

City of Titusville, Pennsylvania
Audit Report
December 31, 2006

**City of Titusville
Table of Contents
December 31, 2006**

	Page
Section 1 - Management's Discussion and Analysis	1 to 11
Section 2 - Auditors' Reports	1 to 6
Section 3 - Government-Wide Financial Statements	1 to 2
Section 4 - Fund Financial Statements	1 to 8
Section 5 - Footnotes	1 to 21
Section 6 - Required Supplemental Financial Information	1 to 4
Section 7 - Supplemental Financial Information	1 to 2

SECTION 1

CITY OF TITUSVILLE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2006

Our discussion and analysis of the City of Titusville's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2006, within the limitations of the City's cash basis and budget laws of the Commonwealth of Pennsylvania for fund financial statements. Please read it in conjunction with the City's financial statements and the accompanying notes to those financial statements that begin in Section 3.

FINANCIAL HIGHLIGHTS

- ❖ The governmental activities assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2,822,620 (*net assets*). Of this amount, \$492,653 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$323,174. This amount is available for spending at the City's discretion (*unreserved fund balance*).
- ❖ The City's General Fund reported a positive fund balance of \$437,709 as of December 31, 2006, compared to a positive fund balance of \$272,592 as of December 31, 2005.

THE FINANCIAL STATEMENTS

This annual report is represented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. The government-wide financial statements have been prepared using the accrual basis of accounting; whereas, the fund financial statements have been prepared using the cash basis of accounting and budget laws of the Commonwealth of Pennsylvania, which is another comprehensive basis of accounting. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements.

The *government-wide financial statements* present the financial picture of the City from the economic resources measurement focus. They present governmental activities and business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *fund financial statements* include statements for each of the three categories-governmental, proprietary and fiduciary. The governmental and proprietary activities are prepared using the cash basis of accounting and budget laws of the Commonwealth of Pennsylvania. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliation of the Fund financial statements to the government-wide financial statements are provided to explain the differences created by the integrated approach prescribed by GASB No. 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities in Section 3 provide information about the activities of the City government-wide and business-type activities and present a longer-term view of the City's finances. These two statements report the City's net assets and changes in them. Net assets are the differences between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and the condition of the City's roads.

In the Statement of Net Assets and the Statement of Activities, we separate the City activities as follows:

Governmental activities: Most of the City's basic services are reported in this category, including General Government, Public Safety, Public Works, Human Services, Culture and Recreation. Property and earned income taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type activities: The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's refuse, water and sewer activities are reported in this category. The Internal Service Fund is also reported in this category.

Fund Financial Statements

The fund financial statements provide detailed information about all the funds-not the City as a whole. Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the City. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. The City's fund financial statements, starting in Section 4, are divided into three categories: 1) governmental funds, 2) proprietary funds, and 3) fiduciary funds.

Governmental Funds

Governmental fund financial statements consist of a statement of assets, liabilities and fund balances, and a statement of revenues, expenditures, and changes in fund balances. These statements are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include items such as cash, but do not include capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a short period after the end of the fiscal year. The difference between fund's total assets and total liabilities is labeled as the fund balance, and generally indicates the amount that can be used to finance the next year's activities. The statement of revenues, expenditures and changes in fund balances for governmental funds reports only those

revenues and expenditures that were collected or paid during the current period and very shortly after the end of the year.

For the most part, the balances and activities accounted for in the governmental funds are also reported in the governmental activities columns of the government-wide financial statements. However, because of the difference in accounting basis used to prepare fund financial statements and government-wide financial statements, there are often significant differences between the totals presented. For this reason, there is an analysis after the balance sheet that reconciles the total fund balances to the amount of net assets presented in the governmental activities column on the statement of net assets. Also, there is an analysis after the statement of revenues, expenditures, and changes in fund balance that reconciles the total change in fund balances for all governmental funds to the change in net assets as reported in the governmental activities column in the statement of activities.

The City's governmental fund financial statements are presented in Section 4.

Proprietary Funds

Proprietary fund financial statements consist of a statement of net assets, statement of revenues, expenses, and changes in fund net assets and statement of cash flows. These statements are prepared on an accounting basis that is similar to the basis used to prepare the government-wide financial statements. Proprietary funds include Enterprise Funds and Internal Service Funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and refuse. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses separate internal service funds to account for its fringe benefits program. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the major enterprise funds, which are water, sewer and refuse. All internal service funds are considered to be non-major funds and are presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found in Section 4 of this report.

Fiduciary Funds

Fiduciary fund financial statements consist of a statement of fiduciary net assets and a statement of changes in fiduciary net assets. Assets held by the City for other parties, either as a trust or as an agent, and that cannot be used to finance the City's own operating programs are reported in the fiduciary funds. The City is the trustee, or fiduciary, for three pension plans.

The fiduciary fund financial statements can be found in Section 4 of the report.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements. (See Section 5)

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedule in Section 6 represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report starting in Section 7 includes the Schedule of Expenditures of Federal Awards. This other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

Basis of Accounting

The City has elected to present its government-wide financial statements on the accrual basis of accounting and its fund financial statements on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's cash basis of accounting, revenues, expenses, and related assets and liabilities are recorded when they result from cash transactions. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these fund financial statements. They are, however, recorded in the government-wide financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Government-wide Financial Analysis

Certain prior year balances were revised for management's use for GASB 34 changes. These items are used in comparisons later in this discussion. In future years, this section will contain a comparative analysis of the changes in net assets and a comparison of revenues and expenses with explanations for significant differences.

The following schedule is a summary of the Statement of Net Assets:

**City of Titusville, Pennsylvania
Net Assets at December 31, 2006**

	Governmental Activities		Business-type Activities		Total		Total % Change 05-06
	2005	2006	2005	2006	2005	2006	
Assets:							
Current and other assets	\$ 1,216,989	\$ 1,015,791	\$ 486,686	\$ 736,758	\$ 1,703,675	\$ 1,752,549	2.9%
Capital assets, (net of depreciation)	\$ 2,645,514	\$ 2,488,701	\$ 7,105,420	\$ 5,418,860	\$ 9,750,934	\$ 7,907,561	-18.9%
Total Assets	\$ 3,862,503	\$ 3,504,492	\$ 7,592,106	\$ 6,155,618	\$ 11,454,609	\$ 9,660,110	-15.7%
Liabilities:							
Current and other liabilities	\$ 311,697	\$ 99,764	\$ 1,186,488	\$ 907,873	\$ 1,498,185	\$ 1,007,637	-32.7%
Long-term debt outstanding	\$ 555,116	\$ 582,108	\$ 8,283,143	\$ 7,747,191	\$ 8,838,259	\$ 8,329,299	-5.8%
Total Liabilities	\$ 866,813	\$ 681,872	\$ 9,469,631	\$ 8,655,064	\$ 10,336,444	\$ 9,336,936	-9.7%
Net Assets:							
Investment in capital assets (net of debt)	\$ 2,521,514	\$ 2,329,967	\$ (1,477,944)	\$ (2,543,777)	\$ 1,043,570	\$ (213,810)	-120.5%
Unrestricted	\$ 474,176	\$ 492,653	\$ (399,581)	\$ 44,331	\$ 74,595	\$ 536,984	619.9%
Total Net Assets	\$ 2,995,690	\$ 2,822,620	\$ (1,877,525)	\$ (2,499,446)	\$ 1,118,165	\$ 323,174	-71.1%

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the City, assets exceeded liabilities by \$323,174, a decrease of 71.1% from 2005. Net assets of the City's governmental activities decreased 5.7% at just over \$2.8 million. However, \$2,329,967 of those net assets is invested in capital assets. Consequently, unrestricted net assets showed only \$492,653 at the end of this year.

The City's net assets reflect investment in capital assets (e.g. land, buildings, improvements, infrastructure 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. Investment in capital assets, in the business-type activities, reflects the recent debt incurred due to the construction costs for two phases of the mandated sewer projects.

Typically, the unrestricted net assets (\$536,984) may be used to meet the government's ongoing obligations to citizens and creditors.

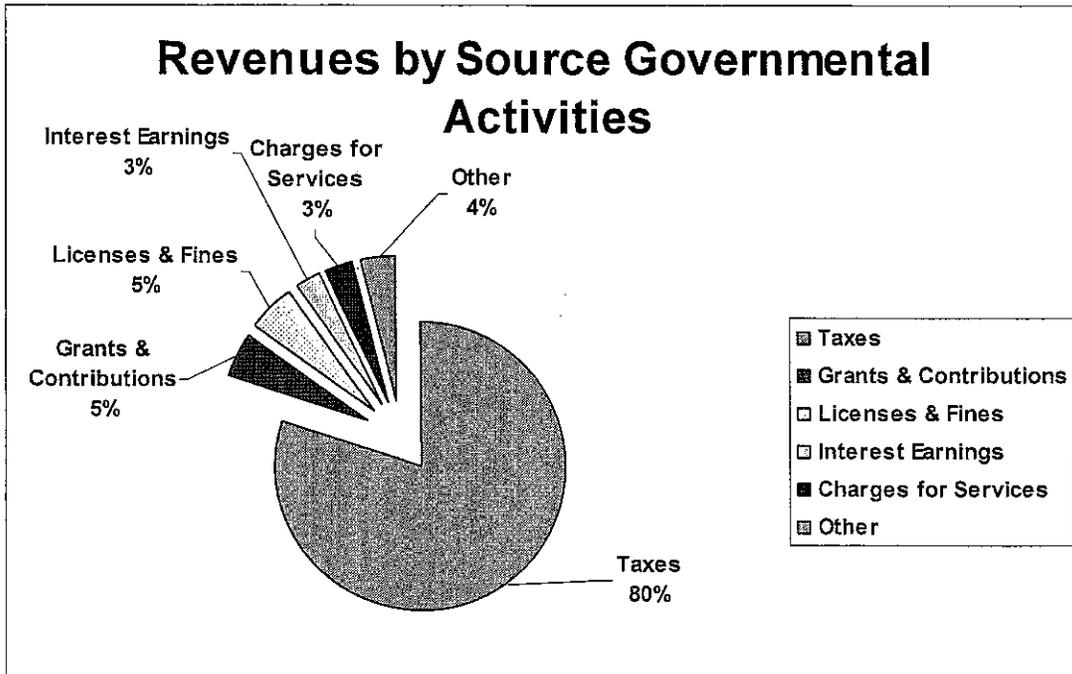
The following is a summary of the information presented in the Statement of Activities:

