation</u>					
Balance - December 31, 2016	\$ 0	\$1,323,787	\$1,144,497	\$ 45,366	\$2,513,650
Increases	0	<u>39,650</u>	<u>20,032</u>	<u>9,395</u>	<u>69,077</u>
Balance - December 31, 2017	<u>\$ 0</u>	<u>\$1,363,437</u>	<u>\$1,164,529</u>	<u>\$ 54,761</u>	<u>\$2,582,727</u>

All depreciation expense was charged to the parking function.

D. Pension Plans

Single-Employer Plans

1. Plan Descriptions, Contribution Information, and Funding Policies

The City's reporting entity participates in three single-employer plans. Assets are held separately and may be used only for the payment of benefits to the members of the respective plans, as follows:

Primary Government

City of Altoona Non-Uniformed Pension Plan (NUPP) provides retirement benefits for substantially all full-time non-uniformed employees of the primary government.

City of Altoona Police Pension Plan (PPP) provides retirement benefits for all policemen of the reporting entity.

City of Altoona Paid Firemen's Pension Plan (PFPP) provides retirement benefits for all paid firemen of the reporting entity.

Unless otherwise indicated, information for each plan in this note is provided as of the latest actuarial valuation, January 1, 2017.

Actuarially valuations are performed on a biennial basis.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

1. Plan Descriptions, Contribution Information, and Funding Policies (Continued)

These plans are defined benefit plans but do not issue stand-alone financial reports, nor are they included in the report of a Public Employee Retirement System or another entity. The following is a summary of funding policies, contribution methods, and benefit provisions:

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Year established and governing authority	01/15/30; City Council Ordinance	09/4/45; City Council Ordinance	09/10/45; City Council Ordinance
Determination of contribution requirements	Actuarially Determined	Actuarially Determined	Actuarially Determined
Contributions: Employer	Minimum Municipal Obligation (MMO) after deduction for employee contributions	Minimum Municipal Obligation (MMO) after deduction for employee contributions	Minimum Municipal Obligation (MMO) after deduction for employee contributions
Plan Members	5% of Compensation	5% of Compensation Plus \$5/month until age 65 for those hired before 1/1/14; 5% of wages for those hired on/after 1/1/14.	5% of Total Compensation
Funding of administrative costs	Investment earnings	Investment earnings	Investment earnings
Period required to vest	12 Years	12 Years	12 Years
Post-retirement benefit increases	None	For those hired before 1/1/14, every officer in good standing of the Police Pension Fund Association who retires on or after 1/1/96, shall receive an annual cost of living adjustment, not to exceed 50% of the original pension benefit. The annual adjustment will be based on the annual percentage increase in the Consumer Price Index on a yearly basis from October to October of the prior year. In addition, such accumulated COLA increases shall not, at anytime, exceed 50% of the current salary being paid patrolman of the highest pay grade. There is no COLA for those hired on/after 1/1/14.	For retirements after 12/31/95, annual increases based on the Consumer Price Index, capped at 50% of the original benefit. At no time can the total pension benefit received exceed 50% of the salary paid to fireman of highest pay grade.
Deferred Retirement Option Plan (DROP) Benefit	None	None	Yes
Eligibility for distributions	Later of age 60 or completion of 20 years of credited service.	For those hired on/after 1/1/14, later of age 50 and completion of 20 years of service. For those hired prior to 1/1/14, an officer may retire immediately after 20 years of service.	20 Years of Service

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

1. Plan Descriptions, Contribution Information, and Funding Policies (Continued)

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Provisions for:			
Disability Benefits	For total and permanent disablement which occurs after the completion of 10 years of service, member receives Normal Retirement Benefit.	Service Related: basic normal retirement benefit. For those hired prior to 1/1/14, Non-Service Related: if less than 10 years of service, 25% of salary; otherwise 50%. There is no non-service related benefit to those hired on/after 1/1/14.	Service Related: normal Retirement benefit Non-Service Related: if less than 10 years of service, 25% of salary; otherwise 50%.
Retirement Benefits	Monthly benefit equal to 50% of average monthly compensation (highest 5 years of compensation).	For those hired prior to 1/1/14, 50% of base salary plus service increment. For those hired on or after 1/1/14, 50% of base salary.	Monthly benefit equal to 50% of pay at retirement. Also, a service increment of 1/8 th of monthly pension per years of service in excess of 20 years is payable to a maximum of \$500. In addition, a monthly \$100 contractual bonus is payable at retirement. Participants hired after 12/31/13 do not receive the \$100 contractual bonus, service increment or a cost-of-living adjustment. Additionally, there is an age 50 requirement for retirement and pensions are calculated on 50% of the base wage.
Provisions for:			
Death Benefits	Before retirement, refund of Contributions without interest. After retirement, none, unless, at retirement, member chose a joint and survivor option.	For those hired prior to 1/1/14, before retirement, survivor benefits of 25% of salary if death occurs before 10 years of service. For all officers, before retirement with 10 or more years of service, survivor benefits are 50% of salary. After retirement, for all officers survivor benefit of 100% of pension participant was receiving or was entitled to receive at date of death. In the event of the spouse's death, each of the participant's dependent children will receive an equal share of benefit until their 18 th birthday.	Vested or killed in service: spouse receives 100% of benefit payments participant was receiving or entitled to at death. In event of spouse's death, dependent children will receive an equal share of benefit until their 18 th birthday. If not vested or killed in service, refund of contributions to designated beneficiary.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

1. Plan Descriptions, Contribution Information, and Funding Policies (Continued)

Memberships of the plans are as follows:

	<u>As of 12/31/17 NUPP</u>	<u>As of 12/31/17 PPP</u>	<u>As of 12/31/17 PFPP</u>
Active Members	93	63	58
Retirees and Beneficiaries Currently Receiving Benefits	96	102	114
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	<u>1</u>	<u>3</u>	<u>0</u>
Total	190	168	172
	==	==	==

2. Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits for all plans. The plans held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds five percent or more of net position available for benefits.

3. Components of Net Pension Liability as of December 31, 2017 Measurement Date

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Total Pension Liability	\$22,226,355	\$50,306,602	\$52,138,180
Plan Fiduciary Net Position	<u>19,938,556</u>	<u>39,360,888</u>	<u>40,009,769</u>
Net Pension Liability	\$ 2,287,799	\$10,945,714	\$12,128,411
	==	==	==
Fiduciary Net Position as a Percentage of Total Pension Liability	89.7%	78.24%	76.74%
Estimated Covered Payroll	\$ 4,172,831	\$ 3,925,817	\$ 3,666,874
Net Liability as a Percentage of Covered Payroll	54.8%	278.81%	330.76%

4. Sensitivity of the Net Pension Liability to Changes in the Discount Rate as of December 31, 2017

A. Non-Uniformed Pension Plan (NUPP)

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
Net Pension Liability	\$4,521,977	\$2,287,799	\$371,463

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

4. Sensitivity of the Net Pension Liability to Changes in the Discount Rate as of December 31, 2017 (Continued)

B. Police Pension Plan (PPP)

	1% Decrease <u>6.25%</u>	Current Discount Rate <u>7.25%</u>	1% Increase <u>8.25%</u>
Net Pension Liability	\$17,280,453	\$10,945,714	\$ 5,722,598

C. Paid Fireman's Pension Plan (PFPP)

	1% Decrease <u>6%</u>	Current Discount Rate <u>7%</u>	1% Increase <u>8%</u>
Net Pension Liability	\$18,661,790	\$12,128,411	\$ 6,716,310

5. Investments

Target allocation and long-term expected real rate of return for each asset class:

A. NUPP

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	Information	6.3%
Fixed Income	Not Provided	2.0%
Cash	by Actuary	0.0%

B. PPP

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>Gross Return</u>	<u>Real Return</u>
Domestic Equity	35%	8.20%	5.70%
International Equity	35%	8.20%	5.70%
Fixed Income	29%	3.10%	.60%
Cash	<u>1%</u>	<u>2.50%</u>	<u>0.00%</u>
	100%	6.66%	4.16%

Long-Term (15 years) inflation rate of 2.5%

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

5. Investments (Continued)

C. PFPP

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Equities	7%	4.7%
Mid-Cap Equities	6%	5.3%
Small Cap Equities	6%	5.5%
International Equities	10%	4.5%
Emerging Market Equities	25%	6.0%
Short-Term Fixed Income	12%	.00%
Intermediate Fixed Income	12%	.10%
Long-Term Fixed Income	12%	.20%
Hedge Fund (Merger Arbitrage)	10%	1.50%

6. Changes in Net Pension Liability

NUPP

	----- Increase (Decrease) -----		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at December 31, 2016	\$22,333,679	\$17,792,598	\$ 4,541,081
Changes for the Year:			
Service Cost	\$ 418,553	\$ 0	\$ 418,553
Interest	1,538,030	0	1,538,030
Differences Between Expected and Actual Experience	(1,030,226)	0	(1,030,226)
Contributions - Employer	0	582,815	(582,815)
Contributions - Employee	0	209,817	(209,817)
Net Investment Income	0	2,446,581	(2,446,581)
Benefit Payments and Refunds of Employee Contributions	(1,033,681)	(1,033,681)	0
Administrative Expense	0	(59,574)	59,574
Net Changes	(\$ 107,324)	\$ 2,145,958	(\$ 2,253,282)
Balances at December 31, 2017	\$22,226,355	\$19,938,556	\$ 2,287,799

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

6. Changes in Net Pension Liability (Continued)

PPP

	----- Increase (Decrease) -----		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2016	\$50,078,765	\$34,280,643	\$15,798,122
Changes for the Year:			
Service Cost	\$ 724,987	\$ 0	\$ 724,987
Interest	3,328,581	0	3,328,581
Differences between Expected and Actual Experience	(940,613)	0	(940,613)
Benefit Payments	(2,885,118)	(2,885,118)	0
Contributions - Employer (1)	0	2,651,796	(2,651,796)
Contributions - Employee	0	233,341	(233,341)
Net Investment Income	0	5,088,928	(5,088,928)
Administrative Expense	0	(8,702)	8,702
Net Changes	\$ 227,837	\$ 5,080,245	(\$ 4,852,408)
Balances at December 31, 2017	\$50,306,602	\$39,360,888	\$10,945,714

PFPP

	----- Increase (Decrease) -----		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2016	\$50,616,337	\$35,172,196	\$15,444,141
Changes for the Year:			
Service Cost	\$ 823,620	\$ 0	\$ 823,620
Interest	3,489,469	0	3,489,469
Differences between Expected and Actual Experience	356,968	0	356,968
Benefit Payments	(3,148,214)	(3,148,214)	0
Contributions - Employer (1)	0	2,568,624	(2,568,624)
Contributions - Employee	0	198,443	(198,443)
Net Investment Income	0	5,243,966	(5,243,966)
Administrative Expense	0	(25,246)	25,246
Net Changes	\$ 1,521,843	\$ 4,837,573	(\$ 3,315,730)
Balances at December 31, 2017	\$52,138,180	\$40,009,769	\$12,128,411

(1) - Includes State Aid

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

7. Deferred Outflows of Resources and Deferred Inflows of Resources

NUPP

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between Expected and Actual Experience	\$ 0	\$1,061,408
Changes of Assumptions	150,075	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>974,493</u>	<u>937,982</u>
Total	<u>\$1,124,568</u>	<u>\$1,999,390</u>

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

<u>Year Ended</u>	<u>Amount</u>
2018	(\$ 47,622)
2019	(47,620)
2020	(339,040)
2021	(440,540)
2022	0
Thereafter	0

PPP

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between Expected and Actual Experience	\$ 0	\$ 886,073
Changes in Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>1,824,086</u>	<u>2,105,994</u>
Total	<u>\$1,824,086</u>	<u>\$2,992,067</u>

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

<u>Year Ended</u>	<u>Amount</u>
2018	\$250,101
2019	250,101
2020	(419,233)
2021	(581,037)
2022	(54,540)
Thereafter	(613,373)

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

7. Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

PFPP

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between Expected and Actual Experience	\$ 295,422	\$1,012,274
Changes in Assumptions	1,543,042	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>1,833,994</u>	<u>2,254,537</u>
Total	<u>\$3,672,458</u>	<u>\$3,266,811</u>

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

<u>Year Ended</u>	<u>Amount</u>
2018	\$ 618,174
2019	618,174
2020	(210,349)
2021	(669,590)
2022	49,238
Thereafter	0

8. Annual Pension Expense

Components of Pension Expense for the year ended December 31, 2017:

NUPP

Service Cost	\$ 418,553
Interest	1,538,030
Recognition of Difference between Expected and Actual Experience	(319,011)
Recognition of Changes of Assumptions	71,465
Employee Contributions	(209,817)
Projected Earnings on Pension Plan Investments	(1,274,103)
Recognition of Differences between Projected and Actual Earnings on Plan Investments	199,924
Administrative Expenses	<u>59,574</u>
Total Pension Expense	<u>\$ 484,615</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Single-Employer Plans (Continued)

8. Annual Pension Expense (Continued)

PPP

Service Cost	\$ 724,987
Interest	3,328,581
Recognition of Differences between Expected and Actual Experience	(54,540)
Employee Contributions	(233,341)
Projected Earnings on Pension Plan Investments	(2,456,435)
Recognition of Differences between Projected and Actual Earnings on Plan Investments	304,641
Administrative Expenses	<u>8,702</u>
 Total Pension Expense	 <u>\$1,622,595</u>

PFPP

Service Cost	\$ 823,620
Interest	3,489,469
Recognition of Difference between Expected and Actual Experience	(228,068)
Recognition of Changes of Assumptions	571,498
Employee Contributions	(198,443)
Projected Earnings on Pension Plan Investments	(2,425,795)
Recognition of Differences between Projected and Actual Earnings on Plan Investments	274,744
Administrative Expenses	<u>25,246</u>
 Total Pension Expense	 <u>\$2,332,271</u>

9. City Contributions

The City contributions for 2017 for each Plan is as follows:

NUPP	\$ 582,815
PPP	2,651,796
PFPP	2,568,624

10. Plan Related Financial Statement Items

As of December 31, 2017 and for the year then ended, the Plan's had the following:

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Plan Related Assets	\$19,938,556	\$39,360,888	\$40,009,769
Deferred Outflows of Resources	1,124,568	1,824,086	3,672,458
Net Pension Liability	2,287,799	10,945,714	12,128,411
Deferred Inflows of Resources	1,999,390	2,992,067	3,266,811
Pension Expense	484,615	1,622,595	2,332,271
Pension Expenditures	582,815	2,651,796	2,568,624

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit

Altoona Water Authority

Summary of Significant Accounting Policies

Basis of Accounting

These statements have been prepared on the accrual basis of accounting. Contributions and pension payments are recognized in the period that they are due.