City of Titusville, Pennsylvania
Changes in Net Assets for the Year Ended December 31, 2006

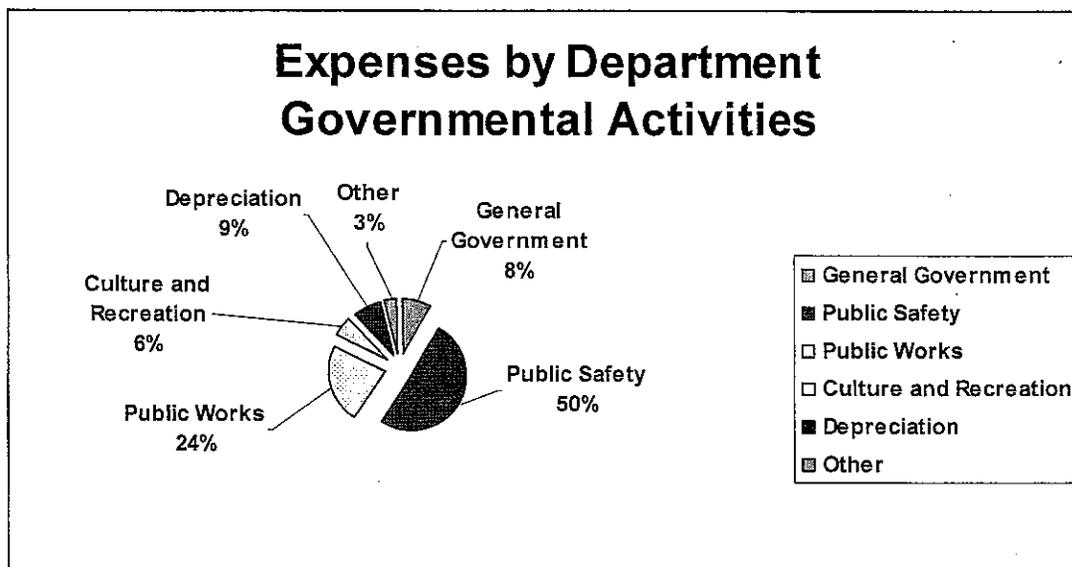
Revenues	Governmental Activities		Business-type Activities		Total		Total % Change
	2005	2006	2005	2006	2005	2006	
Program Revenues							
Charges for Services	\$94,890	\$92,510	\$3,814,853	\$4,243,894	\$3,909,743	\$4,336,404	10.9%
Operating Grant and contributions	\$125,787	\$134,433	\$210,728	\$222,374	\$336,515	\$356,807	6.0%
Capital Grants and contributions	\$25,524	\$3,353	\$96,334	\$2,093	\$121,858	\$5,446	-95.5%
General Revenues							
Taxes	\$2,144,148	\$2,301,887	\$0	\$0	\$2,144,148	\$2,301,887	7.4%
Licenses and permits	\$69,576	\$72,554	\$0	\$0	\$69,576	\$72,554	4.3%
Fines and forfeits	\$82,529	\$81,997	\$0	\$0	\$82,529	\$81,997	-0.6%
Interest earnings	\$30,987	\$79,422	\$14,094	\$26,249	\$45,081	\$105,671	134.4%
Miscellaneous	\$83,407	\$141,164	\$27,527	\$55,403	\$110,934	\$196,567	77.2%
Transfers	\$121,838	(\$32,885)	-\$121,838	\$32,885	\$0	\$0	0%
TOTAL REVENUES	\$2,928,675	\$2,874,435	\$4,041,698	\$4,582,898	\$6,820,384	\$7,457,333	9.3%
Expenses							
General Government	\$297,065	\$253,635			\$297,065	\$253,635	-14.6%
Public Safety	\$1,505,266	\$1,535,479			\$1,505,266	\$1,535,479	2.0%
Public Works	\$755,866	\$736,248			\$755,866	\$736,248	-2.6%
Human Services	\$2,020	\$2,104			\$2,020	\$2,104	4.2%
Culture and Recreation	\$171,311	\$171,057			\$171,311	\$171,057	-0.1%
Depreciation	\$296,435	\$267,512			\$296,435	\$267,512	-9.8%
Interest	\$0	\$23,086			\$0	\$23,086	
Miscellaneous	\$117,052	\$72,650			\$117,052	\$72,650	-37.9%
Internal Services Activities			\$1,285,080	\$1,344,205	\$1,285,080	\$1,344,205	4.6%
Water, Sewer, and Refuse Facilities			\$2,203,479	\$2,352,143	\$2,203,479	\$2,352,143	6.7%
Interest on Long-term Debt			\$205,695	\$190,468	\$205,695	\$190,468	-7.4%
TOTAL EXPENSES	\$3,145,015	\$3,061,771	\$3,694,254	\$3,886,816	\$6,839,269	\$6,948,587	1.6%
Change in Net Assets	-\$366,329	-\$187,336	\$347,444	\$696,082	-\$18,885	\$508,746	27.94%
Net Assets, Beginning of Year	\$3,362,019	\$3,009,956	-\$2,224,969	-\$3,195,528	\$1,137,050	-\$85,572	108%
Net Assets, End of Year	\$3,009,956	\$2,822,620	-\$3,195,528	-\$2,499,446	\$998,475	\$323,174	-68%

The City's governmental activities rely heavily upon Tax Revenue (80%) to fund its operations. The cost of governmental activities totaled \$3,061,771 for the year ended December 31, 2006.

The following graph shows the composition of revenues for the City's governmental activities:



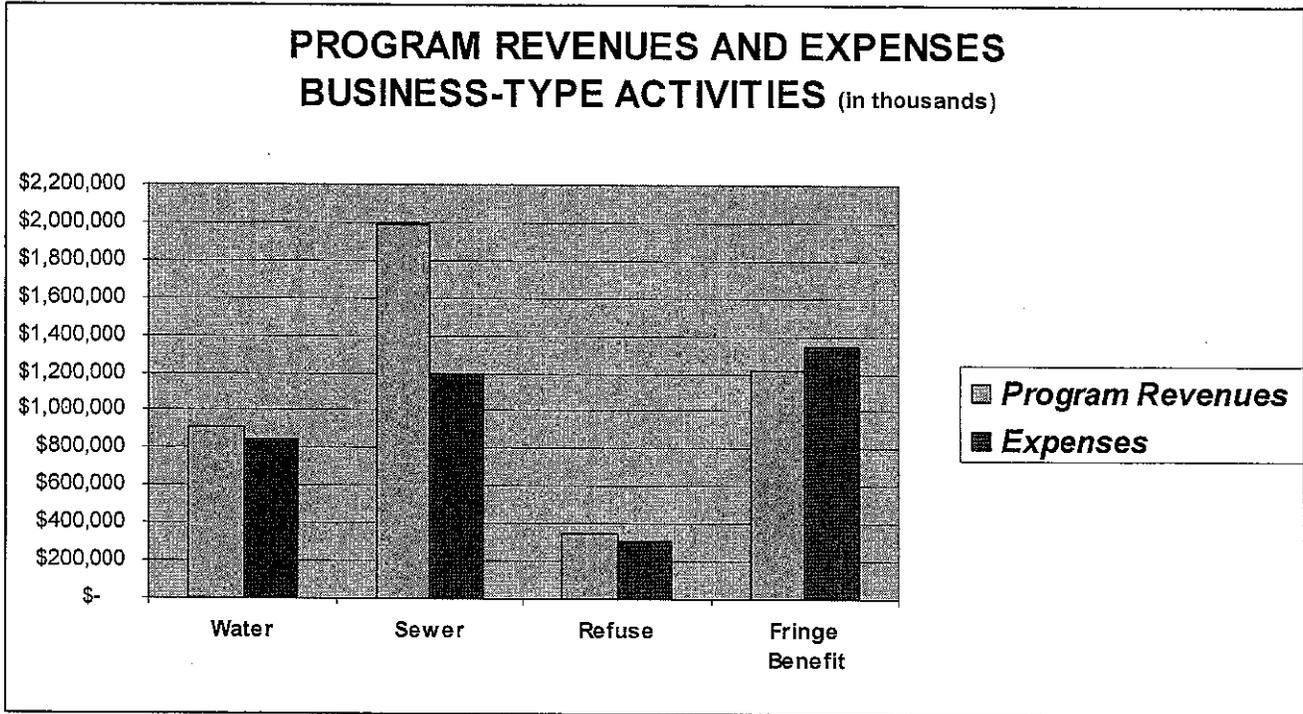
The following chart presents governmental expenses by function:



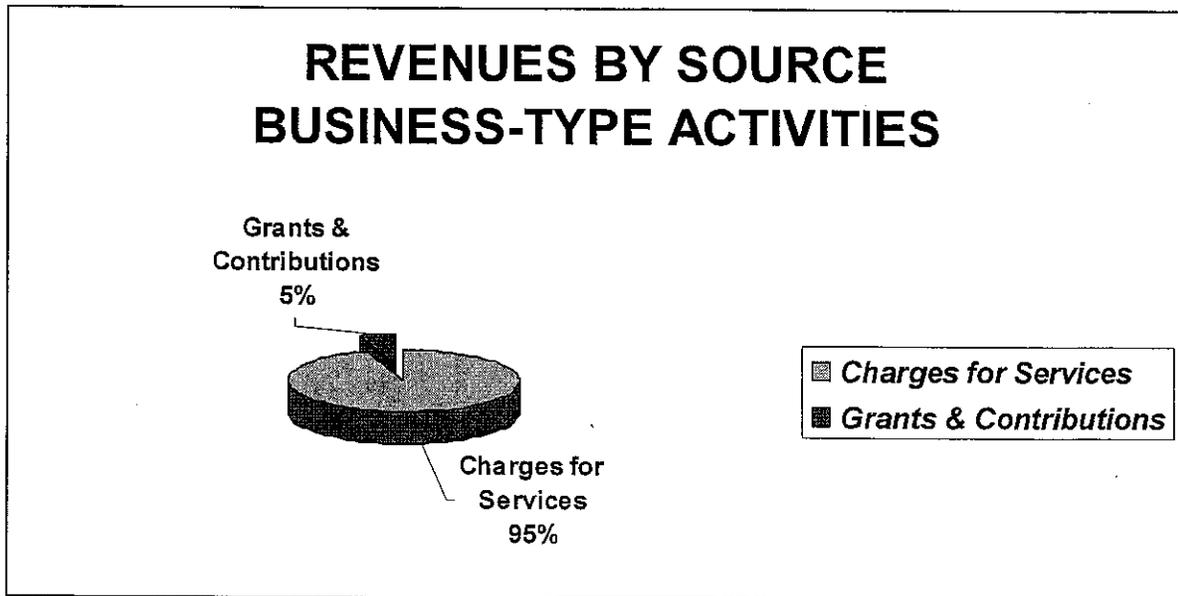
Business-type Activities

Business-type activities increased the City's net assets by \$696,082, accounting for the total growth in the City's net assets.

The following chart compares expenses with program revenues for the City's business-type activities:



The following graph shows the composition of revenues for the City's business-type activities:



Financial Analysis of the City's Funds

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

Governmental funds

The fund financial statements for the governmental funds are provided in Section 4. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *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.

General Fund Budgetary Highlights

The General Fund is the chief operating fund of the City. At the end of the current fiscal, unreserved fund balance of the General Fund was \$437,709, while the total governmental fund balance was \$809,999. As a measure of the General Fund's liquidity, it may be useful to note that the total fund balance is unrestricted.

Fund balance in the City's General Fund increased by \$165,117 during the current fiscal year. Key factors for this increase include:

- ❖ Annual revenues exceeded the budget by \$156,396. The main revenue stream continues to come from taxes which exceeded budget by \$86,884.
- ❖ Expenditures were under budget by \$117,739. Public Works expenditures were under budget by \$16,143 and Culture and Recreation under budget by \$4,550 while General Government and Public Safety exceeded their budgets by small amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Fund

The City's investment in capital assets for its governmental and business type activities as of December 31, 2006, amounts to \$7,907,561 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, equipment and systems, and construction in process.

Major capital asset activity during the current fiscal year included the following:

- ❖ Replacement of a Police Cruiser at a cost of \$26,602.
- ❖ Purchase a power washer for \$1,500 and a baylift for \$6,535 for the public works garage.
- ❖ Replacement of truck 4 with a 2007 Ford F550 in the Public Works Department at a cost \$58,090.

- ❖ The City spent \$151,899 for paving in various locations of highest priority with a concentration on the north side of the City.
- ❖ Purchase of an Exmark mower for the Recreation Department costing \$7,380.
- ❖ The City supported the Titusville Renaissance, Inc. with a contribution of \$5,000.
- ❖ A contribution of \$20,000 was made to the Oil Region Alliance.

City of Titusville, Pennsylvania
Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2005	2006	2005	2006	2005	2006
Land	\$170,813	\$170,813	\$32,245	\$32,245	\$203,058	\$203,058
Buildings/Improvements	\$4,507,806	\$4,507,806	\$6,882,079	\$6,882,079	\$11,389,885	\$11,389,885
Equipment and Systems	\$2,620,259	\$2,569,502	\$3,363,899	\$5,949,315	\$5,984,158	\$8,518,817
Construction in Progress	\$0	\$0	\$3,977,872	\$0	\$3,977,872	\$0
Total	\$7,298,878	\$7,298,878	\$14,256,095	\$12,863,639	\$21,554,973	\$20,111,760
Less Accum. Depreciation	(\$4,653,364)	(\$4,759,420)	(\$7,150,675)	(\$5,418,860)	(\$11,804,039)	(\$12,204,199)
Total Capital Assets	\$2,645,514	\$2,488,701	\$7,105,420	\$6,155,618	\$9,750,934	\$9,660,110

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$8,675,785. 75% of the total indebtedness is attributed to notes payable while over 92% of the notes payable represent loans for the Act 537 sewer projects.

Additional information on the City's long-term debt can be found in the Notes to Financial Statements, in Section 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming fiscal year December 31, 2007, the City's budget is fairly consistent with this year.

Sewer rates were increased effective January 1, 2006. Base rate and usage were increased by approximately 8%. Billing of the service also changed from quarterly to monthly effective January 1. There is no anticipation of a rate increase for fiscal year 2007.

Water rates were increased effective January 1, 2006. Base rate and usage were increased by approximately 15%. Billing of the service also changed from quarterly to monthly effective January 1. A water rate study was completed in FY 2006 to determine if a rate adjustment was needed, review rate structure and infrastructure.

The refuse contract will expire in June 2008. There is no anticipation of a rate increased until the contract expires.

The General Fund property tax millage has not changed for next year; however, the percent of assessment taxed increased from 95% to 100% of the County assessment. The City has experienced relatively flat-tax revenue over the past several years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Titusville's Finance Department, 107 N. Franklin Street, Titusville, Pennsylvania 16354 or telephone at 814-827-5300 Extension 310.

SECTION 2



O'Polka & Company, Inc.

Certified Public Accountants and Advisors

1446 Liberty Street • Franklin, PA 16323

(814) 437-9568 • fax (814) 437-2079

www.opolkacpa.com

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania (a third-class city), as of and for the year ended December 31, 2006, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

A primary government is a legal entity or body politic and includes all funds, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, because of the City of Titusville, Pennsylvania's policy to prepare its financial statements on the basis of accounting discussed in Note 3 and they do not include the financial data of the component unit, the financial statements referred to above do not purport to, and do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Titusville, Pennsylvania, as of December 31, 2006, or the results of its operations.

Management has elected to present the fund financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the Commonwealth of Pennsylvania, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. It was not practicable to determine the effect of the departure on the fund financial statements.

In our opinion, except for the effects of presenting fund financial statements on a prescribed basis of accounting as described in the preceding paragraph and the City's policy of not including the financial data of the component unit, the financial statements referred to above present fairly, in all material

respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

However, in our opinion, the fund financial statements referred to above present fairly, in all material respects, the respective assets, liabilities and fund balance and revenues, expenditures and changes in fund balance of the City of Titusville, Pennsylvania as of December 31, 2006, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, on our consideration of the City of Titusville, Pennsylvania's internal control over financial reporting and 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 and not to provide an opinion on the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management discussion and analysis, budgetary comparison information, and required Pension Plan supplemental schedule in Section 6 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Titusville, Pennsylvania's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Titusville, Pennsylvania. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Polka & Company Inc.

June 8, 2007
Franklin, Pennsylvania



O'Polka & Company, Inc.

Certified Public Accountants and Advisors

1446 Liberty Street • Franklin, PA 16323

(814) 437-9568 • fax (814) 437-2079

www.opolkacpa.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania as of and for the year ended December 31, 2006, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements, and have issued our report thereon dated June 8, 2007, which was qualified for the lack of financial data for the component unit and presenting fund financial statements on a prescribed basis of accounting as discussed in Note 3. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Titusville, Pennsylvania's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Titusville, Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

This report is intended for the information of the Mayor, members of council, management, federal awarding agencies, the Pennsylvania Infrastructure Investment Authority, the Pennsylvania Department of Environmental Protection and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Polka & Company Inc.

June 8, 2007
Franklin, Pennsylvania



O'Polka & Company, Inc.

Certified Public Accountants and Advisors

1446 Liberty Street • Franklin, PA 16323

(814) 437-9568 • fax (814) 437-2079

www.opolkacpa.com

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

Compliance

We have audited the compliance of the City of Titusville, Pennsylvania with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City of Titusville, Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Titusville, Pennsylvania's management. Our responsibility is to express an opinion on the City of Titusville, Pennsylvania's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Titusville, Pennsylvania'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. Our audit does not provide a legal determination on the City of Titusville, Pennsylvania's compliance with those requirements.

In our opinion, the City of Titusville, Pennsylvania complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the City of Titusville, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Titusville, Pennsylvania's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Mayor, members of council, management, federal awarding agencies, the Pennsylvania Infrastructure Investment Authority, the Pennsylvania Department of Transportation and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Polka & Company Inc.