Valuation of Investments

Plan investments are at fair value as reported by the M&T Trust Company.

Plan Description

Plan Administration

The Altoona Water Authority Employees' Pension Plan is a single-employer defined benefit pension plan. The Plan was established effective January 15, 1930. The Plan was amended and restated by Resolution No. 03-02-235, effective January 1, 2002. The Plan is governed by the Board of Directors of the Altoona Water Authority which may amend the plan provisions, and which is responsible for the management of Plan assets. The Board of Directors has delegated the authority to manage certain Plan assets to the M&T Trust Company. The plan is required to file Form PC-203C biennially with the Public Employee Retirement Commission (PERC). The most recent filing was as of January 1, 2017.

Plan Membership

The plan provides pensions for full-time employees of the Authority. As of December 31, 2017, pension plan membership consists of:

• Active employees	123
• Retirees and beneficiaries currently receiving benefits	60
• Terminated employees entitled to benefits but not yet receiving them	<u>7</u>
Total	190

Benefit Program

Pension plan benefit provisions are as follows:

• Eligibility Requirements

Normal Retirement:	Age 62
Early Retirement:	Age 55 and 5 years of service.
Vesting:	100% after 5 years of service.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit (Continued)

Altoona Water Authority (Continued)

Plan Description (Continued)

Benefit Program (Continued)

• Retirement Benefit

A monthly benefit payable for life equal to 1/12 of 75% of total member contributions made while an active member. Disabled member receives benefit credit equal to 1.5% of the monthly rate of annual earnings immediately prior to disablement for each month the member remains disabled. The minimum normal retirement benefit is \$16.67 times credited service, up to a maximum of \$500.

• Death Benefit

Before Vesting:

Refund of contributions plus interest.

After Vesting But
Before Retirement:

The participant may elect the following: If a participant dies after becoming vested and before retirement, the spouse will receive a benefit payable at the later of the participant's date of death or earliest retirement date, equal to 50% of the joint and 50% survivor benefit, payable as if the participant had terminated employment at the date of death, survived to earliest retirement date and commenced payment of benefits.

After Retirement:

Benefit in force at participants death.

• Disability Benefit

Service Related:

Normal Retirement benefit, after 5 years of service, calculated at date of disability, payable at Normal retirement date. Participants may elect earlier commencement of reduced benefits, but this causes the special benefit credit to cease.

Non-Service Related:

Same.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit (Continued)

Altoona Water Authority (Continued)

Plan Description (Continued)

Benefit Program (Continued)

- Vesting Benefit Retirement Benefit as calculated as termination date is payable at Normal Retirement date.
- Early Retirement Retirement Benefit calculated at termination is reduced by 0.5% for each month early.
- Member Contributions

Amount or Rate:	2.0%
Interest Rate Credited to Member Contributions:	6.0%

Contributions

The employer follows the funding policy prescribed by Act 205 of 1984 (as amended), which requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the plan's most recent 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 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. Any financial requirements established by the MMO must be funded by the employer.

Employees are required to contribute 2 percent of covered payroll to the Plan. This contribution is governed by the Plan's governing ordinances and collective bargaining.

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

Deposits and Investment at Risk Disclosures

Deposits

At December 31, 2017, the Plan held no deposits.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit (Continued)

Altoona Water Authority (Continued)

Deposits and Investment at Risk Disclosures (Continued)

Investments

The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Plan's target asset allocation is as follows:

<u>Asset Class</u>	<u>Target Percentages</u>
Equity	65%
Fixed Income	35%

Credit Risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The plan has no investment policy for credit risk. The credit ratings of the plan's investments (excluding obligations explicitly guaranteed by the U.S. government) are indicated on the table below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Cash Equivalents	\$ 265,655	NR
Fixed Income Funds	1,616,725	NR
Exchange Traded Funds - Fixed	291,352	NR
Corporate Debt	371,418	A
Corporate Debt	95,697	AA
Corporate Debt	<u>438,564</u>	BBB
 Total	 <u>\$3,079,411</u>	

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2017, the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

Interest Rate Risk for investments is the risk that a change in interest rates will adversely affect the fair value of an investment. The plan has no investment policy for interest rate risk other than the 35 percent limit on fixed income securities. The maturities of the plan's debt investments are listed on the table below.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit (Continued)

Altoona Water Authority (Continued)

Deposits and Investment at Risk Disclosures (Continued)

Investments (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5.99</u>	<u>6-10</u>	<u>More Than 10</u>
Fixed Income Funds*	\$1,616,725	\$304,700	\$ 310,449	\$ 583,118	\$418,458
U.S. Government Agency Securities	1,007,001	99,828	553,089	354,084	0
Exchange Traded Funds - Fixed	291,352	0	291,352	0	0
Corporate Debt	<u>905,679</u>	<u>30,031</u>	<u>590,518</u>	<u>285,130</u>	<u>0</u>
Total	<u>\$3,820,757</u>	<u>\$434,559</u>	<u>\$1,745,408</u>	<u>\$1,222,332</u>	<u>\$418,458</u>

*average portfolio maturity

Net Pension Liability

The components of the net pension liability at December 31, 2017 are as follows:

Total Pension Liability*	\$15,627,115
Plan Fiduciary Net Position	(<u>13,057,057</u>)
Net Pension Liability	<u>\$ 2,570,058</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>83.6%</u>

Actuarial Assumptions

*The total pension liability was determined by an actuarial as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation:	2.75%
Salary Increase:	4.5% including inflation
Mortality:	RP-2014 Mortality Table with 50% Blue Collar Adjustment, with rates set forward 5 years for disabled members. Mortality improvements based on the Long-Range Demographic Assumptions for the 2015 SSA's Trustee Report.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit (Continued)

Altoona Water Authority (Continued)

Actuarial Assumptions (Continued)

Expected Long-Term
Rate of Return: 7.25%, applied to all periods

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the MMO) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset claim included in the target asset allocation as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real ROR</u>
Equity	6.3%
Fixed Income	2.0%
Cash and Cash Equivalents	0.0%

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the Minimum Municipal Obligations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit (Continued)

Altoona Water Authority (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a)-(b)</u>
Balances at 12/31/2016	\$13,799,497	\$11,697,739	\$2,101,758
Changes for the Year:			
Service Cost	\$ 335,379	\$ 0	\$ 335,379
Interest	1,076,426	0	1,076,426
Changes of Benefit Terms Differences Between Expected and Actual Experience	(134,652)	0	(134,652)
Changes of Assumptions	1,133,410	0	1,133,410
Contributions - Employer	0	362,000	(362,000)
Contributions - Employee	0	129,034	(129,034)
Net Investment Income	0	1,538,012	(1,538,012)
Benefit Payments and Refunds of Employee Contributions	(582,945)	(582,945)	0
Administrative Expense	0	(86,783)	86,783
Other Changes	0	0	0
Net Changes	\$ 1,827,618	\$ 1,359,318	\$ 468,300
Balances at 12/31/2017	\$15,627,115	\$13,057,057	\$2,570,058

Sensitivity of the net pension liability to changes in the discount rate: The following shows effect of a 1% change in the discount rate on the net pension liability.

	1% Decrease <u>6.25%</u>	Current Rate <u>7.25%</u>	1% Increase <u>8.25%</u>
Net Pension Liability	\$4,358,832	\$2,570,058	\$1,035,219

At December 31, 2017, the Authority did not owe anything to the Plan.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

D. Pension Plans (Continued)

Component Unit (Continued)

Altoona Water Authority (Continued)

Changes in Net Pension Liability (Continued)

Net Pension Liability (Continued)

Components of Pension Expense for the Year Ended December 31, 2017:

Service Cost	\$ 335,379
Interest on the Total Pension Liability	1,076,426
Recognition of Differences Between Expected and Actual Experience	(49,075)
Changes in Benefit Terms	0
Recognition of Changes in Assumptions	147,196
Employee Contributions	(129,034)
Projected Earnings on Pension Plan Investments	(848,339)
Recognition of Differences Between Projected and Actual Earnings on Plan Investments	114,502
Pension Plan Administrative Expense	86,783
Other Changes in Fiduciary Net Position	<u>0</u>
Total Pension Expense	<u>\$ 733,838</u>

At December 31, 2017, the Plan reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 0	\$278,260
Changes of Assumptions	986,214	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>540,116</u>	<u>551,738</u>
Total	<u>\$1,526,330</u>	<u>\$829,998</u>

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

Year ended December 31:	
2018	\$212,623
2019	212,621
2020	(4,570)
2021	(39,812)
2022	98,121
Thereafter	<u>217,349</u>
Net	<u>\$696,332</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

E. Deferred Retirement Option Plan (DROP) Agreement

Effective April 1, 2009, a Retirement Benefit distribution option is available to those firefighters who qualify and voluntarily elect to participate. This option shall not affect a member's eligibility for a City Pension. Additionally, participants in the DROP program are considered to be active firefighters and will continue to be members of the collective bargaining unit. However, if while in the DROP program, contractual benefits change which affect retirement, any member already participating in the DROP will abide by the contract language which was in effect at the time he/she entered the DROP. Otherwise, participants in the DROP program are subject to all rights and responsibilities provided by the collective bargaining agreement until no longer performing the duties of firefighter and terminate employment with the City of Altoona.

A member must have a minimum of twenty (20) year's service to be eligible for the DROP. Members eligible to participate in the DROP plan shall include all members hired subsequent to January 1, 2005 who do NOT have the option to buy the post-retirement health care coverage provided by the city with accrued sick leave. Furthermore, any member hired prior to January 1, 2005 may use their accrued sick leave to purchase either post-retirement health care OR buy into the DROP, but not both. In any case, buying into the DROP or post-retirement health care shall mean trading in one hundred two (102) sick days for the option chosen.

Any employee hired before January 1, 2005 must waive the requirement to be paid for accumulated sick leave to participate in the DROP. Firefighters must have accumulated fifty percent (50%) of the maximum allowed sick leave to participate in the DROP and have attained twenty (20) years of service necessary for normal retirement, and will be paid the value of twenty percent of all accumulated sick days in excess of one-hundred and two (102) up to the maximum number. For purposes of the DROP, retirement shall mean when the employee is no longer employed as a Firefighter for the City.

A member participating in DROP must establish a date certain upon which the member shall resign from service as a City Firefighter. This date certain must be prior to completion of the maximum participation period. As a condition of participation in the DROP program, the individual member acknowledges that the Union and the City shall have no responsibility for the financial impact and/or consequences of a member's participation in DROP, including but not limited to, the investment of the contents of a member's DROP account, the performance of any such investments, the member's decision to participate in DROP, or any tax consequences flowing from the DROP participation.

Upon deciding to participate in the DROP, a member must submit, on forms provided by the City: (a) a binding letter of resignation from regular employment with the City which discloses the members' intent to retire; and (b) a written election to participate in the DROP that details the members' rights and obligations under the DROP and includes an agreement to forgo:

- (i) active membership in the pension plan
- (ii) any growth in the salary base used for calculating the regular retirement benefit
- (iii) any additional benefit accrual for retirement purposes

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

E. Deferred Retirement Option Plan (DROP) Agreement (Continued)

Upon entry into the DROP, a member's pensionable service, and the average applicable compensation shall be frozen and his/her pension and retirement payments shall be calculated as if he/she actually retired on the date he/she entered the DROP. The monthly DROP pension payment, plus any applicable COLA, shall be paid to an individual DROP investment account managed by Wachovia Securities in their FundSource Program (or comparable mutually agreed upon Program). Wachovia Securities shall maintain the account, independent of the City of Altoona.

Each member shall upon electing to enter the DROP meet with a member of Wachovia Securities to establish a FundSource Account (or comparable Account) and select the investments in his/her individual investment account from an array of options as offered by the FundSource Program (or comparable Program). The Third Party will be the party responsible for all investment options and record keeping of all assets transferred to the member's FundSource Account (or comparable Account) from the Pension Fund. All investment and administrative costs incurred with the Third Party shall be charged against the individual DROP investment accounts of the participants.

If at any time Wachovia Securities is no longer able to provide the Individual Drop Account satisfactorily as described in this agreement, the City and Union agree to select a mutually agreed upon Third Party to administer the Individual Drop Accounts.

Upon entry into the DROP, all City and Employee Contributions to the Firemen's Pension Fund shall cease, with no additional costs to the City.

An eligible member may participate in the DROP plan for no more than sixty (60) months. At any time up to sixty (60) months, the member may terminate his or her employment and enact the payment options with their Individual DROP Account. Once the maximum participation has been achieved, the member must terminate employment and separate from service.

Commensurate with DROP participation, a member shall make an election, on appropriate forms, selecting the payout option(s) he/she wishes at the termination of the DROP period. This election may be changed at any time prior to termination. The distribution options are as follows:

- (1) A full and lump sum distribution.
- (2) Rollover to another qualified retirement plan (as permitted by law) or to an IRA.
- (3) Purchase of an annuity.
- (4) Keep the monies in the individual DROP investment account. Monies kept in the individual DROP Investment Account may be withdrawn in any manner desired by the member.
- (5) Any other distribution provided by the Third Party Administrator or any manner permitted by law.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

E. Deferred Retirement Option Plan (DROP) Agreement (Continued)

As with the decision to participate in the DROP program, the City assumes no responsibility for the consequences of the rollover election made by a participating member, including, tax consequences and issues of the legality of a rollover, of the manner of distribution which a member selects for the distribution and the individual DROP participants agree to hold the City harmless for any consequences flowing from the member's receipt of a full or partial distribution of the contents of the member's DROP account.

Commensurate with DROP participation, a member shall make an election, on appropriate forms, designating the beneficiary or beneficiaries he/she wishes to receive the monies in his/her individual DROP Investment Account in the event of his/her death before all monies have been distributed.

A member who becomes permanently disabled during the DROP period shall be retired from service and, thereafter, shall revert to his/her normal pension retirement pension. He will directly receive those pension payments which were being deposited into his/her DROP investment account. The participant will then have access to the distributions from his/her individual DROP Investment Account.

If a member becomes temporarily disabled during his/her participation in DROP, the time period while on disability counts toward the sixty (60) month participation limit. During such period of temporary disability, a member shall receive disability pay in the same amount as disabled firefighters that are not participating in DROP. In no event shall a member on temporary disability have the ability to draw from the DROP Account.

However, if a member is disabled and has not returned to work as of the date of his required retirement, such retirement shall take precedence over all other provisions and said member shall immediately resign.

The members agree that any costs or fees associated with the management and/or Administration or the DROP accounts shall be paid directly from the Individual Drop Account and not by the City.

In expressing the normal cost and administrative expense requirements as a dollar amount under Act 205, the City shall exclude the compensation of all DROP participants from the payroll of the active membership of the pension plan. For purposes of computing and reporting the applicable number of units under Act 205, a DROP participant shall not be reported to the Auditor General as an active employee.

Any amendment to the DROP Plan shall be consistent with the provisions covering deferred retirement option plans set forth in the collective bargaining agreement and shall be binding upon all future DROP participants and upon all DROP participants who have balances in their deferred retirement option accounts. The DROP Plan may only be amended upon a written instrument. The members agree to act promptly and in good faith to amend this DROP plan to ensure compliance with Act 205 and any other applicable law.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

E. Deferred Retirement Option Plan (DROP) Agreement (Continued)

Participation in the DROP program does not create any separate entitlement to employment. In addition, nothing shall be construed as a change to the parties practice of calculating pensionable compensation, and except for the ability to establish a DROP Account and participate in the DROP Program, nothing is intended to create new pension benefits of any kind which did not exist as of December 31, 2007.

F. Post-Employment Benefits Other than Pension Benefits

Firemen's Plan

Plan Description

The City's defined benefit postemployment healthcare plan provides hospitalization insurance benefits to their paid firefighters who retired from the City of Altoona Fire Department, who meet certain criteria.

An employee enters the plan on the day he becomes a full-time sworn firefighter with the City of Altoona. Firefighters hired after 2004 are not eligible for postretirement benefits under the plan.

Upon retirement or disablement, a firefighter is eligible to participate in the postretirement medical benefits plan if he retires after eligibility for normal retirement under the City of Altoona Paid Firemen's Pension Plan (i.e., after completion of 20 years of service). Firefighters who have accumulated at least 50% of the maximum allowed sick leave (i.e., at least 102 out of the maximum 203 days) may elect to receive 40% of their accumulated sick leave at retirement or may elect to receive medical coverage under this plan by waiving payment of their accumulated sick leave.

If the firefighter is eligible for medical coverage under this plan but received medical benefits through other employment or through his spouse's employment, he may elect to decline medical coverage under this plan and receive 40% of the annualized cost savings (net of retiree copayments). If the other coverage is subsequently discontinued, the retired firefighter may elect to receive medical coverage under this plan.

Benefits under the plan are payable for the retired firefighter until the member becomes eligible for Medicare Benefits from the Social Security Administration. Benefits under the plan are payable for the member's spouse and dependent children after the retired member's death prior to Medicare eligibility age until the spouse becomes eligible for Medicare Benefits.

Upon meeting the eligibility requirements, the plan will pay 100% of the premiums for the retired member's spouse's continued coverage under the medical insurance program available to the active firefighters of the City. Retired firefighters may purchase coverage for their families after Medicare eligibility age by paying the composite premium rate.

In addition, dental coverage and vision coverage are provided at the expense of the retired member.

Some retired members are covered under the traditional indemnity plan or Preferred Provider Organization (PPO) that were in effect at retirement. Some indemnity plan members must pay the premiums for their prescription drug coverage.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

F. Post-Employment Benefits Other than Pension Benefits (Continued)

Firemen's Plan (Continued)

Plan Description (Continued)

If a firefighter is disabled in the line of duty prior to retirement, coverage to the firefighter and his family will continue until Medicare eligibility age.

If a firefighter dies in the line of duty prior to retirement, coverage to the firefighter's widow and dependent children in effect at the time of his death will continue as if the firefighter was alive. The widow of a firefighter who dies after retirement eligibility but before retirement may elect coverage under the plan. Benefits for retired firefighters will cease upon the firefighter's death prior to Medicare eligibility. Benefits for spouses of retired firefighters will cease upon the spouse's death prior to the spouse's Medicare eligibility.

If a member terminates employment prior to retirement eligibility, benefits may be payable under the plan if the former firefighter had accumulated the necessary hours of sick leave and elects coverage at his retirement age.

Benefits are fully funded by the City, except where copayments are required, as described above.

Funding Policy

The contribution requirements of the City are to fund the current hospitalization premium due. During 2008 through 2017, the premium of providing this postretirement hospitalization insurance benefit was \$317,886, \$316,667, \$379,622, \$377,128, \$422,604, \$446,256, \$626,258, \$605,959, \$629,722 and \$569,065, respectively. There were 25 active members and 26 retired members as of January 1, 2017.

Annual OPEB Cost

For 2008 through 2017, the City's annual OPEB cost (expense) of \$525,225, \$521,990, \$518,785, \$458,550, \$457,012, \$456,362, \$685,386, \$684,195, \$682,617, and \$977,593, respectively, was below the City's "annual requirement contribution" (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 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 liability over a period of 30 years.

For 2017, the City's annual OPEB costs were comprised of the ARC of \$996,299, interest on the net OPEB obligation of \$34,721, and the adjustment to the ARC of (\$53,427).

The City's annual OPEB costs, the percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation for 2008 through 2017 were as follows:

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

F. Post-Employment Benefits Other than Pension Benefits (Continued)

Firemen's Plan (Continued)

Annual OPEB Cost (Continued)

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$525,225	60.5%	\$ 207,339
2009	521,990	60.7%	412,662
2010	518,785	73.2%	551,825
2011	458,550	82.2%	633,247
2012	457,012	92.4%	667,655
2013	456,362	97.8%	677,761
2014	685,386	91.4%	736,889
2015	684,195	88.5%	815,125
2016	682,617	92.2%	868,020
2017	977,593	58.21%	1,276,548

Funding Status and Funding Progress

The funded status of the plan as of January 1, 2008, January 1, 2011, January 1, 2014, and January 1, 2017 was as follows:

	<u>1/1/08</u>	<u>1/1/11</u>	<u>1/1/14</u>	<u>1/1/17</u>
Actuarial Accrued Liability (AAL)	\$6,249,548	\$5,632,396	\$8,836,918	\$12,794,810
Actuarial Value of Plan Assets	0	0	0	0
	<u>\$6,249,548</u>	<u>\$5,632,396</u>	<u>\$8,836,918</u>	<u>\$12,794,810</u>
Funded Ratio	0%	0%	0%	0%
Covered Payroll	\$2,631,098	\$3,684,077	\$3,103,679	\$ 3,568,127
UAAL as a Percentage of Covered Payroll	237.5%	152.9%	284.7%	358.6%

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 mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information that shows whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

F. Post-Employment Benefits Other than Pension Benefits (Continued)

Firemen's Plan (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of benefits costs to the City to that point. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities, consistent with long-term perspective of the calculations.

In the January 1, 2017, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4% interest rate of return and an annual healthcare costs assumed to increase at 5.6% in 2017, and from 5.4% to 3.9% for 2018-2075. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at January 1, 2017 was 21 years for initial unfunded liability, 24 for an experience gain, and 27 and 30 years for an experience loss/assumptions.

Police Plan

Plan Description

The City's defined benefit postemployment healthcare plan provides hospitalization insurance benefits to their officers who retire from the City of Altoona Police Force, who meet certain criteria.

An employee who is hired prior to January 1, 2014 enters the plan on the day he becomes a full-time sworn police officer with the City of Altoona.

Upon retirement or disablement, an officer is eligible to participate in the postretirement medical benefits plan if he retires after eligibility for normal retirement under the City of Altoona Police Pension Plan (i.e., completion of 20 years of service). Officers who have accumulated at least 50% of the maximum allowed sick leave (i.e., at least 150 out of the maximum 300 days) may elect to receive 50% of their accumulated sick leave at retirement or may elect to receive medical coverage under this plan by waiving payment of their accumulated sick leave.

If the officer is eligible for medical coverage under this plan but received medical benefits through other employment or through his spouse's employment, he may elect to decline medical coverage under this plan and receive 40% of the annualized cost savings (prior to member copayments). If the other coverage is subsequently discontinued, the retired officer may elect to receive medical coverage under this plan.

Benefits under the plan are payable for the retired officer until the member becomes eligible for Medicare Benefits from the Social Security Administration. Benefits under the plan are payable for the spouse from the officer's retirement until the spouse becomes eligible for Medicare Benefits.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

F. Post-Employment Benefits Other than Pension Benefits (Continued)

Police Plan (Continued)

Plan Description (Continued)

Upon meeting the eligibility requirements, the plan will pay 100% of the premiums for the retired member's continued coverage under the medical insurance program available to the active police officers of the City.

In addition, dental coverage and vision coverage are provided at the expense of the retired member.

Some retired members are covered under the traditional indemnity plan or Preferred Provider Organization (PPO) that were in effect at retirement. Some retired members who opt out of coverage receive 40% of the cost savings.

If an officer is disabled in the line of duty prior to retirement, coverage to the officer and his family will continue until Medicare eligibility age.

If an officer dies in the line of duty prior to retirement, coverage to the officer's widow and dependent children in effect at the time of his death will continue as if the officer was alive. The widow of an officer who dies after retirement eligibility but before retirement may elect coverage under the plan. Benefits for retired officers will cease upon the officer's death prior to Medicare eligibility. Benefits for spouses of retired officers will cease upon the spouse's death prior to the spouse's Medicare eligibility.

If a member terminates employment prior to retirement eligibility, benefits may be payable under the plan if the former officer had accumulated the necessary hours of sick leave and elects coverage at his retirement age.

Benefits are fully funded by the City, except where copayments are required.

Funding Policy

The contribution requirements of the City are to fund the current hospitalization premium due. During 2008 through 2017, the premium of providing this postretirement hospitalization insurance benefit was \$305,609, \$731,079, \$839,226, \$864,977, \$889,630, \$850,517, \$1,036,459, \$1,004,866, \$748,268, and \$649,508, respectively. There were 52 active members and 41 retired members as of January 1, 2017.

Annual OPEB Cost

For 2008 through 2017, the City's annual OPEB cost (expense) of \$1,178,641, \$1,165,016, \$1,158,245, \$1,165,768, \$1,160,087, \$1,154,980, \$1,672,516, \$1,659,693, \$1,646,491, and \$1,550,537, respectively, was below the City's "annual requirement contribution" (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 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 liability over a period of 30 years.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

F. Post-Employment Benefits Other than Pension Benefits (Continued)

Police Plan (Continued)

Annual OPEB Cost (Continued)

For 2017, the City's annual OPEB costs were comprised of the ARC of \$1,639,115, interest on the net OPEB obligation of \$187,632, and the adjustment to the ARC of (\$276,210).

The City's annual OPEB costs, the percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation for 2008 through 2017 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$1,178,641	25.9%	\$ 873,032
2009	1,165,016	62.8%	1,306,969
2010	1,158,245	72.3%	1,625,988
2011	1,165,768	74.2%	1,926,779
2012	1,160,087	76.7%	2,197,236
2013	1,154,980	73.6%	2,501,699
2014	1,672,516	62.0%	3,137,756
2015	1,659,693	60.5%	3,792,583
2016	1,646,491	45.4%	4,690,806
2017	1,550,537	41.9%	5,591,835

Funding Status and Funding Progress

The funded status of the plan as of January 1, 2008, January 1, 2011, January 1, 2014, and January 1, 2017 was as follows:

	<u>1/1/08</u>	<u>1/1/11</u>	<u>1/1/14</u>	<u>1/1/17</u>
Actuarial Accrued Liability (AAL)	\$13,961,079	\$12,708,823	\$15,635,205	\$16,331,427
Actuarial Value of Plan Assets	0	0	0	0
	<u>\$13,961,079</u>	<u>\$12,708,823</u>	<u>\$15,635,205</u>	<u>\$16,331,427</u>
Funded Ratio	0%	0%	0%	0%
Covered Payroll	\$ 4,323,423	\$ 4,084,688	\$ 4,284,542	\$4,071,362
UAAL as a Percentage of Covered Payroll	322.9%	311.1%	364.9%	401.1%

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 mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

F. Post-Employment Benefits Other than Pension Benefits (Continued)

Police Plan (Continued)

Funding Status and Funding Progress (Continued)

new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information that shows whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of benefits costs to the City to that point. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities, consistent with long-term perspective of the calculations.

In the January 1, 2017, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4% interest rate of return and an annual healthcare costs assumed to increase at 5.6% in 2017, and from 5.4% to 3.9% for 2018-2075. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at January 1, 2017 was 21 years for the initial unfunded liability, 24 years for an experience gain, and 27 and 30 years for an experience loss/assumptions.

G. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of property; errors and omissions; and natural disasters for which the City carries commercial insurance. In addition, the City maintains a limited self-insurance program for Worker's Compensation.