June 8, 2007
Franklin, Pennsylvania

SECTION 3

City of Titusville
Statement of Net Assets
December 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash	\$ 780,308	\$ 663,862	\$ 1,444,170
Accounts receivable			
Taxes, net of allowance for doubtful accounts	174,289	-	174,289
City services	-	70,555	70,555
Other	60,214	-	60,214
Due from other funds	980	2,341	3,321
Total current assets	<u>1,015,791</u>	<u>736,758</u>	<u>1,752,549</u>
Noncurrent assets			
Land	170,813	32,245	203,058
Buildings and building improvements	4,507,806	6,882,079	11,389,885
Equipment and systems	2,569,502	5,949,315	8,518,817
	<u>7,248,121</u>	<u>12,863,639</u>	<u>20,111,760</u>
Accumulated depreciation	<u>(4,759,420)</u>	<u>(7,444,779)</u>	<u>(12,204,199)</u>
Total capital assets, net	<u>2,488,701</u>	<u>5,418,860</u>	<u>7,907,561</u>
Total assets	<u>\$ 3,504,492</u>	<u>\$ 6,155,618</u>	<u>\$ 9,660,110</u>
Liabilities and net assets			
Current liabilities			
Vouchers payable and other current liabilities	\$ 39,779	\$ 72,495	\$ 112,274
Due to other funds	2,341	980	3,321
Accrued compensated absences	24,051	14,676	38,727
Accrued interest	-	303,223	303,223
Notes payable	33,593	354,597	388,190
General obligation bonds payable	-	161,902	161,902
Total current liabilities	<u>99,764</u>	<u>907,873</u>	<u>1,007,637</u>
Noncurrent liabilities			
Accrued compensated absences	456,967	49,862	506,829
Notes payable	125,141	6,010,675	6,135,816
General obligation bonds payable	-	1,435,463	1,435,463
Accrued long-term bond interest	-	251,191	251,191
Total non-current liabilities	<u>582,108</u>	<u>7,747,191</u>	<u>8,329,299</u>
Total liabilities	<u>681,872</u>	<u>8,655,064</u>	<u>9,336,936</u>
Net assets			
Invested in capital assets, net of related debt	2,329,967	(2,543,777)	(213,810)
Unrestricted	492,653	44,331	536,984
Total net assets	<u>2,822,620</u>	<u>(2,499,446)</u>	<u>323,174</u>
Total liabilities and net assets	<u>\$ 3,504,492</u>	<u>\$ 6,155,618</u>	<u>\$ 9,660,110</u>

See accompanying notes to financial statements

City of Titusville
Statement of Activities
For the Year ended December 31, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Governmental activities							
General government	\$ 253,635	\$ 42,367	\$ -	\$ -	\$ (211,268)	\$ -	\$ (211,268)
Public safety	1,535,479	50,143	-	-	(1,485,336)	-	(1,485,336)
Public works	736,248	-	134,433	3,353	(598,462)	-	(598,462)
Human services	2,104	-	-	-	(2,104)	-	(2,104)
Culture and recreation	171,057	-	-	-	(171,057)	-	(171,057)
Depreciation	267,512	-	-	-	(267,512)	-	(267,512)
Interest expense	23,086	-	-	-	(23,086)	-	(23,086)
Miscellaneous	72,650	-	-	-	(72,650)	-	(72,650)
Total governmental activities	3,061,771	92,510	134,433	3,353	(2,831,475)	-	(2,831,475)
Business-type activities							
Internal service activities	1,344,205	997,731	222,374	2,093	-	(124,100)	(124,100)
Water, sewer and refuse facilities	2,542,611	3,246,163	-	-	-	705,645	705,645
Total business-type activities	3,886,816	4,243,894	222,374	2,093	-	581,545	581,545
Total primary government	\$ 6,948,587	\$ 4,336,404	\$ 356,807	\$ 5,446	(2,831,475)	581,545	(2,249,930)
General revenues and transfers							
Taxes					2,301,887		2,301,887
Licenses and permits					72,554		72,554
Fines and forfeits					81,997		81,997
Interest earnings					79,422	26,249	105,671
Miscellaneous revenues					141,164	55,403	196,567
Transfers					(32,885)	32,885	-
Total general revenues and transfers					2,644,139	114,537	2,758,676
Change in net assets					(187,336)	696,082	508,746
Net assets							
Beginning of year, January 1, 2006 as restated					3,009,956	(3,195,528)	(185,572)
End of year, December 31, 2006					<u>\$ 2,822,620</u>	<u>\$ (2,499,446)</u>	<u>\$ 323,174</u>

See accompanying notes to financial statements

SECTION 4

City of Titusville
Statement of Assets, Liabilities and Fund Balance,
and Reconciliation to the Statement of Net Assets
Governmental Funds
December 31, 2006

	General (Major Fund)	Special Revenue (Non-Major Fund)	Capital Projects (Major Fund)	Total Governmental Funds
Assets				
Cash	\$ 466,108	\$ 47,182	\$ 267,018	\$ 780,308
Other receivables	-	-	58,090	58,090
Due from other funds	980	124,000	-	124,980
Total assets	\$ 467,088	\$ 171,182	\$ 325,108	\$ 963,378
Liabilities and fund balance				
Vouchers payable and other current liabilities	\$ 27,038	\$ -	\$ -	\$ 27,038
Due to other funds	2,341	-	124,000	126,341
Total liabilities	29,379	-	124,000	153,379
Fund balance				
Undesignated	437,709	171,182	201,108	809,999
Total fund balance	437,709	171,182	201,108	809,999
Total liabilities and fund balance	\$ 467,088	\$ 171,182	\$ 325,108	

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

Receivables are not recorded in the fund financial statements
Receivables at year end consist of

Taxes receivable	174,289
Other receivables	2,124

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,248,121 and the accumulated depreciation is \$4,759,420

2,488,701

Liabilities are not recorded in the fund financial statements

Notes payable	(158,734)
Voucher payable and other current liabilities	(12,741)
Compensated absences	(481,018)

Total net assets - governmental activities

\$ 2,822,620

City of Titusville
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General (Major Fund)	Special Revenue (Non-Major Fund)	Capital Project (Major Fund)	Total Governmental Funds
Revenues				
Taxes	\$ 2,332,984	\$ -	\$ -	\$ 2,332,984
Interest income	55,318	8,549	15,555	79,422
Intergovernmental	45,567	134,433	-	180,000
Charges for services	50,143	-	-	50,143
Payments in lieu of taxes	24,163	-	-	24,163
Licenses and permits	68,083	-	-	68,083
Fines and forfeits	81,997	-	-	81,997
Miscellaneous revenues	86,391	-	6,705	93,096
Total revenues	<u>2,744,646</u>	<u>142,982</u>	<u>22,260</u>	<u>2,909,888</u>
Expenditures				
General government	251,623	-	-	251,623
Public safety	1,538,971	-	16,499	1,555,470
Public works	469,920	209,697	252,321	931,938
Human Services	2,104	-	-	2,104
Culture and recreation	171,153	-	-	171,153
Debt service	19,366	27,076	-	46,442
Miscellaneous	70,434	-	2,215	72,649
Total expenditures	<u>2,523,571</u>	<u>236,773</u>	<u>271,035</u>	<u>3,031,379</u>
Excess (deficiency) of revenues over expenditures	<u>221,075</u>	<u>(93,791)</u>	<u>(248,775)</u>	<u>(121,491)</u>
Other financing sources (uses)				
Operating transfers in	86,172	-	75,000	161,172
Operating transfers (out)	(142,130)	-	(21,172)	(163,302)
Proceeds from long term debt	-	-	58,090	58,090
Total other financing sources (uses)	<u>(55,958)</u>	<u>-</u>	<u>111,918</u>	<u>55,960</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	165,117	(93,791)	(136,857)	(65,531)
Fund balance				
Beginning of year, January 1, 2006	<u>272,592</u>	<u>264,973</u>	<u>337,965</u>	<u>875,530</u>
End of year, December 31, 2006	<u>\$ 437,709</u>	<u>\$ 171,182</u>	<u>\$ 201,108</u>	<u>\$ 809,999</u>

See accompanying notes to financial statements

City of Titusville
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2006

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

Total net changes in fund balances-governmental funds		\$ (65,531)
<p>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 and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the period.</p>		
Depreciation expense	\$267,512	
Capital outlays	\$ 96,432	(171,080)
Proceeds from notes payable		(58,090)
Principal repayment of notes payable		23,356
Other		
Decrease in accounts receivable		(31,560)
Increase in compensated absences		(2,123)
Decrease in accounts payable		<u>117,692</u>
Changes in net assets of governmental activities		<u>\$ (187,336)</u>

See accompanying notes to financial statements

**City of Titusville
Combining Statement of Net Assets
Proprietary Fund Types
December 31, 2006**

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	Fringe Benefit
Assets					
Current assets					
Cash	\$ 106,990	\$ 459,222	\$ 12,615	\$ 578,827	\$ 85,035
Accounts receivable					
City services	25,331	40,117	5,107	70,555	-
Due from other funds	-	-	-	-	2,341
Total current assets	<u>132,321</u>	<u>499,339</u>	<u>17,722</u>	<u>649,382</u>	<u>87,376</u>
Noncurrent assets					
Land	6,003	26,242	-	32,245	-
Buildings and building improvements	667,230	6,214,849	-	6,882,079	-
Equipment and systems	594,387	5,354,928	-	5,949,315	-
	<u>1,267,620</u>	<u>11,596,019</u>	<u>-</u>	<u>12,863,639</u>	<u>-</u>
Accumulated depreciation	<u>(1,053,194)</u>	<u>(6,391,585)</u>	<u>-</u>	<u>(7,444,779)</u>	<u>-</u>
Total capital assets, net	<u>214,426</u>	<u>5,204,434</u>	<u>-</u>	<u>5,418,860</u>	<u>-</u>
Total assets	<u>\$ 346,747</u>	<u>\$ 5,703,773</u>	<u>\$ 17,722</u>	<u>\$ 6,068,242</u>	<u>\$ 87,376</u>
Liabilities and net assets					
Current liabilities					
Vouchers payable and other current liabilities	\$ 10,865	\$ 6,373	\$ -	\$ 17,238	\$ 55,257
Due to other funds	488	492	-	980	-
Accrued compensated absences	7,391	7,285	-	14,676	-
Accrued interest	-	303,223	-	303,223	-
Notes payable	92,829	261,768	-	354,597	-
General obligation bonds payable	-	161,902	-	161,902	-
Total current liabilities	<u>111,573</u>	<u>741,043</u>	<u>-</u>	<u>852,616</u>	<u>55,257</u>
Noncurrent liabilities					
Accrued compensated absences	35,257	14,605	-	49,862	-
Notes payable	246,559	5,764,116	-	6,010,675	-
General obligation bonds payable	-	1,435,463	-	1,435,463	-
Accrued long-term bond interest	-	251,191	-	251,191	-
Total non-current liabilities	<u>281,816</u>	<u>7,465,375</u>	<u>-</u>	<u>7,747,191</u>	<u>-</u>
Total liabilities	<u>393,389</u>	<u>8,206,418</u>	<u>-</u>	<u>8,599,807</u>	<u>55,257</u>
Net assets					
Invested in capital assets, net of related debt	(124,962)	(2,418,815)	-	(2,543,777)	-
Unrestricted	<u>78,320</u>	<u>(83,830)</u>	<u>17,722</u>	<u>12,212</u>	<u>32,119</u>
Total net assets	<u>(46,642)</u>	<u>(2,502,645)</u>	<u>17,722</u>	<u>(2,531,565)</u>	<u>32,119</u>
Total liabilities and net assets	<u>\$ 346,747</u>	<u>\$ 5,703,773</u>	<u>\$ 17,722</u>	<u>\$ 6,068,242</u>	<u>\$ 87,376</u>