The City is self-insured with respect to worker's compensation in order to pay worker's compensation claims of City employees and minimize the total annual costs of worker's compensation to the City. A third-party administrator determines payments to be made by the City based on actual incurred workers compensation claims by City employees. Annual claims are paid from the general fund. Claims incurred but not paid of \$59,932 have been recorded as a payable in the general fund as of December 31, 2017. Additional claims are estimated to be \$576,925. During 2010, the Commonwealth of Pennsylvania's Department of Labor and Industry's Bureau of Workers' Compensation calculated the funding status of the City's workers' compensation dedicated asset account, pursuant to revised self-insurance regulations. Due to these revised regulations, the estimate of the City's required reserve decreased from \$2,033,934 to \$576,925, and, historically, this reserve has been used by the City to estimate the long-term portion of its workers' compensation liability.

The City's specific excess annual retention for each accident or each employee for disease are as follows:

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

G. Risk Management (Continued)

- a. As respects to the loss comprised of medical and rehabilitation expenses:
 - i. the first \$110,000 incurred during the first retention period
 - ii. the first \$60,000 incurred during the second retention period
 - iii. the first \$50,000 incurred during the third and each other retention period
- b. As respects to the loss comprised of periodic income benefits: The first \$27,000 due during each retention period.
- c. \$450,000, as respects to the loss:
 - i. comprised of liability imposed by law for damages
 - ii. comprised of lump-sum benefits (including lump-sum benefits payable in installments) rather than periodic income benefits
 - iii. for which you purchase an annuity or make other financial arrangement to discharge your liability for payment of periodic income benefits
 - iv. for which any governmental entity requires you to make a deposit to fund the payment of periodic income benefits
- d. subject to a maximum retention of \$450,000

The annual changes to worker's compensation liabilities for claims as of December 31, 2017 are as follows:

<u>January 1, 2017</u>	<u>Net Change</u>	<u>December 31, 2017</u>	<u>Due Within One Year</u>
\$608,680	\$28,177	\$636,857	\$59,932
<u> </u>	<u> </u>	<u> </u>	<u> </u>

The City has recognized, as due within one year, the payments made under the City's self-insured program through March 31, 2018.

H. Lease Obligations

Operating Leases

The City is committed under various leases for equipment. These leases are considered for accounting purposes to be operating leases with month-to-month terms.

I. Long-Term Debt

General Obligation Note, Series of 2011

In April 2011, the City issued \$1,000,000 General Obligation Note, Series of 2011 to acquire and construct park and recreation facilities and pay related expenses.

The interest rate is fixed at 4.25% per annum.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Note, Series of 2011 (Continued)

Annual debt service requirements to maturity on this Note is as follows:

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
04/01/2018	\$ 53,182	\$ 9,746	\$ 62,928	
10/01/2018	54,312	8,615	62,927	\$ 125,855
04/01/2019	55,466	7,462	62,928	
10/01/2019	56,645	6,282	62,927	125,855
04/01/2020	57,848	5,080	62,928	
10/01/2020	59,077	3,850	62,927	125,855
04/01/2021	60,333	2,595	62,928	
10/01/2021	61,789	1,138	62,927	125,855
	<u>\$458,652</u>	<u>\$ 44,768</u>	<u>\$ 503,420</u>	<u>\$ 503,420</u>

General Obligation Notes

During 2003, the City issued \$10,795,000 General Obligation Notes, Series A of 2003 (Tax-Exempt) to provide funds for capital improvements, advance refund a portion (\$3,354,277 to eliminate \$3,025,000 of principal) of the City's General Obligation Bonds, Series of 1998, and to pay the costs and expenses related to this issuance.

In addition, the City issued \$1,500,000 General Obligation Notes, Series B of 2003 (Federally Taxable) to provide funding of the City's self-insured Worker's Compensation Fund as required by the Commonwealth of Pennsylvania and to pay the costs related to this issuance.

The General Obligation Notes are general obligations of the City of Altoona, payable from its tax and other revenues, and the City has pledged its full faith, credit, and taxing power. The \$10,795,000 General Obligation Notes, Series A of 2003 (Tax-Exempt) interest rates range from 4.0% to 4.3% and the \$1,500,000 General Obligation Notes, Series B of 2003 (Federally Taxable) interest rates range from 4.6% to 5.0%.

The City currently refunded a portion of these Federally Tax-Exempt Notes (\$4,055,000) with the General Obligation Bonds, Series of 2014 and the remaining portion of these Federally Tax-Exempt Notes (\$6,690,000) with the General Obligation Bonds, Series of 2016.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Notes (Continued)

Annual debt service requirements to maturity for the Series B of 2003 are as follows:

\$1,500,000 General Obligation Notes, Series B of 2003 (Federally Taxable)

Governmental Activities

<u>Date</u>	<u>Coupon Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
03/01/2018			\$ 35,615	\$ 35,615	
09/01/2018	4.600%	\$ 5,000	35,615	40,615	\$ 76,230
03/01/2019			35,500	35,500	
09/01/2019	5.000%	630,000	35,500	665,500	701,000
03/01/2020			19,750	19,750	
09/01/2020	5.000%	660,000	19,750	679,750	699,500
03/01/2021			3,250	3,250	
09/01/2021	5.000%	<u>130,000</u>	<u>3,250</u>	<u>133,250</u>	<u>136,500</u>
		<u>\$1,425,000</u>	<u>\$188,230</u>	<u>\$1,613,230</u>	<u>\$1,613,230</u>

General Obligation Bonds, Series of 2008

In October 2008, the City issued General Obligation Bonds, Series of 2008 in the principal amount of \$7,000,000. The bond proceeds were used (1) to currently refund a portion of the City's General Obligation Bonds, Series of 1998; (2) to acquire, construct, and equip improvements for the fire, police, public works, and code enforcement departments of the City, information technology equipment, parking, and other facilities for the City; and (3) to pay the costs of issuing these bonds.

The General Obligation Bonds are general obligations of the City of Altoona, payable from its tax and other revenues, and the City has pledged its full faith, credit, and taxing power. The \$7,000,000 General Obligation Bonds interest rates range from 3% to 4.5%.

The City currently refunded a portion of these Bonds (\$2,630,000) with the General Obligation Bonds, Series of 2014.

Annual debt service requirements to maturity for these General Obligation Bonds are as follows:

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
03/01/2018			\$462	\$ 462	
09/01/2018	<u>\$25,000</u>	3.700%	<u>463</u>	<u>25,463</u>	<u>\$25,925</u>
	<u>\$25,000</u>		<u>\$925</u>	<u>\$25,925</u>	<u>\$25,925</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Bonds, Series of 2009

In March 2009, the City issued General Obligation Bonds, Series of 2009 in the principal amount of \$8,000,000. The bond proceeds will be used to provide funds (1) to construct various improvements to buildings and facilities in the City; (2) capitalize interest on the Bonds; and (3) to pay the costs of issuing these bonds.

The General Obligation Bonds are general obligations of the City of Altoona, payable from its tax and other general revenues, and the City has pledged its full faith, credit, and taxing power. The \$8,000,000 General Obligation Bonds interest rates range from 3% to 4.45%.

The City advance refunded a portion of these Bonds (\$1,740,000) with the General Obligation Bonds, Series of 2014. In addition, the City currently refunded a portion (\$2,905,000) with the General Obligation Bonds, Series of 2016. Finally, the City currently refunded a portion of these Bonds (\$330,000) with the General Obligation Bonds, Series of 2017.

Annual debt service requirements to maturity for these General Obligation Bonds are as follows:

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
03/01/2018			\$3,795	\$ 3,795	
09/01/2018	\$230,000	3.300%	3,795	233,795	\$237,590
	\$230,000		\$7,590	\$237,590	\$237,590

General Obligation Bonds, Series of 2013

As of November 12, 2013, the City issued \$2,980,000 General Obligation Bonds, Series of 2013 to finance building and road improvements and acquire vehicles and equipment for the City's public works, police, fire, and administrative departments as well as paying the allocable costs of issuing these bonds.

The General Obligation Bonds are general obligations of the City of Altoona, payable from its tax and other general revenues, and the City has pledged its full faith, credit, and taxing power. The \$2,980,000 General Obligation Bonds interest rates range from .6% to 4.1%.

The City advance refunded a portion of these Bonds (\$1,790,000) with the General Obligation Bonds, Series of 2017.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Bonds, Series of 2013 (Continued)

Annual debt service requirements to maturity for these General Obligation Bonds are as follows:

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/2018			\$ 5,733	\$ 5,733
09/01/2018	\$120,000	2.0%	5,733	125,733
03/01/2019			4,532	4,532
09/01/2019	185,000	2.3%	4,532	189,532
03/01/2020			2,405	2,405
09/01/2020	<u>185,000</u>	2.6%	<u>2,405</u>	<u>187,405</u>
	\$490,000		\$25,340	\$515,340

General Obligation Bonds, Series of 2014

As of February 28, 2014, the City issued \$8,910,000 General Obligation Bonds, Series of 2014 to currently refund a portion (\$4,055,000) of the City's General Obligation Notes, Series of 2003 (Federally Tax-Exempt); currently refund a portion (\$2,630,000) of the City's General Obligation Bonds, Series of 2008; advance refund a portion (\$1,740,000) of the City's General Obligation Bonds, Series of 2009; and pay the costs of issuing the Bonds.

The General Obligation Bonds are general obligations of the City of Altoona, payable from its tax and other general revenues, and the City has pledged its full faith, credit, and taxing power. The \$8,910,000 General Obligation Bonds interest rates range from 1.0% to 3.5%.

Annual debt service requirements to maturity for these General Obligation Bonds are as follows:

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
03/01/2018			\$ 101,715	\$ 101,715	
09/01/2018	\$ 740,000	1.300%	101,715	841,715	\$ 943,430
03/01/2019			96,905	96,905	
09/01/2019	595,000	2.000%	96,905	691,905	788,810
03/01/2020			90,955	90,955	
09/01/2020	610,000	2.000%	90,955	700,955	791,910
03/01/2021			84,855	84,855	
09/01/2021	925,000	2.375%	84,855	1,009,855	1,094,710
03/01/2022			73,871	73,871	
09/01/2022	865,000	2.650%	73,870	938,870	1,012,741
03/01/2023			62,410	62,410	
09/01/2023	1,070,000	3.000%	62,409	1,132,409	1,194,819
03/01/2024			46,360	46,360	
09/01/2024	915,000	3.050%	46,359	961,359	1,007,719

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Bonds, Series of 2014 (Continued)

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
03/01/2025			\$ 32,406	\$ 32,406	
09/01/2025	\$ 940,000	3.200%	32,405	972,405	\$ 1,004,811
03/01/2026			17,366	17,366	
09/01/2026	915,000	3.375%	17,365	932,365	949,731
03/01/2027			1,925	1,925	
09/01/2027	<u>110,000</u>	3.500%	<u>1,925</u>	<u>111,925</u>	<u>113,850</u>
	<u>\$7,685,000</u>		<u>\$1,217,531</u>	<u>\$ 8,902,531</u>	<u>\$ 8,902,531</u>

General Obligation Bonds, Series of 2016

As of October 18, 2016, the City issued \$9,955,000 General Obligation Bonds, Series of 2016 to currently refund the City's General Obligation Notes, Series A of 2013 (\$6,690,000); currently refund a portion (\$2,905,000) of the City's General Obligation Bonds, Series of 2009; and pay the costs of issuing the Bonds.

The General Obligation Bonds are general obligations of the City of Altoona, payable from its tax and other general revenues, and the City has pledged its full faith, credit, and taxing power. The \$9,955,000 General Obligation Bonds interest rates range from 1% to 2.35%.

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
03/01/2018			\$ 110,404	\$ 110,404	
09/01/2018	\$ 75,000	1.100%	110,404	185,404	\$ 295,808
03/01/2019			109,991	109,991	
09/01/2019	5,000	1.350%	109,991	114,991	224,982
03/01/2020			109,957	109,957	
09/01/2020	5,000	1.400%	109,957	114,957	224,914
03/01/2021			109,923	109,923	
09/01/2021	5,000	2.000%	109,923	114,923	224,846
03/01/2022			109,873	109,873	
09/01/2022	420,000	3.000%	109,873	529,873	639,746
03/01/2023			103,572	103,572	
09/01/2023	325,000	2.000%	103,572	428,572	532,144
03/01/2024			100,323	100,323	
09/01/2024	525,000	2.000%	100,323	625,323	725,646
03/01/2025			95,073	95,073	
09/01/2025	540,000	2.000%	95,073	635,073	730,146
03/01/2026			89,672	89,672	
09/01/2026	770,000	2.000%	89,672	859,672	949,344

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Bonds, Series of 2016 (Continued)

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
03/01/2027			\$ 81,972	\$ 81,972	
09/01/2027	\$1,625,000	2.100%	81,972	1,706,972	\$ 1,788,944
03/01/2028			64,910	64,910	
09/01/2028	1,030,000	2.200%	64,910	1,094,910	1,159,820
03/01/2029			53,580	53,580	
09/01/2029	1,045,000	2.350%	53,580	1,098,580	1,152,160
03/01/2030			41,301	41,301	
09/01/2030	1,075,000	2.350%	41,301	1,116,301	1,157,602
03/01/2031			28,670	28,670	
09/01/2031	1,100,000	2.350%	28,670	1,128,670	1,157,340
03/01/2032			15,745	15,745	
09/01/2032	1,125,000	2.350%	15,745	1,140,745	1,156,490
03/01/2033			2,526	2,526	
09/01/2033	<u>215,000</u>	2.350%	<u>2,526</u>	<u>217,526</u>	<u>220,052</u>
	<u>\$9,885,000</u>		<u>\$2,454,984</u>	<u>\$12,339,984</u>	<u>\$12,339,984</u>

General Obligation Bonds, Series of 2017

As of December 22, 2017, the City issued \$9,359,000 General Obligation Bonds, Series of 2017 to advance refund a portion (\$1,790,000) of the City's outstanding General Obligation Bonds, Series of 2013 (the "Refunded 2013 Bonds"). In addition, a portion of the proceeds were deposited into a sinking fund held by the Escrow Agent for the City's General Obligation Bonds, Series of 2009 to redeem and retire \$330,000 outstanding principal amount thereof. Proceeds of the Bonds also will pay the costs of issuing the Bonds, and all remaining proceeds will be deposited into a capital projects account to fund various capital projects of the City.

The General Obligation Bonds are general obligations of the City of Altoona, payable from its tax and other general revenues, and the City has pledged its full faith, credit, and taxing power. The interest rate on these Bonds is 2.56%.

Annual debt service requirements to maturity for these General Obligation Bonds are as follows:

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/2018	\$ 0	2.56%	\$ 45,921	\$ 45,921
09/01/2018	1,000	2.56%	119,795	120,795
03/01/2019	0	2.56%	119,782	119,782
09/01/2019	448,000	2.56%	119,782	567,782

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Bonds, Series of 2017 (Continued)

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/2020	\$ 0	2.56%	\$ 114,048	\$ 114,048
09/01/2020	463,000	2.56%	114,048	577,048
03/01/2021	0	2.56%	108,122	108,122
09/01/2021	921,000	2.56%	108,122	1,029,122
03/01/2022	0	2.56%	96,333	96,333
09/01/2022	759,000	2.56%	96,333	855,333
03/01/2023	0	2.56%	86,618	86,618
09/01/2023	699,000	2.56%	86,618	785,618
03/01/2024	0	2.56%	77,670	77,670
09/01/2024	713,000	2.56%	77,670	790,670
03/01/2025	0	2.56%	68,544	68,544
09/01/2025	734,000	2.56%	68,544	802,544
03/01/2026	0	2.56%	59,149	59,149
09/01/2026	750,000	2.56%	59,149	809,149
03/01/2027	0	2.56%	49,549	49,549
09/01/2027	770,000	2.56%	49,549	819,549
03/01/2028	0	2.56%	39,693	39,693
09/01/2028	790,000	2.56%	39,693	829,693
03/01/2029	0	2.56%	29,581	29,581
09/01/2029	555,000	2.56%	29,581	584,581
03/01/2030	0	2.56%	22,477	22,477
09/01/2030	571,000	2.56%	22,477	593,477
03/01/2031	0	2.56%	15,168	15,168
09/01/2031	585,000	2.56%	15,168	600,168
03/01/2032	0	2.56%	7,680	7,680
09/01/2032	<u>600,000</u>	2.56%	<u>7,680</u>	<u>607,680</u>
	<u>\$9,359,000</u>		<u>\$1,954,544</u>	<u>\$11,313,544</u>

General Obligation Note, Series of 2015

As of March 25, 2015, the City entered into a Note with S & T Bank for the maximum principal amount of \$2,145,000 to acquire vehicles and equipment, and construct street and other capital improvements and pay related expenses.

The General Obligation Note constitutes a general obligation of the City of Altoona, payable from its tax and other general revenues, and the City has pledged its full faith, credit, and taxing power. The \$2,145,000 General Obligation Note interest is fixed at 2.384% until March 31, 2025. On April 1, 2025 and the first business day of each subsequent month, the interest rate shall be adjusted to equal the one-month LIBOR rate 2.30%, not to exceed 4.75%.

As of December 31, 2017, \$1,223,445 had been drawn on this Note.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Note, Series of 2015 (Continued)

Annual debt service requirements to maturity for this General Obligation Note are as follows:

Governmental Activities

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Annual Debt Service</u>
04/01/2018	\$ 69,180	2.384%	\$ 12,167	\$ 81,347	
10/01/2018	70,010	2.384%	11,343	81,353	\$ 162,700
04/01/2019	70,840	2.384%	10,508	81,348	
10/01/2019	71,690	2.384%	9,664	81,354	162,702
04/01/2020	72,540	2.384%	8,809	81,349	
10/01/2020	73,400	2.384%	7,945	81,345	162,694
04/01/2021	74,280	2.384%	7,070	81,350	
10/01/2021	75,160	2.384%	6,184	81,344	162,694
04/01/2022	76,060	2.384%	5,288	81,348	
10/01/2022	76,970	2.384%	4,382	81,352	162,700
04/01/2023	77,880	2.384%	3,464	81,344	
10/01/2023	78,810	2.384%	2,536	81,346	162,690
04/01/2024	79,750	2.384%	1,596	81,346	
10/01/2024	<u>54,175</u>	2.384%	<u>646</u>	<u>54,821</u>	<u>136,167</u>
	<u>\$1,020,745</u>		<u>\$ 91,602</u>	<u>\$1,112,347</u>	<u>\$1,112,347</u>

General Obligation Note, Series A of 2015

As of December 9, 2015, the City entered into a Note with Mifflinburg Bank and Trust Company for the maximum principal amount of \$4,855,000 to finance the City's 2016 and 2017 capital budget projects.

The General Obligation Note constitutes a general obligation of the City of Altoona, payable from its tax and other general revenues, and the City has pledged its full faith, credit, and taxing power. The \$4,855,000 General Obligation Note interest is fixed at 2.53% until October 1, 2025; however, in order to provide the City with a fixed rate, a series of nine individual notes will be used.

As of December 31, 2017, \$3,920,789 had been drawn on this Note.

As of December 31, 2017, the various notes had the following amounts drawn, with their respective maturity dates, and Note 1 for \$501,000 matured in 2017.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

General Obligation Note, Series A of 2015 (Continued)

<u>Note</u>	<u>Maturity Date</u>	<u>Principal</u>	<u>Available</u>	<u>Rate</u>
2	10/01/18	\$ 507,000	\$507,000	1.37%
3	10/01/19	514,000	514,000	1.76%
4	10/01/20	523,000	523,000	2.07%
5	10/01/21	534,000	534,000	2.35%
6	10/01/22	547,000	547,000	2.49%
7	10/01/23	560,000	560,000	2.73%
8	10/01/24	234,789	576,000	2.89%
9	10/01/25	0	593,000	3.14%
		\$3,419,789		

Annual debt service requirements to maturity, based upon draws as of December 31, 2017, for this General Obligation Note are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 507,000	\$ 75,061	\$ 582,061
2019	514,000	68,115	582,115
2020	523,000	59,069	582,069
2021	534,000	48,243	582,243
2022	547,000	35,694	582,694
2023	560,000	22,073	582,073
2024	234,789	6,785	241,574
	\$3,419,789	\$315,040	\$3,734,829

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended December 31, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Workers Compensation	\$ 576,925	\$ 0	\$ 0	\$ 576,925	\$ 0
General Obligation Bonds	21,680,000	9,359,000	(3,365,000)	27,674,000	1,191,000
General Obligation Notes	3,975,815	2,592,116	(243,745)	6,324,186	758,684
Accumulated Compensated Absences	3,186,715	138,016	0	3,324,731	98,672
Capital Lease Obligation	16,421	37,915	(12,930)	41,406	12,782
Net Pension Liability	35,783,344	0	(10,421,420)	25,361,924	0
Net OPEB Liability	5,560,178	1,308,205	0	6,868,383	0
Total Government Activity Long-Term Liabilities	\$70,779,398	\$13,435,252	(\$14,043,095)	\$70,171,555	\$2,061,138

The accumulated compensated absences will be paid by the fund for which the employee worked. The only amount of accumulated compensated absences recognized as due within one year is the incentive payment made in February 2018.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

Component Units

Altoona Water Authority

Loans Payable - PENNVEST

The capital debt of the Authority has been obtained primarily by borrowing from Pennsylvania Infrastructure Investment Authority (PENNVEST) and issuing revenue bonds. Long-Term bonds and notes issued and outstanding as of December 31, 2017 and 2016 are as follows:

Water Division

PENNVEST loan no. 50035, issued November 7, 1994 in the original amount of \$20,000,000, repayable in monthly installments of \$71,518 including interest at an annual rate of 1%.	\$ 5,733,038
PENNVEST loan no. 12590 issued January 7, 2003 in the original amount of \$7204016, repayable in monthly installments of \$32,818 including interest at an annual rate of 1%.	2,722,479
PENNVEST loan no. 89197 issued June 28, 2013, in the original amount of \$6,466,636 currently repayable in interest only payments until closing. The interest rate is fixed at 1%.	<u>4,380,924</u>
Total - Water Division	<u>\$12,836,441</u>

Wastewater Division

PENNVEST loan no. 27787 issued February 16, 2010, in the original amount of \$20,000,000, repayable in monthly installments of \$94,444 including interest. The interest rate is fixed at 1.274% for the first 5 years and then adjusts to 2.547% for the remaining 15 years.	\$15,161,908
PENNVEST loan no. 72400 issued April 20, 2011, in the original amount of \$10,000,000, repayable in monthly installments of \$32,164 including interest. The interest rate is fixed at 1.00%.	7,839,075
PENNVEST loan no. 71402 issued September 2, 2014, in the original amount of \$6,116,523 currently repayable in monthly installments of \$28,120 including interest. The interest rate is fixed at 1.00%.	<u>5,485,919</u>
Total Wastewater Division	<u>\$28,486,902</u>
Total PENNVEST	\$41,323,343
Less: Current Portion	(<u>2,682,406</u>)
Net PENNVEST Long Term Position	<u>\$38,640,937</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

Component Units (Continued)

Altoona Water Authority (Continued)

Loans Payable - PENNVEST (Continued)

All PENNVEST loans are secured by the Authority's full faith and credit and a pledge of the gross receipts and revenues of the Division benefited by the loan(s).

Aggregate principal payments due under the loans are as follows:

2018	\$ 2,682,406
2019	2,974,950
2020	2,987,631
2021	3,031,934
2022	3,077,051
2023-2027	12,274,225
2028-2032	9,860,844
2033-2037	2,504,875
2038-2042	1,671,429
2043	<u>257,998</u>
	<u>\$41,323,343</u>

Bonds Payable

The Authority's bonds payable are as follows:

Series of 2007 Water Revenue Refunding Bonds	\$10,675,000
Series B of 2010 Sewer Revenue Bonds	14,370,000
Series C of 2010 Sewer Revenue Bonds	<u>13,960,000</u>
Total	<u>\$39,005,000</u>
Less: Current Portion	(\$ 6,010,000)
Less: Unamortized Premiums, Discounts, and Costs, Net of Accumulated Amortization and Accretion:	
Water Division	(\$ 662,715)
Wastewater Division	<u>(603,668)</u>
Less: Bond Issuance Costs, Net	(\$ 1,266,383)
Net Long-Term Portion	<u>\$31,728,617</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

Component Units (Continued)

Altoona Water Authority (Continued)

Bonds Payable (Continued)

Water Revenue Refunding Bond - Series 2007

During 2007, the Authority issued Water Revenue Refunding Bonds, Series of 2007 in the amount of \$47,740,000. The bonds were issued to advance-refund the remaining principal of the 1997 and 1994 Bond series. The 2007 Bonds also bear a fixed interest rate lower than the 1997 and 1994 series. Remaining principal and interest requirements on the bonds for each year are as follows:

<u>Year Ending November 01,</u>	<u>Tax-Exempt Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal and Interest Requirements</u>
2018	5.250%	\$ 5,200,000	\$560,438	\$ 5,760,438
2019	5.250%	<u>5,475,000</u>	<u>287,432</u>	<u>5,762,432</u>
Total		<u>\$10,675,000</u>	<u>\$847,870</u>	<u>\$11,522,870</u>

Sewer Revenue Bonds - Series B of 2010, Build America Bonds

During 2010, the Authority issued Sewer Revenue Bonds, Series B of 2010 in the amount of \$16,340,000. The bonds were issued to finance various capital improvements. Principal and interest requirements on the bonds for each year are as follows:

<u>Year Ending June 1,</u>	<u>Taxable Interest Rate</u>	<u>Principal</u>	<u>Interest Expense</u>	<u>Interest Subsidy</u>	<u>Net Total</u>
2018	4.893%	\$ 430,000	\$ 890,976	(\$ 311,841)	\$ 1,009,135
2019	4.993%	440,000	869,936	(304,478)	1,005,458
2020	5.093%	455,000	847,966	(296,788)	1,006,178
2021	5.343%	470,000	824,794	(288,678)	1,006,116
2022	5.434%	485,000	799,681	(279,889)	1,004,792
2023-2027	6.335%	2,740,000	3,533,728	(1,236,805)	5,036,923
2028-2032	6.375%	3,345,000	2,591,653	(907,079)	5,029,574
2033-2037	6.435%	4,110,000	1,424,710	(498,648)	5,036,062
2038-2039	6.435%	<u>1,895,000</u>	<u>184,041</u>	(64,414)	<u>2,014,627</u>
Total		<u>\$14,370,000</u>	<u>\$11,967,485</u>	<u>(\$4,188,620)</u>	<u>\$22,148,865</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

Component Units (Continued)

Altoona Water Authority (Continued)

Bonds Payable (Continued)

Sewer Revenue Bonds - Series B of 2010, Build America Bonds (Continued)

The Authority has designated these bonds as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA) and has elected to receive a cash subsidy from the U.S. Treasury equal to thirty-five percent (35%) of the interest payable. Unlike its tax-exempt issues, interest on these bonds is subject to federal and state income taxes, payable by the holder. The Authority's rebate on those bonds was slightly impacted by the so-called "sequestration costs" imposed on the federal government.

Sewer Revenue Bonds - Series C of 2010, Build America Bonds

During 2010, the Authority issued Sewer Revenue Bonds, Series C of 2010 in the amount of \$15,745,000. The bonds were issued to finance various capital improvements. Principal and interest requirements on the Bonds for each year are as follows:

<u>Year Ending June 1,</u>	<u>Taxable Interest Rate</u>	<u>Principal</u>	<u>Interest Expense</u>	<u>Interest Subsidy</u>	<u>Net Total</u>
2018	4.302%	\$ 380,000	\$ 931,313	(\$ 325,960)	\$ 985,353
2019	4.792%	390,000	914,965	(320,238)	984,727
2020	4.942%	405,000	896,277	(313,697)	987,580
2021	5.142%	415,000	876,263	(306,692)	984,571
2022	5.342%	430,000	854,922	(299,223)	985,699
2023-2027	6.784%	2,430,000	3,845,231	(1,345,831)	4,929,400
2028-2033	6.504%	3,025,000	2,938,199	(1,028,369)	4,934,830
2033-2037	7.064%	3,780,000	1,780,481	(623,169)	4,937,312
2038-2040	7.640%	<u>2,705,000</u>	<u>388,167</u>	<u>(135,858)</u>	<u>2,957,309</u>
Total		\$13,960,000	\$13,425,818	(\$4,699,037)	\$22,686,781

The Authority has designated this series of bonds as "Build America Bonds" under ARRA and elected to receive a subsidy of thirty-five percent (35%) of the interest payable. Interest on these bonds is subject to federal and state income taxes, payable by the holder.