See accompanying notes to financial statements

City of Titusville
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund Types
For the Year Ended December 31, 2006

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	Fringe Benefit
Operating revenues					
Charges for services	\$ 907,895	\$ 1,988,280	\$ 349,988	\$ 3,246,163	\$ 997,731
Operating contributions	-	-	2,093	2,093	222,374
Total operating revenues	907,895	1,988,280	352,081	3,248,256	1,220,105
Operating expenses					
Salaries and wages	323,385	316,294	-	639,679	-
Employee benefits	250,256	246,006	-	496,262	660,103
Utilities	92,401	-	-	92,401	-
Materials and supplies	37,540	158,220	-	195,760	-
Contractual services	12,325	120,469	307,282	440,076	-
Equipment	6,230	39,500	233	45,963	-
Depreciation	45,609	246,094	-	291,703	-
Insurance	38,450	41,938	-	80,388	684,102
Administrative	37,819	28,900	3,192	69,911	-
Total operating expenses	844,015	1,197,421	310,707	2,352,143	1,344,205
Operating income (loss)	63,880	790,859	41,374	896,113	(124,100)
Non-operating revenues (expenses)					
Interest income	4,798	17,253	1,337	23,388	2,861
Interest expense	(13,394)	(177,074)	-	(190,468)	-
Other revenues	7,135	11,465	228	18,828	36,575
Total non-operating revenues (expenses)	(1,461)	(148,356)	1,565	(148,252)	39,436
Income before contributions and transfers	62,419	642,503	42,939	747,861	(84,664)
Capital contributions					
Transfers in	3,980	26,775	-	30,755	117,130
Transfers out	(27,000)	(23,000)	(65,000)	(115,000)	-
Changes in net assets	39,399	646,278	(22,061)	663,616	32,466
Net assets					
Beginning of year, January 1, 2006, as restated	(86,041)	(3,148,923)	39,783	(3,195,181)	(347)
End of year, December 31, 2006	\$ (46,642)	\$ (2,502,645)	\$ 17,722	\$ (2,531,565)	\$ 32,119

See accompanying notes to financial statements

City of Titusville
Combining Statement of Cash Flows
Proprietary Fund Types
For the Year Ended December 31, 2006

	Enterprise Funds			Total	Internal Service Fund
	Water Fund	Sewer Fund	Refuse Fund		Fringe Benefit Fund
Cash flows from operating activities					
Receipts from customers	\$ 920,217	\$ 1,988,236	\$ 353,089	\$ 3,261,542	\$ 995,500
Receipts from other governments					222,374
Payments to suppliers	(485,801)	(842,485)	(310,743)	(1,639,029)	(1,330,829)
Payments for personnel services	(319,510)	(313,501)		(633,011)	
Payments to other funds	(26,512)	(97,307)	(65,000)	(188,819)	(4,656)
Other receipts	11,933	28,718	3,658	44,309	156,566
Net cash provided by operating activities	<u>100,327</u>	<u>763,661</u>	<u>(18,996)</u>	<u>844,992</u>	<u>38,955</u>
Cash flows from capital and related financing activities					
Cash purchase of equipment and capital improvements					
Repayment on general obligation bonds payable		(480,000)		(480,000)	
Repayment on notes payable	(89,685)	(259,805)		(349,490)	
Proceeds from notes payable		208,763		208,763	
Net cash provided by (used in) financing activities	<u>(89,685)</u>	<u>(531,042)</u>	<u>-</u>	<u>(620,727)</u>	<u>-</u>
Net increase (decrease) in cash	10,642	232,619	(18,996)	224,265	38,955
Cash balance, January 1, 2006	96,348	226,603	31,611	354,562	46,080
Cash balance, December 31, 2006	<u>\$ 106,990</u>	<u>\$ 459,222</u>	<u>\$ 12,615</u>	<u>\$ 578,827</u>	<u>\$ 85,035</u>
Supplemental disclosures of cash flows information					
Cash paid during the year ended for					
Interest	<u>\$ 13,394</u>	<u>\$ 177,074</u>	<u>\$ -</u>	<u>\$ 190,468</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by (Used in) operating activities					
Cash flows from operating activities					
Net income	\$ 39,399	\$ 646,278	\$ (22,061)	\$ 663,616	\$ 32,466
Adjustments to reconcile change in net income to net cash provided by operating activities					
Depreciation and amortization	45,609	246,094		291,703	
Non-cash transfer	(3,980)	(26,775)		(30,755)	
Changes in assets and liabilities					
(Increase) decrease in receivables	12,322	(44)	3,101	15,379	(2,231)
Increase (decrease) in payables	3,102	(174,623)	(36)	(171,557)	8,720
Increase (decrease) in accrued compensated absences	3,875	2,793		6,668	
Increase (decrease) in accrued interest		69,938		69,938	
Net cash provided by (used in) operations	<u>\$ 100,327</u>	<u>\$ 763,661</u>	<u>\$ (18,996)</u>	<u>\$ 844,992</u>	<u>\$ 38,955</u>

See accompanying notes to financial statements

City of Titusville
 Combining Statement of Fiduciary Net Assets
 Fiduciary Funds - Trust and Agency
 December 31, 2006

	Nonexpendable Trust Funds			Trust Fund Totals	Agency Fund
	Police Pension Trust	Fire Pension Trust	General Pension Trust		
Assets					
Cash	\$ -	\$ -	\$ -	\$ -	\$ 203,277
Restricted cash	359,281	212,022	-	571,303	-
Restricted investments	4,955,822	2,788,142	1,861,920	9,605,884	-
Total assets	<u>\$ 5,315,103</u>	<u>\$ 3,000,164</u>	<u>\$ 1,861,920</u>	<u>\$ 10,177,187</u>	<u>\$ 203,277</u>
Liabilities and net assets					
Liabilities					
Funds held in escrow	\$ -	\$ -	\$ -	\$ -	\$ 203,277
Net assets	5,315,103	3,000,164	1,861,920	10,177,187	-
Total liabilities and net assets	<u>\$ 5,315,103</u>	<u>\$ 3,000,164</u>	<u>\$ 1,861,920</u>	<u>\$ 10,177,187</u>	<u>\$ 203,277</u>

See accompanying notes to financial statements

City of Titusville
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Trust
For the Year Ended December 31, 2006

	Nonexpendable Trust Funds			Totals
	Police Pension Trust	Fire Pension Trust	General Pension Trust	
Additions				
Contributions				
Contributions - Employees	\$ 28,844	\$ 19,577	\$ 44,600	\$ 93,021
Contributions - State and City aid	243,227	182,717	59,689	485,633
Total contributions	<u>272,071</u>	<u>202,294</u>	<u>104,289</u>	<u>578,654</u>
Investment income				
Realized and unrealized gains on assets	590,546	274,866	147,226	1,012,638
Interest and dividends	120,145	160,267	-	280,412
Total investment income	<u>710,691</u>	<u>435,133</u>	<u>147,226</u>	<u>1,293,050</u>
Total additions	<u>982,762</u>	<u>637,427</u>	<u>251,515</u>	<u>1,871,704</u>
Deductions				
Benefits	404,597	280,396	50,833	735,826
Contribution return	5,606	-	-	5,606
Administrative expenses	9,558	5,869	-	15,427
Total deductions	<u>419,761</u>	<u>286,265</u>	<u>50,833</u>	<u>756,859</u>
Net increase	563,001	351,162	200,682	1,114,845
Net assets held in trust for pension benefits				
Beginning of year, January 1, 2006	<u>4,752,102</u>	<u>2,649,002</u>	<u>1,661,238</u>	<u>9,062,342</u>
End of year, December 31, 2006	<u>\$ 5,315,103</u>	<u>\$ 3,000,164</u>	<u>\$ 1,861,920</u>	<u>\$ 10,177,187</u>

SECTION 5

City of Titusville, Pennsylvania
Notes to Financial Statements
December 31, 2006

Note 1 – Entity

The City of Titusville, Pennsylvania ("City") was incorporated on February 2, 1866 in the Commonwealth of Pennsylvania. The City operates under a Council – Manager form of government and provides the following services as authorized by its charter: public safety (in the form of fire and police protection), streets, sanitation services, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services. The City also provides additional services including water, sewage treatment and refuse collections.

Note 2 – Reporting Entity

The City, for financial purposes, includes all of the funds and accounts groups relevant to the operations of the City of Titusville. The financial statements presented herein do not include agencies that have been formed under applicable state laws as separate and distinct units of government apart from the City of Titusville, with the exception of the Leisure Services Board.