The Authority's rebate on those bonds was slightly impacted by the so-called "sequestration costs" imposed on the federal government.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

Component Units (Continued)

Altoona Water Authority (Continued)

Bonds Payable (Continued)

Sewer Revenue Bonds - Series C of 2010, Build America Bonds (Continued)

In connection with issuing its Bonds, the Authority incurred certain costs and discounts were allowed to compensate the underwriter (and bondholders).

The significant components of these costs are:

Insurance and Other Issuance Costs, Net	\$1,935,056
Less: Accumulated Amortization	(1,169,299)
Net Unamortized Bond Costs	\$ 765,757
	<hr/>
Premium on Refunding	\$3,045,481
Less: Accumulated Amortization	(2,544,855)
Net Premium on Refunding	\$ 500,626
	<hr/>
Net	\$1,266,383
	<hr/> <hr/>

Unearned Interest

In conjunction with the issuance of the Water Revenue Bonds, Series of 1994, the Authority entered into certain agreements (Reserve Fund Agreement and Debt Service Deposit Agreement) that resulted in fees being paid to the Authority. Both fees relate to the flow of funds and the time value of money over a future period during which the Authority will be servicing the Bond Issue. The Authority has recorded these fees as unearned interest and will include the fees in income over the term of the Agreement.

The Authority has received gross fees under this arrangement aggregating \$640,640. At December 31, 2017 and 2016, accumulated accretion was \$535,330 and \$482,673, respectively. During 2017 and 2016, the Authority recognized \$52,656 of interest income.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

Component Units (Continued)

The Parking Authority of the City of Altoona

Term Note

On April 24, 2009, the Authority entered into a \$200,000 term note agreement with M & T Bank, with a fixed interest rate of 4.8%, which will be paid off in 81 months, with irregular payments amounts. On March 6, 2013, the note was modified to include a reduction in the fixed interest rate from 4.8% to 2.8% and the final maturity on February 1, 2018.

The debt service requirements on the above debt is as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$5,109	\$17	\$5,126
	<u> </u>	<u> </u>	<u> </u>

Façade Loan

On August 6, 2010, the Authority entered into a \$42,500 term note agreement with the Greater Altoona Economic Development Corporation, with a fixed interest rate of 3%, which will be paid off in 10 years, with monthly payments of \$410.

The debt service requirements on the above debt is as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,609	\$315	\$ 4,924
2019	4,750	175	4,925
2020	<u>3,247</u>	<u>36</u>	<u>3,283</u>
	\$12,606	\$526	\$13,132
	<u> </u>	<u> </u>	<u> </u>

Efficiency Edge Project Loan

On September 29, 2015, the Authority entered into an agreement with Direct Energy to provide financing in the amount of \$87,833 for its LED lighting project, with a fixed interest rate of 7.5%, which will be paid in 120 monthly payments of \$1,760.

The debt service requirements on the above debt is as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$20,510	\$ 4,130	\$24,640
2019	19,061	2,059	21,120
2020	<u>17,010</u>	<u>590</u>	<u>17,600</u>
	\$56,581	\$ 6,779	\$63,360
	<u> </u>	<u> </u>	<u> </u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

I. Long-Term Debt (Continued)

Component Units (Continued)

The Parking Authority of the City of Altoona (Continued)

Change in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

<u>Description and Purpose</u>	<u>Balance January 1, 2017</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance December 31, 2017</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
Term Note Payable	\$ 40,420	\$0	(\$35,311)	\$ 5,109	\$ 5,109
Façade Loan	17,080	0	(4,474)	12,606	4,609
Efficiency Edge Project Loan	<u>70,173</u>	<u>0</u>	<u>(13,592)</u>	<u>56,581</u>	<u>20,510</u>
	\$127,673	\$0	(\$53,377)	\$74,296	\$30,228

K. Lease Obligations

1. 2016 Capital Lease

In 2016, the City entered into a lease agreement as lessee for financing the acquisition of a vehicle for the inspections department valued at \$23,177. The equipment has a five-year estimated useful life. The amount of \$4,455 was included in depreciation expense in the current year. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

<u>Year Ended December 31</u>	<u>Governmental Activities</u>
2018	\$ 6,101
2019	<u>6,101</u>
Total Minimum Lease Payments	\$12,202
Less: Amount Representing Interest	(<u>621</u>)
Present Value of Minimum Lease Payments	<u>\$11,581</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

K. Lease Obligations (Continued)

2. 2017 Capital Lease

In 2017, the City entered into a lease agreement as lessee for financing the acquisition of two (2) vehicles for the inspections department valued at \$37,915. The equipment has a five-year estimated useful life. The amount of \$7,583 was included in depreciation expense in the current year. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

<u>Year Ended December 31</u>	<u>Governmental Activities</u>
2018	\$ 8,091
2019	8,091
2020	8,091
2021	<u>8,091</u>
Total Minimum Lease Payments	\$32,364
Less: Amount Representing Interest	(<u>2,539</u>)
Present Value of Minimum Lease Payments	<u>\$29,825</u>

L. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2017 is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Housing and Community Development	\$143,291
General Fund	Recreational Capital Reserve	150,500
Recreation Project	General Fund	2,313
General Fund	Highway Aid Fund	8,152
General Fund	Capital Expenditures	314,331
Schulman Acquisition Account	General Fund	<u>913</u>
Total		<u>\$619,500</u>

The outstanding balances between funds result mainly from the time lag between that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)**

II. Detailed Notes on All Activities and Funds (Continued)

M. Interfund Transfers

<u>Transfers Out</u>	----- <u>Transfer In</u> -----			
	<u>General Fund</u>	<u>Capital Expenditures</u>	<u>Special Investigations</u>	<u>Total</u>
Highway Aid Fund	\$ 456,700	\$ 0	\$ 0	\$ 456,700
.2% Pension Fund	4,481,962	0	0	4,481,962
General Fund	0	46	33,000	33,046
Justice Grant Trust Fund	<u>2,808</u>	<u>0</u>	<u>0</u>	<u>2,808</u>
Total	<u>\$4,941,470</u>	<u>\$46</u>	<u>\$33,000</u>	<u>\$4,974,516</u>

Transfers are used to (1) move revenues from the fund with taxing authorization to the general fund as pension contributions become due, (2) move revenues from the fund receiving grants/allocations to the general fund where the expenditures are paid from, and (3) move unrestricted general fund revenues to fund special investigations by the police department.

N. Revenues and Expenditures-On-Behalf Payments

During 2017, the Commonwealth of Pennsylvania paid to the City \$1,560,006 for on-behalf payments for pensions of City employees.

O. Cooperation Agreement - Altoona Water Authority

On March 23, 2017, the City entered into a series of agreements with the Altoona City Authority. Pursuant to the Water and Sewer System Asset Conveyance Agreement, the Authority transferred to the City all right, title, and interest in and to the water system and sewer system owned and operated by the Authority. Concurrently, the City leased the water and sewer systems to the Authority, giving it lawful possession to operate and set rates for the systems. The lease terms extend throughout the remaining term of all PENNVEST loans, provided that either party may terminate the lease after twenty years, with the consent of PENNVEST. In addition, the City guaranteed all the Authority's outstanding PENNVEST loans and bonds.

P. Contingent Liabilities

In the normal course of operations, there are various claims made against the City for a number of reasons. As of the date of this report, however, no uninsured losses which are measurable and material in amounts or the likelihood of their being settled against the City have been disclosed by the solicitors.

In addition, the City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant to the City's financial statements.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(CONTINUED)

II. Detailed Notes on All Activities and Funds (Continued)

P. Contingent Liabilities (Continued)

The allocation of recreational millage to cover certain general fund expenditures has been questioned by certain taxpayers. It is the opinion of management that the concept of charging all time and effort expended on recreational facilities is sound, and that certain expenditures incurred to provide "open space benefits" are acceptable costs. The potential liability, if any, as a result of this allocation methodology cannot be quantified.

Q. Subsequent Events

The date to which events occurring after December 31, 2017, the date of the most recent balance sheet, have been evaluated by management for possible adjustment to the financial statements or disclosure is September 10, 2018, which is the date on which the financial statements were available to be issued.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS**

Total Pension Liability

As of and for Year Ended December 31, 2017

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Service Cost	\$ 418,553	\$ 724,987	\$ 823,620
Interest	1,538,030	3,328,581	3,489,469
Differences between Expected and Actual Experience	(1,030,226)	(940,613)	356,968
Benefit Payments	(<u>1,033,681</u>)	(<u>2,885,118</u>)	(<u>3,148,214</u>)
Net Change in Total Pension Liability	(\$ 107,324)	\$ 227,837	\$ 1,521,843
<u>Total Pension Liability</u> - Beginning	<u>22,333,679</u>	<u>50,078,765</u>	<u>50,616,337</u>
<u>Total Pension Liability</u> - Ending	<u>\$22,226,355</u>	<u>\$50,306,602</u>	<u>\$52,138,180</u>

Plan's Fiduciary Net Position

As of and for Year Ended December 31, 2017

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Contributions - Employer (1)	\$ 582,815	\$ 2,651,796	\$ 2,568,624
Contributions - Employees	209,817	233,341	198,443
Net Investment Income	2,446,581	5,088,928	5,243,966
Benefit Payments	(1,033,681)	(2,885,118)	(3,148,214)
Administrative Expense	(<u>59,574</u>)	(<u>8,702</u>)	(<u>25,246</u>)
Net Change in Plan's Fiduciary Net Position	\$ 2,145,958	\$ 5,080,245	\$ 4,837,573
<u>Plan's Fiduciary Net Position</u> - Beginning	<u>17,792,598</u>	<u>34,280,643</u>	<u>35,172,196</u>
<u>Plan's Fiduciary Net Position</u> - Ending	<u>\$19,938,556</u>	<u>\$39,360,888</u>	<u>\$40,009,769</u>
<u>City's Net Position Liability</u> - Ending	<u>\$ 2,287,799</u>	<u>\$10,945,714</u>	<u>\$12,128,411</u>

(1) - Included State Aid

Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	89.7%	78.24%	76.74%
Estimated Covered Payroll	\$4,172,831	\$ 3,925,817	\$ 3,666,874
Net Pension Liability as a Percentage of Covered Payroll	54.8%	278.81%	330.76%

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
(CONTINUED)**

Total Pension Liability

As of and for Year Ended December 31, 2016

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Service Cost	\$ 427,068	\$ 764,469	\$ 815,918
Interest	1,545,009	3,380,925	3,494,605
Differences between Expected and Actual Experience	0	0	(1,214,381)
Benefit Payments	(1,025,657)	(2,886,700)	(3,197,018)
Net Change in Total Pension Liability	\$ 946,420	\$ 1,258,694	(\$ 100,876)
<u>Total Pension Liability</u> - Beginning	<u>21,387,259</u>	<u>48,820,071</u>	<u>50,717,213</u>
<u>Total Pension Liability</u> - Ending	<u>\$22,333,679</u>	<u>\$50,078,765</u>	<u>\$50,616,337</u>

Plan's Fiduciary Net Position

As of and for Year Ended December 31, 2016

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Contributions - Employer (1)	\$ 492,824	\$ 2,175,571	\$ 3,084,533
Contributions - Employees	203,357	218,396	179,301
Net Investment Income	721,864	1,567,772	1,546,238
Benefit Payments	(1,025,657)	(2,886,700)	(3,197,018)
Administrative Expense	(66,957)	(10,962)	(27,547)
Net Change in Plan's Fiduciary Net Position	\$ 325,431	\$ 1,064,077	\$ 1,585,507
<u>Plan's Fiduciary Net Position</u> - Beginning	<u>17,467,167</u>	<u>33,216,566</u>	<u>33,586,689</u>
<u>Plan's Fiduciary Net Position</u> - Ending	<u>\$17,792,598</u>	<u>\$34,280,643</u>	<u>\$35,172,196</u>
<u>City's Net Position Liability</u> - Ending	<u>\$ 4,541,081</u>	<u>\$15,798,122</u>	<u>\$15,444,141</u>

(1) - Included State Aid

Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	79.7%	68.45%	69.49%
Estimated Covered Payroll	\$ 4,111,031	\$ 4,181,246	\$ 3,539,165
Net Pension Liability as a Percentage of Covered Payroll	110.5%	377.83%	436.38%

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
(CONTINUED)**

Total Pension Liability

As of and for Year Ended December 31, 2015

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Service Cost	\$ 453,637	\$ 736,931	\$ 671,459
Interest	1,481,810	3,269,134	3,451,962
Differences between Expected and Actual Experience	(576,125)	0	(457,359)
Changes of Assumptions	364,470	0	3,257,536
Benefit Payments	(1,048,272)	(2,824,117)	(3,154,252)
 Net Change in Total Pension Liability	 \$ 675,520	 \$ 1,181,948	 \$ 3,769,346
<u>Total Pension Liability</u> - Beginning	<u>20,711,739</u>	<u>47,638,123</u>	<u>46,947,867</u>
<u>Total Pension Liability</u> - Ending	<u>\$21,387,259</u>	<u>\$48,820,071</u>	<u>\$50,717,213</u>