Component Unit – The City of Titusville has created a Leisure Services Board to operate within the City. Titusville Leisure Services Board is organized for the establishment and maintenance of recreational activities and services in the Titusville area. The organization is the result of a joint agreement between the City of Titusville and the Titusville Area School District. The board is made up of representatives from the City and the School District and members appointed-at-large. The City appoints the governing body of this component unit. The Leisure Services Board was created to manage and maintain the parks within the City, including the City swimming pool. The accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate fund information do not contain the financial data of the component unit. A separate audit report of the Titusville Leisure Services Board can be obtained from the board's administration office.

Note 3 – Summary of Significant Accounting Policies

Government-wide Financial Statements

Government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole, excluding fiduciary funds such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or part with fees charged to external customers.

The statement of activities reports expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include charges for services which report fees, fines, forfeitures, and other charges to users of the City services, operating grants and contributions which finance annual operations activities including restricted investment income, and capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources are not properly included with program revenues are reported as general revenues.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported in separate columns with a composite column for non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City government-wide financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period for which contributions are due and the City has made a formal commitment to provide the contribution. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The fund financial statements have been prepared on the prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the Commonwealth of Pennsylvania. Generally under this basis of accounting, revenues are recognized when cash is received and expenditures or expenses are recognized when cash is paid.

Operating income reported in the proprietary funds financial statements includes revenues and expenses related to the operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fund Types and Major Funds

Governmental Fund Types

These are the funds which most governmental functions are furnished. The funds included in this category are:

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted (by the Council or otherwise) to expenditures for specified purposes.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds).

Proprietary Funds - These funds are used to account for operations; (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water, Sewer, Refuse and Fringe Benefit Funds are proprietary funds.

Fiduciary Fund Types - Pension trust funds are used to account for resources held in trust and the receipt, investment, and distribution of retirement contributions. The City's trust funds include the non-uniform employees' pension of the City and the police and fire departments' pensions.

The agency funds account for fiduciary assets held by the City in custodial capacity an agent on behalf of others.

Budgets and Budgetary Accounting

The City annually adopts budgets for the General fund, Special Revenue Funds, Water Fund, Sewer Fund, and Fringe Benefits Fund, since the amounts of tax levies and rates of user charges assessed to the area citizens are involved. Once approved by Council, changes may be made to the legally adopted budget when unexpected modifications are required.

The adopted budgets are integrated into the accounting system and the budgetary data, as presented in the financial statements for all funds with annual budgets, compares the budgeted and actual revenues and expenditures or expenses. Unexpended appropriations lapse at the end of the year.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. Budget revisions are subject to final review by City Council. Within the appropriated budget amounts, management may transfer appropriations without Council approval.

Cash

For the purpose of the statement of cash flows of its proprietary fund types, cash includes time deposits and certificates of deposit with original maturities of three months or less.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Capital Assets

General Fund capital assets are those assets not specifically related to activities reported in the business-type activities in the statement of net assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds' financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except for construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Building and improvements	25-40 years	25-40 years
Equipment and systems	5-20 years	5-10 years
Vehicles	5 years	5-10 years

Compensated Absences

City employees are permitted to accumulate unused vacation, sick and personal time. Contract provisions require payment for this benefit upon retirement, death or disability based on a negotiated formula. At December 31, 2006 the accumulated benefit payable was \$481,018 in the General Fund, \$42,648 for the Water Fund and \$21,890 for the Sewer Fund.

Use of Estimates

The preparation of financial statements in conformity with basis of accounting as defined above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 4 – Cash and Investments

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.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

The City of Titusville's cash and investments consist of deposits with financial institutions and certificates of deposit. The City maintains a cash and investment pool that is available for use by all funds except for the Pension Trust Funds to maximize its earnings potential. Investments in the pool primarily consist of repurchase agreements and bank certificates of deposit, which are recorded at cost.

The City also utilizes a "zero-balance account" mechanism that provides for daily sweeps of deposits made to the City's checking accounts to be transferred immediately into an investment account. Thus, the majority of funds in the City's general accounts are invested at all times.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. The composition of pension trust investments, additional cash and investment information, and fair values are presented in Note 9.

Cash

At December 31, 2006, the deposits (cash) of the City of Titusville consist of:

	General Fund	Special Revenue Fund	Capital Project Fund	Enterprise Fund	Internal Service Fund	Trust Fund	Agency Fund	Total
Bank balance	\$1,606,148	\$47,182	\$267,018	\$588,987	\$85,377	\$570,767	\$203,277	3,368,756
FDIC insured	<u>(200,000)</u>	<u>(47,182)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(85,377)</u>	<u>(400,000)</u>	<u>(100,000)</u>	<u>(1,232,559)</u>
Collateralized by securities held by the pledging financial institutions trust department	<u>\$1,406,148</u>	<u>\$</u>	<u>\$ 67,018</u>	<u>\$388,987</u>	<u>\$</u>	<u>\$170,767</u>	<u>\$103,277</u>	<u>\$2,136,197</u>
Carrying amount	<u>\$ 466,108</u>	<u>\$47,182</u>	<u>\$267,018</u>	<u>\$578,827</u>	<u>\$85,035</u>	<u>\$571,303</u>	<u>\$203,277</u>	<u>\$2,218,750</u>

At December 31, 2006 the City of Titusville's deposits exceeded the \$100,000 Federal Depository Insurance Corporation limit by \$2,136,197; however, no losses occurred due to this situation.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Investments

The investments of the City of Titusville at December 31, 2006 consist of:

Fiduciary Fund Type – Pension Trust

	<u>Carrying Amount</u>	<u>Cost</u>
Police Pension	\$4,955,822	\$3,969,451
Fireman's Pension	2,788,142	2,233,330
General Pension	<u>1,861,920</u>	<u>1,861,920</u>
	<u>\$9,605,884</u>	<u>\$8,064,701</u>

The City of Titusville's investments are in the following:

	<u>Carrying Amount</u>	<u>Cost</u>
Police Pension Mutual Funds	<u>\$4,955,822</u>	<u>\$3,969,451</u>
Fireman's Pension Mutual Funds	<u>\$2,788,142</u>	<u>\$2,233,330</u>
General Pension Trust Fixed Funds	\$1,158,617	\$1,158,617
Index Funds	<u>703,303</u>	<u>703,303</u>
	<u>\$1,861,920</u>	<u>\$1,861,920</u>

Note 5 – Property Tax Revenues and Receivables

Property Taxes

Property taxes are levied on assessed (appraised) values of listed properties as of the prior January for all real estate and business properties located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by City Council. Assessed values are 95% of base values. Millage rates during 2006 were 59.16 mills and 19.00 mills for land and buildings, respectively.

City real estate taxes are levied in March and are due December 31. A 2% discount is permitted if taxes are paid prior to April 30. A penalty is imposed after June 30. All unpaid taxes become delinquent December 31 of the current year. The City bills and collects its own real estate taxes, except for delinquent taxes, which are collected by Crawford County, Pennsylvania and remitted to the City. The City also assesses a per capita tax on the City's residents. The tax is payable at a discount from June 30 through August 31 of each year, with face collections from September 1 through

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

October 31. Penalty collections are accepted from the first of November through the end of the following December.

Taxes Receivable

Taxes receivable consisted of the following at December 31, 2006:

Real estate taxes – current year	\$ 22,415
Delinquent real estate taxes – (not collected by Crawford County tax claim bureau at December 31, 2006)	131,660
Per capita tax	7,058
License and permits	<u>14,472</u>
	175,605
Allowance for doubtful accounts	<u>(1,316)</u>
	<u>\$174,289</u>

Note 6 – Accounts Receivable – Other

Accounts receivable – other consisted of the following at December 31, 2006:

Governmental Funds	
General Funds	\$ 2,124
Capital Projects (Note 11)	<u>58,090</u>
	<u>\$60,214</u>

Note 7 – Accounts Receivable – City Services

Accounts receivable – city services are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Accounts receivable – city services at December 31, 2006 consisted of:

Water charges	\$25,331
Sewer charges	40,117
Refuse charges	<u>5,107</u>
	<u>\$70,555</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Note 8 – Property, Plant and Equipment

Proprietary Fund Types

The following is a summary of the proprietary fund types' capital assets at December 31, 2006:

	Balance at Beginning <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Interfund Transfers</u>	Balance at <u>12/31/06</u>
Water Fund					
Land	\$ 6,003	\$ -	\$ -	\$ -	\$ 6,003
Buildings and building improvements	667,230				667,230
Equipment and systems	<u>582,471</u>	<u> </u>	<u>1,175</u>	<u>13,091</u>	<u>594,387</u>
	<u>\$1,255,704</u>	<u>\$ -</u>	<u>\$1,175</u>	<u>\$13,091</u>	<u>\$1,267,620</u>
Accumulated depreciation	<u>\$ 998,474</u>	<u>\$45,609</u>	<u>\$ -</u>	<u>\$ 9,111</u>	<u>\$1,053,194</u>
Depreciation expense for the year ended December 31, 2006	<u>\$ 45,609</u>				
Sewer Fund					
Land	\$ 26,242	\$ -	\$ -	\$ -	\$ 26,242
Buildings and building improvements	6,214,849				6,214,849
Equipment and systems	1,463,425		36,570	3,928,073	5,354,928
Construction in progress	<u>3,871,439</u>	<u> </u>	<u> </u>	<u>(3,871,439)</u>	<u> </u>
	<u>\$11,575,955</u>	<u>\$ -</u>	<u>\$36,570</u>	<u>\$ 56,634</u>	<u>\$11,596,019</u>
Accumulated depreciation	<u>\$ 6,152,201</u>	<u>\$246,094</u>	<u>\$36,570</u>	<u>\$ 29,860</u>	<u>\$ 6,391,585</u>
Depreciation expense for the year ended December 31, 2006	<u>\$ 246,094</u>				