Plan's Fiduciary Net Position

As of and for Year Ended December 31, 2015

	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Contributions - Employer (1)	\$ 500,327	\$ 2,194,478	\$ 3,039,983
Contributions - Employees	212,380	216,756	174,139
Net Investment Income	(339,724)	(876,269)	(842,653)
Benefit Payments	(1,048,272)	(2,824,117)	(3,154,252)
Administrative Expense	(58,609)	(18,478)	(30,163)
Other Changes	0	3,453	0
 Net Change in Plan's Fiduciary Net Position	 (\$ 733,898)	 (\$ 1,304,177)	 (\$ 812,946)
<u>Plan's Fiduciary Net Position</u> - Beginning	<u>18,201,065</u>	<u>34,520,743</u>	<u>34,399,635</u>
<u>Plan's Fiduciary Net Position</u> - Ending	<u>\$17,467,167</u>	<u>\$33,216,566</u>	<u>\$33,586,689</u>
 <u>City's Net Position Liability</u> - Ending	 <u>\$ 3,920,092</u>	 <u>\$15,603,505</u>	 <u>\$17,130,524</u>

(1) - Included State Aid

Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	81.7%	68.04%	66.22%
Estimated Covered Payroll	\$ 4,226,241	\$ 4,127,756	\$ 3,487,941
Net Pension Liability as a Percentage of Covered Payroll	92.8%	378.01%	491.14%

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

	----- 2017 -----		
	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Actuarially Determined Contribution	\$ 582,815	\$2,651,796	\$2,568,624
City Contribution	<u>582,815</u>	<u>2,651,796</u>	<u>2,568,624</u>
Contribution Deficiency	\$ 0	\$ 0	\$ 0
Covered Payroll	<u>\$4,172,831</u>	<u>\$3,925,817</u>	<u>\$3,558,221 (1)</u>
Contribution as a Percentage of Covered Payroll	<u>14.0%</u>	<u>67.548%</u>	<u>72.19%</u>
	----- 2016 -----		
	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Actuarially Determined Contribution	\$ 492,824	\$2,175,571	\$3,084,533
City Contribution	<u>492,824</u>	<u>2,175,571</u>	<u>3,084,533</u>
Contribution Deficiency	\$ 0	\$ 0	\$ 0
Covered Payroll	<u>\$4,111,031</u>	<u>\$4,181,246</u>	<u>\$4,026,014 (1)</u>
Contribution as a Percentage of Covered Payroll	<u>12.0%</u>	<u>52.032%</u>	<u>76.62%</u>
	----- 2015 -----		
	<u>NUPP</u>	<u>PPP</u>	<u>PFPP</u>
Actuarially Determined Contribution	\$ 500,327	\$2,194,478	\$3,039,983
City Contribution	<u>500,327</u>	<u>2,194,478</u>	<u>3,039,983</u>
Contribution Deficiency	\$ 0	\$ 0	\$ 0
Covered Payroll	<u>\$4,226,241</u>	<u>\$4,127,756</u>	<u>\$3,823,241 (1)</u>
Contribution as a Percentage of Covered Payroll	<u>11.8%</u>	<u>53.164%</u>	<u>79.51%</u>

(1) - Amount used from Minimum Municipal Obligation

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

	<u>Altoona Non-Uniformed Employee Pension Plan</u>	<u>Altoona Police Pension Plan</u>	<u>Altoona Paid Firemen's Pension Plan</u>
Valuation date	01/01/17	01/01/17	01/01/17
Actuarial cost method	Entry age	Entry age normal	Entry age normal
Amortization method	Level Dollar Closed	Level Dollar	Level Dollar
Remaining Amortization period	12 Years	17 Years	19 Years
Actuarial asset valuation method	Fair Value	5 year smoothing	3 year gain/loss deferral (corridor restricted to 80% and 120% of market value)
Actuarial assumptions:			
Investment rate of return	7.25%	7.25%	7.25%
Projected salary increases	4.5%	4.5%	4.5%
Actuarial assumptions: (Continued)			
Post-retirement benefit increases	None	Every officer in good standing who retires on or after January 1, 1996, shall receive an annual cost of living adjustment, not to exceed 50% of the original benefit. The annual adjustment will be based on the annual percentage increase in the Consumer Price Index on a year basis from October to October of the prior year. In addition to the 50% maximum, such accumulated COLA increases shall not at any time exceed 50% of the current salary being paid patrolmen of the highest pay grade. Not available to officers hired after 2013.	For retirements after December 31, 1995, annual increases are based on the CPI, capped at 50% of the original benefit. At no time can the total pension benefit received exceed 50% of the salary paid to fireman of the highest pay grade. Not applicable to Post-2013 hires.
Inflation	3%	2.25%	3%
Mortality	RP-2000 Combined Healthy Mortality Table, with disabled lives set forward 5 years.	RP 2000 Gen Scale AA, set forward 10 years for disable lives.	Generational, AA
Disability Retirement	For total and permanent Disablement which occurs After the completion of 10 years of service, the member will receive their Normal Retirement Benefit.	1992 Railroad Retirement Board	If disabled in line of duty, same benefit as Retirement Benefit. If non-service related, 50% of monthly compensation at date of disability; if less than 10 years of service, 25% of monthly compensation.
Retirement	Age 60 and 20 years of service.	Latter of age 54 and 20 years of service.	20 years of service.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT POSTEMPLOYMENT HEALTHCARE PLAN**

Schedule of Funding Progress

City of Altoona Police Postretirement Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/08	\$0	\$13,961,079	\$13,961,079	0%	\$4,323,423	322.9%
1/1/11	\$0	\$12,708,823	\$12,708,823	0%	\$4,084,688	311.1%
1/1/14	\$0	\$15,635,205	\$15,635,205	0%	\$4,284,542	364.9%
1/1/17	\$0	\$15,666,752	\$15,666,752	0%	\$4,071,362	384.8%

City of Altoona Firemen's Postretirement Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/08	\$0	\$ 6,249,548	\$ 6,249,548	0%	\$2,631,098	237.5%
1/1/11	\$0	\$ 5,632,396	\$ 5,632,396	0%	\$3,684,077	152.9%
1/1/14	\$0	\$ 8,836,918	\$ 8,836,918	0%	\$3,103,679	284.7%
1/1/17	\$0	\$12,794,810	\$12,794,810	0%	\$3,568,127	358.6%

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLAR)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Revenue</u>			
Taxes	\$18,227,615	\$18,227,615	\$18,249,869
Licenses and Permits	1,425,925	1,425,925	1,588,656
Fines and Forfeits	230,200	230,200	198,655
Interest, Rents, and Royalties	162,590	162,590	181,549
Intergovernmental Revenue	3,906,709	3,906,709	3,975,423
Charges for Services (Departmental Earnings)	4,471,690	4,471,690	4,667,947
Miscellaneous Revenue	<u>5,300</u>	<u>5,300</u>	<u>5,722</u>
 Total Revenue	 <u>\$28,430,029</u>	 <u>\$28,430,029</u>	 <u>\$28,867,821</u>
<u>Expenditures</u>			
General Government	\$ 4,208,423	\$ 4,208,423	\$ 4,850,108
Public Safety (Protections to Persons and Property)	18,472,753	18,472,753	18,378,137
Public Works - Sanitation	0	0	28,340
Public Works - Highways, Roads, and Streets	4,012,395	4,012,395	2,950,241
Culture - Recreation	497,295	497,295	323,533
Community Development	976,522	976,522	1,055,636
Debt Service	2,798,470	2,798,470	2,660,942
Miscellaneous Expenditures	<u>20,000</u>	<u>20,000</u>	<u>11,088</u>
 Total Expenditures	 <u>\$30,985,858</u>	 <u>\$30,985,858</u>	 <u>\$30,258,025</u>
 Excess (Deficiency) of Revenue Over (Under) Expenditures	 <u>(\$ 2,555,829)</u>	 <u>(\$ 2,555,829)</u>	 <u>(\$ 1,390,204)</u>
<u>Other Financing Sources (Uses)</u>			
Sale of Capital Assets	\$ 10,000	\$ 10,000	\$ 16,699
Proceeds from Capital Lease	0	0	37,915
Transfers In	4,938,662	4,938,662	4,941,470
Transfers Out	<u>(511,137)</u>	<u>(511,137)</u>	<u>(33,046)</u>
 Total Other Financing Sources (Uses)	 <u>\$ 4,437,525</u>	 <u>\$ 4,437,525</u>	 <u>\$ 4,963,038</u>
 Excess of Revenue and Other Financing Sources Over Expenditures and Other Financing Uses	 <u>\$ 1,881,696</u>	 <u>\$ 1,881,696</u>	 <u>\$ 3,572,834</u>
 <u>Fund Balance</u> - Beginning	 <u>\$ 7,706,320</u>	 <u>\$ 7,706,320</u>	 <u>\$10,280,562</u>
 <u>Fund Balance</u> - Ending	 <u>\$ 9,588,016</u>	 <u>\$ 9,588,016</u>	 <u>\$13,853,396</u>

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
HIGHWAY AID FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Revenue</u>			
Interest, Rents, and Royalties	\$ 300	\$ 300	\$ 4,961
Intergovernmental Revenue	1,372,640	1,440,262	1,435,622
Miscellaneous Revenue	<u>0</u>	<u>20,000</u>	<u>20,502</u>
Total Revenue	<u>\$1,372,940</u>	<u>\$1,460,562</u>	<u>\$1,461,085</u>
<u>Expenditures</u>			
Public Works - Highway, Roads, and Streets	<u>\$1,889,940</u>	<u>\$2,236,079</u>	<u>\$ 736,781</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(\$ 517,000)</u>	<u>(\$ 775,517)</u>	<u>\$ 724,304</u>
<u>Other Financing (Uses)</u>			
Transfers Out	<u>\$ 0</u>	<u>\$ 0</u>	<u>(\$ 456,700)</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures and Other Financing (Uses)	<u>(\$ 517,000)</u>	<u>(\$ 775,517)</u>	<u>\$ 267,604</u>
<u>Fund Balance</u> - Beginning	<u>517,000</u>	<u>775,517</u>	<u>708,979</u>
<u>Fund Balance</u> - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 976,583</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND AND HIGHWAY AID FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017**

A. Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the general and highway aid funds. These budgets are adopted on a modified accrual basis of accounting.
- b. The city council approves by ordinance total budget appropriations only. The city council and mayor are authorized to transfer budget amounts between departments within any fund. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes this level has been expanded to a functional basis (general government, public safety, etc.)
- c. Unused appropriations for all of the above annually budgeted funds do not lapse at the end of the year.

Encumbrance accounting is employed in the governmental funds.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2017, expenditures exceeded appropriations in the General Government and Community Development functions (the legal level of budgetary control) for the General Fund.

For the year ended December 31, 2017, transfers out exceeded the budgeted amount for the Highway Aid Fund.

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AT DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

SPECIAL REVENUE FUNDS

	<u>Altoona Public Access</u>	<u>Union Avenue and Elm Street Project</u>	<u>Enhancement Account</u>	<u>Major Disaster</u>	<u>Justice Grant Trust Fund</u>	<u>Federal Seizure Fund</u>	<u>Gateway Project</u>	<u>Garden Heights Neighborhood Improvement</u>
<u>ASSETS</u>								
Cash	\$163,175	\$194	\$7,880	\$24,252	\$ 445	\$6,907	\$361	\$27,143
Investments	0	0	0	0	0	0	0	0
Due from Other Funds	0	0	0	0	0	0	0	0
TOTAL ASSETS	\$163,175	\$194	\$7,880	\$24,252	\$ 445	\$6,907	\$361	\$27,143
<u>LIABILITIES AND FUND BALANCES</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 263	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due to Other Funds	0	0	0	0	0	0	0	0
Unearned Revenues - Grants	0	194	7,880	0	445	6,907	361	27,143
Total Liabilities	\$ 263	\$194	\$7,880	\$ 0	\$ 445	\$6,907	\$361	\$27,143
<u>Fund Balances</u>								
Assigned for Projects	\$162,912	\$ 0	\$ 0	\$24,252	\$ 0	\$ 0	\$ 0	\$ 0
Assigned for Recreation	0	0	0	0	0	0	0	0
Total Fund Balances	\$162,912	\$ 0	\$ 0	\$24,252	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES AND FUND BALANCES	\$163,175	\$194	\$7,880	\$24,252	\$ 445	\$6,907	\$361	\$27,143

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AT DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

SPECIAL REVENUE FUNDS				TOTAL	CAPITAL PROJECTS				TOTAL	
Special Investigations Account	Schulman Acquisition Account	Martin Goodman Trust	Chlef's Reward Fund	Nonmajor Special Revenue Funds	Residential Land Bank Development Capital Reserve	Recreation Capital Reserve	Recreation Project	Broad Avenue Curb and Sidewalk	Nonmajor Capital Project Funds	Total
\$19,436	\$ 0	\$ 160	\$753	\$250,706	\$136,052	\$ 0	\$143,713	\$ 35	\$ 279,800	\$ 530,506
0	0	231,721	0	231,721	0	0	0	0	0	231,721
0	913	0	0	913	0	2,313	0	0	2,313	3,226
<u>\$19,436</u>	<u>\$913</u>	<u>\$231,881</u>	<u>\$753</u>	<u>\$483,340</u>	<u>\$136,052</u>	<u>\$2,313</u>	<u>\$143,713</u>	<u>\$ 35</u>	<u>\$ 282,113</u>	<u>\$ 765,453</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 263	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 263
0	0	500	0	500	0	0	150,000	0	150,000	150,500
0	0	0	0	42,930	0	0	0	0	0	42,930
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 500</u>	<u>\$ 0</u>	<u>\$ 43,693</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$150,000</u>	<u>\$ 0</u>	<u>\$ 150,000</u>	<u>\$ 193,693</u>
\$19,436	\$913	\$ 0	\$753	\$208,266	\$136,052	\$2,313	\$ 0	\$ 35	\$ 138,400	\$ 346,666
0	0	231,381	0	231,381	0	0	(6,287)	0	(6,287)	225,094
<u>\$19,436</u>	<u>\$913</u>	<u>\$231,381</u>	<u>\$753</u>	<u>\$439,647</u>	<u>\$136,052</u>	<u>\$2,313</u>	<u>(\$ 6,287)</u>	<u>\$ 35</u>	<u>\$ 132,113</u>	<u>\$ 571,760</u>
<u>\$19,436</u>	<u>\$913</u>	<u>\$231,881</u>	<u>\$753</u>	<u>\$483,340</u>	<u>\$136,052</u>	<u>\$2,313</u>	<u>\$143,713</u>	<u>\$ 35</u>	<u>\$ 282,113</u>	<u>\$ 765,453</u>