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Governmental Fund Type

The following is a summary of the changes in capital assets during the year ended December 31, 2006:

	<u>Balance at</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Interfund</u> <u>Transfers</u>	<u>Balance at</u> <u>12/31/06</u>
Land	\$ 170,813	\$ -	\$ -	\$ -	\$ 170,813
Buildings and building improvements	4,507,806				4,507,806
Equipment and systems	<u>2,620,259</u>	<u>159,308</u>	<u>140,340</u>	<u>(69,725)</u>	<u>2,569,502</u>
	<u>\$7,298,878</u>	<u>\$159,308</u>	<u>\$140,340</u>	<u>(\$69,725)</u>	<u>\$7,248,121</u>
Accumulated depreciation	<u>\$4,668,844</u>	<u>\$267,512</u>	<u>\$137,965</u>	<u>(\$38,971)</u>	<u>\$4,759,420</u>
Depreciation expense for the year ended December 31, 2006		<u>\$ 267,512</u>			

Note 9 – Pension Plans

The City of Titusville maintains three separate pension plans – Police, Firemen and General Employees. The Police Pension Plan and Firemen’s Pension Plan, which are defined benefit programs, are administered by separate boards and funded through separate trust funds held by Commonwealth Financial Network, Royal Alliance, and PNC. Citistreet, a member of the State Street and Citigroup financial services companies, administers the General Employees Pension Plan, which is a defined contribution plan.

The pension plans’ of the City of Titusville financial statements are prepared on the basis of cash receipts and disbursements. This practice differs from the accrual or modified accrual basis of accounting prescribed by Governmental Accounting Standards Board (GASB) No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

All investments held by the pension trust funds are insured and held in the name of the City or its agents.

General Employees Pension Plan (Defined Contribution Plan)

The City of Titusville has a single-employer defined contribution plan to provide retirement benefits to the non-uniformed employees of the City under the provisions of a group annuity contract. For 2006 plan participants are required to contribute \$0.50 per hour for each hour worked to the plan. The City is required to contribute \$1.00 per hour for each hour worked to the plan. Provisions and contribution rates for this plan are established and may be amended by the City Council.

Plan investments for this plan are managed by Citistreet, a member of the State Street and Citigroup financial services companies, and are reported at contract value, which approximates fair value.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Firemen's and Police Pension Plans (Defined Benefit Plans)

The City of Titusville's firemen and police participate in single-employer defined benefit pension plans. Each plan includes provisions for retirement, disability and death benefits for its members and their beneficiaries.

Membership information for each plan consisted of the following at January 1, 2005, which is the most recent actuarial evaluation. These biannual Actuarial Valuation Reports prepared by Conrad Siegel Actuaries reflect the following plan membership:

	<u>Police</u>	<u>Firemen</u>
Retirees, Beneficiaries & Disabled Receiving Benefits	19	19
Terminated Members with Vested Benefits		1
Active Plan Members	15	10

Contributions to the Firemen's Pensions by the employees are based on 5.85% of annual pay plus \$1 per month. Contributions to the Police Pension Fund by the employees are based upon 5% of annual pay plus \$1 per month if hired before January 1, 2005. Contributions to the Police Pension Fund if hired after January 1, 2005 are based upon 7% of annual pay plus \$1 per month. All fire department and full time police employees participate as of their date of hire.

The City's Firemen's Pension and Police Pension Plans prepare separate annual financial statements. The financial statements for the period ending December 31, 2006 are available for review by request to the City Manager.

During 1998, the City adopted the provisions of Governmental Accounting Standards Board GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for Investment Pools*. This statement requires that certain information regarding the pension plans of the City of Titusville's investments in investment pools, such as mutual funds and securities, be reflected at fair value, rather than cost basis.

An element of investment income, net increase/(decrease) in the fair value of investments, is required on the statement of changes in net assets – statutory-basis. This unrealized change was \$435,220 and \$155,181 for the Police Pension and Firemen's Pension, respectively, at December 31, 2006. These amounts, as well as realized gains/losses from sales of investments and interest and dividends, are reflected as changes in the investment earnings on the statement of changes in fiduciary net assets.

For 2006, the realized gains (losses) from the sale of investments for the Police Pension and the Firemen's Pension were \$155,326 and \$119,686, respectively. Interest and dividend earnings during the period amounted to \$120,145 and \$160,267, respectively, for the Police Pension and the Firemen's Pension.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

The fair market value of concentrations of investments greater than five percent of the plan's value for the Police Pension and Firemen's Pension plans are reflected below:

	<u>Police Pension</u>		<u>Firemen's Pension</u>	
	<u>Fair Value</u>	<u>Percent of Assets</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
<i>MANAGED MUTUAL FUNDS</i>				
Growth Fund of America	N/A	N/A	\$167,953	5.80
Investment Company of America	\$1,124,998	22.13	\$658,609	22.71
Washington Mutual Investors Fund	\$1,288,163	25.34	\$804,268	27.74
New World Fund	\$ 289,109	5.68	N/A	N/A
Small Cap World Fund	N/A	N/A	\$158,306	5.46
Capital World Growth and Income	N/A	N/A	\$202,213	6.97
Income Fund of America	\$1,032,942	20.32	\$427,358	14.74

The fair market value of concentrations of investments greater than five percent of the plan's value for the City's Non-Uniformed Pension plan is reflected below:

	<u>Fair Value</u>	<u>Percent of Assets</u>
<i>MANAGED MUTUAL FUNDS</i>		
Traveler's Broad Market Index Fund	\$ 703,303	37.77%
<i>INSURANCE CONTRACTS</i>		
Traveler's SV Fixed Fund	\$1,158,617	62.23%

Note 10 – General Obligation Bonds Payable

On June 30, 1986, the City issued General Obligation Bond, Series of 1986, in the amount of \$4,750,000. The proceeds of the sale of these bonds were used by the City to provide monies for construction of improvements to the City's sanitary sewer, including, an expansion of the sewage treatment plant, to pay a portion of the costs of a capital improvement program, and payment of the costs and expenses incidental to the issuance of the Bonds. On November 21, 1989, a portion of these bonds were subsequently refinanced by the City with General Obligation Bonds, Series A of 1989 in the amount of \$3,620,000.

On May 8, 1995, the remaining portion of the Series A Bonds of 1989 and a portion of the Series B of 1989 bonds were subsequently refinanced by the City with General Obligation Bonds, Series A of 1995 in the amount of \$4,660,000.

On February 21, 2001, the City's General Obligation Bonds, Series of 1995 were subsequently refinanced by the City with General Obligation Bonds, Series of 2001 in the amount of \$3,948,110. The Bonds include capital appreciation bonds of 7.05% maturing July 1, 2007 and capital appreciation bonds of 7.10% maturing July 1, 2008 with interest payable upon maturity. The bonds are issued in accordance with the Local Government Unit Debt Act of the General Assembly of the

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Commonwealth of Pennsylvania, approved December 19, 1996, Act No. 177, codified at 53 Pa.C.S. Chapters 80 through 82, and pursuant to the approval of the Department of Community and Economic Development of the Commonwealth of Pennsylvania dated March 12, 2001, No. GOB 14102. The bonds are issued as "tax-exempt."

Series B of 1989

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Stated Value At Issuance</u>	<u>Interest</u>	<u>Payments</u>
2007	7.05%	\$141,902	\$338,098	\$480,000
2008	7.10%	<u>46,473</u>	<u>123,527</u>	<u>170,000</u>
		<u>\$188,375</u>	<u>\$461,625</u>	<u>\$650,000</u>

Series 2001

On February 21, 2001 the City authorized the selling of new bonds. The Bonds were issued as follows: \$3,948,990 General Obligation Bonds, dated March 15, 2001. The Bonds include current interest bonds maturing July 1, 2001 to July 1, 2009 payable semiannually on January 1 and July 1 of each year commencing July 1, 2001 and Capital Appreciation Bonds maturing on July 1, 2010 and July 1, 2011. The Bonds are issued in accordance with the Local Government Unit Debt Act of the General Assembly of the Commonwealth of Pennsylvania, approved December 19, 1996, Act No. 177, codified at 53 Pa.C.S. Chapters 80 through 82, and pursuant to the approval of the Department of Community and Economic Development of the Commonwealth of Pennsylvania date March 12, 2001, No. GOB 14102. The Bonds are issued as "tax-exempt."

The Bonds are issued for the refunding of certain prior Bonds, Series 1995. The 1995 Bonds were issued for capital improvements and current refunding of General Obligation Bonds, Series 1989. The purpose of this refunding is a reduction in total debt service over the life of the 1995 Bonds.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Current Interest Bonds</u>	<u>Capital Appreciation Bonds</u>	<u>Interest</u>	<u>Payments</u>
2007	4.00%	\$ 20,000	\$ -	\$ 35,085	\$ 55,085
2008	4.10%	330,000		28,003	358,003
2009	4.15%	520,000		10,660	530,660
2010	4.50%		357,296	182,704	540,000
2011	4.60%		<u>181,694</u>	<u>108,306</u>	<u>290,000</u>
		<u>\$870,000</u>	<u>\$538,990</u>	<u>\$364,758</u>	<u>\$1,773,748</u>

Interest expense for the year ended December 31, 2006 was \$44,845.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

The following is a summary of changes in General Obligation Bonds Payable for the year ended December 31, 2006.