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

SPECIAL REVENUE FUNDS

	<u>Altoona Public Access</u>	<u>Major Disaster</u>	<u>Justice Grant Trust Fund</u>	<u>Special Investigations Account</u>	<u>Schulman Acquisition Account</u>
<u>Revenues</u>					
Charges for Services	\$134,729	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental Revenue	0	0	7,918	0	0
Investment Earnings	445	88	0	0	0
Total Revenues	\$135,174	\$ 88	\$ 7,918	\$ 0	\$ 0
<u>Expenditures</u>					
<u>Current</u>					
General Government	\$ 3,407	\$ 0	\$ 0	\$ 0	\$ 0
Public Safety	0	0	0	30,131	0
Culture - Recreation	0	0	0	0	0
Miscellaneous Expenditures	0	0	0	0	0
<u>Capital</u>					
Public Safety	0	0	5,110	0	0
Total Expenditures	\$ 3,407	\$ 0	\$ 5,110	\$30,131	\$ 0
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$131,767	\$ 88	\$ 2,808	(\$30,131)	\$ 0
<u>Other Financing Sources (Uses)</u>					
Transfers In	\$ 0	\$ 0	\$ 0	\$33,000	\$ 0
Transfers (Out)	0	0	(2,808)	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	(\$ 2,808)	\$33,000	\$ 0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	\$131,767	\$ 88	\$ 0	\$ 2,869	\$ 0
Fund Balances – Beginning	31,145	24,164	0	16,567	913
Fund Balances – Ending	\$162,912	\$24,252	\$ 0	\$19,436	\$913

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

SPECIAL REVENUE FUNDS TOTAL			CAPITAL PROJECTS				TOTAL	
<u>Martin Goodman Trust</u>	<u>Chief's Reward Fund</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Residential Land Bank Development Capital Reserve</u>	<u>Recreation Capital Reserve</u>	<u>Recreation Project</u>	<u>Broad Avenue Curb and Sidewalk</u>	<u>Nonmajor Capital Project Funds</u>	<u>Total</u>
\$ 0	\$ 0	\$134,729	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$134,729
0	0	7,918	0	0	0	0	0	7,918
<u>32,803</u>	<u>1</u>	<u>33,337</u>	<u>495</u>	<u>0</u>	<u>39</u>	<u>35</u>	<u>569</u>	<u>33,906</u>
\$ 32,803	\$ 1	\$175,984	\$ 495	\$ 0	\$ 39	\$ 35	\$ 569	\$176,553
\$ 0	\$ 0	\$ 3,407	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,407
0	0	30,131	0	0	0	0	0	30,131
8,468	0	8,468	0	0	0	0	0	8,468
<u>3,712</u>	<u>0</u>	<u>3,712</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,712</u>
0	0	5,110	0	0	0	0	0	5,110
\$ 12,180	\$ 0	\$ 50,828	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 50,828
\$ 20,623	\$ 1	\$125,156	\$ 495	\$ 0	\$ 39	\$ 35	\$ 569	\$125,725
\$ 0	\$ 0	\$ 33,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 33,000
0	0	(2,808)	0	0	0	0	0	(2,808)
\$ 0	\$ 0	\$ 30,192	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 30,192
\$ 20,623	\$ 1	\$155,348	\$ 495	\$ 0	\$ 39	\$ 35	\$ 569	\$155,917
<u>210,758</u>	<u>752</u>	<u>284,299</u>	<u>135,557</u>	<u>2,313</u>	<u>(6,326)</u>	<u>0</u>	<u>131,544</u>	<u>415,843</u>
\$231,381	\$753	\$439,647	\$136,052	\$2,313	(\$ 6,287)	\$ 35	\$132,113	\$571,760

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUNDS
DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)

	<u>Paid Firemen's Pension Fund</u>	<u>Altoona Police Pension Fund</u>	<u>Non-Uniformed Employees Pension Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Investments	\$40,016,679	\$39,363,023	\$19,962,779	\$99,342,481
	_____	_____	_____	_____
<u>Liabilities</u>	\$ 0	\$ 0	\$ 0	\$ 0
	_____	_____	_____	_____
<u>Net Position</u>				
Held in Trust for Pension Benefits	\$40,016,679	\$39,363,023	\$19,962,779	\$99,342,481
	_____	_____	_____	_____

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS EXPRESSED IN WHOLE DOLLARS)**

	<u>Paid Firemen's Pension Fund</u>	<u>Altoona Police Pension Fund</u>	<u>Non-Uniformed Employees Pension Fund</u>	<u>Total</u>
<u>Additions</u>				
Contributions:				
Employer	\$ 2,568,624	\$ 2,651,796	\$ 582,815	\$ 5,803,235
Plan Members	<u>201,914</u>	<u>233,341</u>	<u>209,817</u>	<u>645,072</u>
Total Contributions	\$ 2,770,538	\$ 2,885,137	\$ 792,632	\$ 6,448,307
Investment Income:				
Realized and Unrealized Gains	\$ 3,683,281	\$ 3,562,176	\$ 1,664,262	\$ 8,909,719
Interest/Dividend Income	<u>1,652,419</u>	<u>1,616,540</u>	<u>782,319</u>	<u>4,051,278</u>
	\$ 5,335,700	\$ 5,178,716	\$ 2,446,581	\$12,960,997
Less: Investment Expense	(<u>91,735</u>)	(<u>89,787</u>)	(<u>53,725</u>)	(<u>235,247</u>)
Net Investment Income	\$ 5,243,965	\$ 5,088,929	\$ 2,392,856	\$12,725,750
Total Additions	\$ 8,014,503	\$ 7,974,066	\$ 3,185,488	\$19,174,057
<u>Deductions</u>				
Benefits	\$ 3,156,355	\$ 2,927,875	\$ 1,028,239	\$ 7,112,469
Administrative Expenses	<u>13,665</u>	<u>8,702</u>	<u>5,848</u>	<u>28,215</u>
Total Deductions	\$ 3,170,020	\$ 2,936,577	\$ 1,034,087	\$ 7,140,684
Net Increase	\$ 4,844,483	\$ 5,037,489	\$ 2,151,401	\$12,033,373
Net Position Being Held in Trust for Pension Benefits:				
Beginning of Year	<u>35,172,196</u>	<u>34,325,534</u>	<u>17,811,378</u>	<u>87,309,108</u>
End of Year	\$40,016,679	\$39,363,023	\$19,962,779	\$99,342,481

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Pass-Through Grantor Number</u>	<u>Source</u>	<u>Federal CFDA Number</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grants/Entitlement Grants		D	14.218 *
HOME Investment Partnerships Program		D	14.239
Total U.S. Department of Housing and Urban Development			
<u>U.S. Department of Homeland Security</u>			
Assistance to Firefighters Grant Program		D	97.044 *
Assistance to Firefighters Grant Program		D	97.044 *
Total U.S. Department of Homeland Security			
<u>U.S. Department of Transportation</u>			
Passed Through Pennsylvania Department of Transportation:			
Highway Planning and Construction	99869)	20.205
<u>U.S. Department of Justice</u>			
Federal Surplus Property Transfer Program		D	16.578
Edward Bryne Memorial Justice Assistance Grant Program		D	16.738
Bulletproof Vest Partnership Program		D	16.607
Total U.S. Department of Justice			
TOTAL FEDERAL AWARDS			

D = Direct
I = Indirect
* = Denotes Major Program
(1) = Includes Program Income

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Passed Through to Subrecipients</u>	<u>Cash Receipts</u>	<u>Accrued or (Deferred) Revenue at 01/01/17</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at 12/31/17</u>
\$200,396	\$1,921,071 (1)	\$273,271	\$1,773,882	\$1,773,882	\$126,082
\$125,000	\$ 182,753 (1)	\$ 11,536	\$ 257,184	\$ 257,184	\$ 85,967
\$325,396	\$2,103,824	\$284,807	\$2,031,066	\$2,031,066	\$212,049
\$ 0	\$ 289,864	\$ 0	\$ 289,864	\$ 289,864	\$ 0
0	366,137	0	366,137	366,137	0
\$ 0	\$ 656,001	\$ 0	\$ 656,001	\$ 656,001	\$ 0
\$ 0	\$ 5,716	\$ 0	\$ 5,716	\$ 5,716	\$ 0
\$ 0	\$ 12 (1)	(\$ 6,895)	\$ 0	\$ 0	(\$ 6,907)
0	14,773	6,410	7,918	7,918	(445)
0	9,892	9,892	0	0	0
\$ 0	\$ 24,677	\$ 9,407	\$ 7,918	\$ 7,918	(\$ 7,352)
\$325,396	\$2,790,218	\$294,214	\$2,700,701	\$2,700,701	\$204,697

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 1: The Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting. Revenues were adjusted to balance the expenditures incurred for each project.

Note 2: An extensive compliance tests, as required by the Single Audit Act of 1996, was performed on the Community Development Block Grant Program/Entitlement Grants Program and the Assistance to Firefighters Grant Program, which represents 90% of the total expenditures reflected on the Schedule of Expenditures of Federal Awards.

The 40% test was satisfied as follows:

Community Development Block Grants/Entitlement Grants	\$1,773,882
Assistance to Firefighters Grant	656,001
HOME Investment Partnerships Program	257,184
Edward Bryne Memorial JAG Program	7,918
Highway Planning and Construction	<u>5,716</u>
	\$2,700,701
	<u>x 40%</u>
Minimum Amount Which Must Be Tested	<u><u>\$1,080,280</u></u>

The Community Development Block Grants/Entitlement Grants Program and the Assistance to Firefighters Grant Program are major programs (i.e., must be tested). The major programs exceed \$1,080,280 and, therefore, represent the only programs to which the specific compliance requirements must be applied.

Note 3: The City has elected to use the 10% de minimis indirect cost rate; however, the City has not recovered any indirect cost as a result.

**INDEPENDENT AUDITOR'S 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**

City of Altoona
Mayor and Council Members
City Hall
13th Avenue and 12th Street
Altoona, Pennsylvania 16601

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Altoona as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Altoona's basic financial statements, and have issued our report thereon dated September 10, 2018.

Internal Control Over Financing Reporting

In planning and performing our audit of the financial statements, we considered the City of Altoona'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 of Altoona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Altoona's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. These are items 2017-001 and 2017-002.

**INDEPENDENT AUDITOR'S 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
(CONTINUED)**

Compliance and Other Matters

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

City of Altoona's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Young, Delev, Brown & Company, P.C.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

City of Altoona
Mayor and Council Members
City Hall
13th Avenue and 12th Street
Altoona, Pennsylvania 16601

Report on Compliance for Each Major Federal Program

We have audited the City of Altoona's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Altoona's major federal programs for the year ended December 31, 2017. The City of Altoona's major federal programs are identified in the summary of auditor's 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 of Altoona'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Altoona'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 of Altoona's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Altoona 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, 2017.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(CONTINUED)**

Report on Internal Control Over Compliance

Management of the City of Altoona 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 of Altoona'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 the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Altoona'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Young, Delev, Brown & Company, P.C.

Altoona, Pennsylvania
September 10, 2018

**CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section I - Summary of Auditor's Results

1. A qualified opinion was issued on the City's financial statements.
2. Material weaknesses in internal control were disclosed by the audit of the financial statements.
3. Our audit disclosed no noncompliance which is material to the financial statements of the City.
4. No material weaknesses or significant deficiencies in internal control over major programs were disclosed by the audit.
5. An unmodified opinion was issued on compliance for major programs.
6. The audit discloses no audit findings relating to major programs that are required to be reported under 2 CFR Section 200.516(a).
7. The City's major federal programs are the Community Development Block Grants/Entitlement Grant Program and the Assistance to Firefighters Grant Program.
8. The dollar threshold used to determine Type A and Type B programs was \$750,000.
9. The City was not deemed to be a low-risk auditee.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)

Section II - Financial Statement Findings

Item 2017-001

Condition

A complete segregation of duties, so that no one individual performs all functions related to any financial transaction, does not exist in all instances. For example, the purchasing function is performed by and purchase orders are prepared by personnel who also perform payables and disbursing functions. In addition, in the Planning Department, one person initiates purchase orders, receives vendor invoices, prepares checks, has access to checks after signature, controls accounts receivable functions, and maintains all journals. This is a repeat finding (2016-001) from the prior year.

Criteria

No one individual should have complete authority over any one transaction.

Cause

The City has a relatively small number of employees in their Finance Office and Planning Department's fiscal function.

Effect

An internal control weakness exists if any individual performs all functions related to any financial transaction.

Recommendation

The City should examine the benefits that could be derived from adding additional staff members to the Finance Office and Planning Department's fiscal function versus the costs of adding these additional staff members.

City's Response

Because of budgetary constraints, the City has a relatively small number of employees in its Finance Department. However, the Finance Director and the City Controller both review all financial transactions and sign all purchase orders and checks.

Item 2017-002

Condition

The City does not have anyone on its staff who could prepare the external financial statements, including note disclosures. This is a repeat finding (2016-002) from the prior year.

Criteria

AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, required that an entity must have someone who prepares the year end financial statements, including note disclosures.

Cause

Historically, this has been seen as the role of the auditor.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)

Section II - Financial Statement Findings (Continued)

Item 2017-002 (Continued)

Effect

A material weakness in internal control exists.

Recommendation

We recommend that the City examine the costs benefits of satisfying AU-C Section 265.

City's Response

The City will examine the cost and benefit of satisfying this requirement.

CITY OF ALTOONA
BLAIR COUNTY, PENNSYLVANIA
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Findings and Questioned Costs

Section II - Financial Statement Findings

Prior year finding 2016-001 and 2016-002 remain unresolved.

Section III - Financial Statement Findings

No prior year issues were noted.