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Repayment</u> <u>of Debt</u>	<u>Balance</u> <u>12/31/06</u>
Series B of 1989				
7.05% Capital Appreciation Bonds	\$ 141,902	\$ -	\$ -	\$ 141,902
7.10% Capital Appreciation Bonds	46,473			46,473
Series of 2001				
Current Interest Bonds	1,350,000		480,000	870,000
4.50% Capital Appreciation Bonds	357,296			357,296
4.60% Capital Appreciation Bonds	<u>181,694</u>	<u> </u>	<u> </u>	<u>181,694</u>
	<u>\$2,077,365</u>	<u>\$ -</u>	<u>\$480,000</u>	<u>\$1,597,365</u>

The following is a summary of changes in accrued bond interest for the year ended December 31, 2006:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Repayment</u>	<u>Balance</u> <u>12/31/06</u>
Series B of 1989				
7.05% Capital Appreciation Bonds	\$273,426	\$29,797	\$ -	\$303,223
7.10% Capital Appreciation Bonds	90,569	9,903		100,472
Series of 2001				
4.50% Capital Appreciation Bonds	79,218	19,864		99,082
4.60% Capital Appreciation Bonds	<u>41,263</u>	<u>10,374</u>	<u> </u>	<u>51,637</u>
	<u>\$484,476</u>	<u>\$69,938</u>	<u>\$ -</u>	<u>\$554,414</u>

Note 11 – Notes Payable

1992 Titusville Municipal Water Authority Note

As of October 29, 1992, an agreement between the Titusville Municipal Water Authority and the Pennsylvania Infrastructure Investment Authority (Pennvest) calls for repayment of a total balance of \$1,736,792 with such payments commencing December 1, 1992 and continuing until October 2010. The City makes lease payments to the Authority for this note. A pledge of all gross revenue and gross receipts of the Water Authority and the irrevocable and unconditional guarantee of the City of Titusville secure the note. At December 31, 2006, the outstanding balance on this amount was \$339,388.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Scheduled maturities of this debt are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2007	3.45%	\$ 92,829	\$10,250	\$103,079
2008	3.45%	96,083	6,996	103,079
2009	3.45%	99,450	3,629	103,079
2010	3.45%	<u>51,026</u>	<u>514</u>	<u>51,540</u>
		<u>\$339,388</u>	<u>\$21,389</u>	<u>\$360,777</u>

Interest expense for the year ended December 31, 2006 was \$13,394.

2000 Pennvest Sanitary Sewer Note

During 2000, the City entered an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for the sewer project. This agreement requires monthly payments of \$1,473, including interest at 1%, maturing in March 2021. As of December 31, 2006 the principal balance due to Pennvest was \$234,668.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2007	1.00%	\$ 15,401	\$ 2,275	\$ 17,676
2008	1.00%	15,554	2,122	17,676
2009	1.00%	15,710	1,966	17,676
2010	1.00%	15,868	1,808	17,676
2011	1.00%	16,028	1,648	17,676
2012-2016	1.00%	82,588	5,792	88,380
2017-2021	1.00%	<u>73,519</u>	<u>1,602</u>	<u>75,121</u>
		<u>\$234,668</u>	<u>\$17,213</u>	<u>\$251,881</u>

Interest expense for the year ended December 31, 2006 was \$2,430.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

2001 Pennvest Stormwater Sewer Note

During 2001, the City entered an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for the sewer project. The agreement requires monthly payments of \$10,252, including interest at 1%, maturing in July 2021. As of December 31, 2006, the principal balance due was \$1,668,844.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2007	1.00%	\$ 106,830	\$ 16,199	\$ 123,029
2008	1.00%	107,903	15,126	123,029
2009	1.00%	108,987	14,042	123,029
2010	1.00%	110,082	12,947	123,029
2011	1.00%	111,188	11,841	123,029
2012-2016	1.00%	572,920	42,228	615,148
2017-2021	1.00%	550,934	12,954	563,888
		<u>\$1,668,844</u>	<u>\$125,337</u>	<u>\$1,794,181</u>

Interest expense for the year ended December 31, 2006 was \$18,314.

2003 Pennvest Stormwater Sewer Note

During 2003, the City entered into an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for a storm and sanitary sewer line project. The agreement requires monthly payments of \$15,010, including interest at 1%, maturing in December 2032. As of December 31, 2006, principal balance due was \$4,122,372.

Scheduled maturities as of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2007	1.00%	\$ 139,537	40,586	\$ 180,123
2008	1.00%	140,939	39,184	180,123
2009	1.00%	142,355	37,768	180,123
2010	1.00%	143,785	36,338	180,123
2011	1.00%	145,230	34,893	180,123
2012-2016	1.00%	748,327	152,286	900,613
2017-2021	1.00%	786,678	113,935	900,613
2022-2026	1.00%	826,995	73,618	900,613
2027-2031	1.00%	869,378	31,235	900,613
2032	1.00%	179,148	971	180,119
		<u>\$4,122,372</u>	<u>\$560,814</u>	<u>\$4,683,186</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Interest expense for the year ended December 31, 2006 was \$41,493.

2005 Commonwealth of Pennsylvania Infrastructure Loan

During 2005, the City entered into an agreement with the Commonwealth of Pennsylvania for an infrastructure loan for a paving project. The agreement requires annual payments of \$27,076, including interest at 3%, commencing September 2006 and maturing September 2010. As of December 31, 2006, the principle balance due was \$100,644.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2007	3.00%	\$ 24,057	\$3,019	\$ 27,076
2008	3.00%	24,778	2,298	27,076
2009	3.00%	25,522	1,554	27,076
2010	3.00%	<u>26,287</u>	<u>789</u>	<u>27,076</u>
		<u>\$100,644</u>	<u>\$7,660</u>	<u>\$108,304</u>

Interest expense for the year ended December 31, 2006 was \$3,720.

2006 Commonwealth of Pennsylvania Loan Agreement

During 2006, the City entered into an agreement with the Commonwealth of Pennsylvania, acting through the Department of Community and Economic Development, for a Local Government Capital Projects Loan to assist with the acquisition of a vehicle. The agreement requires quarterly payments of \$1,530, including interest at 2%, commencing May 2007 and maturing February 2012. As of December 31, 2006, the loan was approved and the vehicle purchased; however, the loan proceeds were not received and have been shown as a receivable in the accompanying financial statements (Note 6).

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2007	2.00%	\$ 4,174	\$ 415	\$ 4,589
2008	2.00%	5,664	455	6,119
2009	2.00%	5,778	341	6,119
2010	2.00%	5,894	225	6,119
2011	2.00%	6,013	106	6,119
2012	2.00%	<u>1,522</u>	<u>7</u>	<u>1,529</u>
		<u>\$29,045</u>	<u>\$1,549</u>	<u>\$30,594</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

2006 Commonwealth of Pennsylvania Infrastructure Loan

During 2006, the City entered into an agreement with the Commonwealth of Pennsylvania, acting through the Department of Transportation, for a loan to assist with the acquisition of a vehicle. The agreement requires annual payments of \$6,524, including interest at 4%, commencing August 2007 and maturing August 2011. As of December 31, 2006, the loan was approved and the vehicle purchased; however, the loan proceeds were not received and have been shown as a receivable in the accompanying financial statements (Note 6).

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2007	4.00%	\$ 5,362	\$1,162	\$ 6,524
2008	4.00%	5,577	947	6,524
2009	4.00%	5,800	724	6,524
2010	4.00%	6,032	492	6,524
2011	4.00%	<u>6,274</u>	<u>251</u>	<u>6,525</u>
		<u>\$29,045</u>	<u>\$3,576</u>	<u>\$32,621</u>

2006 Tax Anticipation Note

In January of 2006, the City entered into an agreement with a local banking institution for a 3.95% tax anticipation note in the amount of \$500,000. Interest in the amount of \$19,366 was paid along with the principal in December of 2006.

The following is a summary of changes in notes payable for the year ended December 31, 2006:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Repayment</u> <u>of Debt</u>	<u>Balance</u> <u>12/31/06</u>
Governmental activities				
2005 Commonwealth of Pennsylvania Note	\$ 124,000	\$ -	\$ 23,356	\$ 100,644
2006 Commonwealth of Pennsylvania Note		29,045		29,045
2006 Commonwealth of Pennsylvania Note		29,045		29,045
2006 Tax Anticipation Note		<u>500,000</u>	<u>500,000</u>	
	<u>124,000</u>	<u>558,090</u>	<u>523,356</u>	<u>158,734</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Repayment</u> <u>of Debt</u>	<u>Balance</u> <u>12/31/06</u>
Business-type activities				
1992 Titusville Municipal Water Auth Note	429,073		89,685	339,388
2000 Pennvest Sanitary Sewer Note	249,914		15,246	234,668
2001 Pennvest Stormwater Note	1,774,612		105,768	1,668,844
2003 Pennvest Stormwater Note	<u>4,052,400</u>	<u>208,763</u>	<u>138,791</u>	<u>4,122,372</u>
	<u>6,505,999</u>	<u>208,763</u>	<u>349,490</u>	<u>6,365,272</u>
	<u>\$6,629,999</u>	<u>\$766,853</u>	<u>\$872,846</u>	<u>\$6,524,006</u>

Note 12 – Leases

The City has entered into operating leases for office equipment whose leases extend beyond one year and total \$793 per month. The total lease expense for the year ended December 31, 2006 was \$9,198.

Future minimum lease expense is as follows:

Year ending December 31, 2007	\$ 5,729
Year ending December 31, 2008	5,729
Year ending December 31, 2009	<u>2,865</u>
	<u>\$14,323</u>

Note 13 – Working Capital

Working capital is defined as current assets less current liabilities. Working capital for the City of Titusville's Business-Type Activities – Enterprise Funds as of December 31, 2006 is as follows:

Water Fund	\$ 20,748
Sewer Fund	(\$241,704)
Refuse Fund	\$ 17,722
Fringe Benefit Fund	\$ 32,119

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Note 14 – Interfund Due to/Due from

The interfund loans, distinguished from interfund transfers by management’s intent to restore the funds to the respective funds when feasible, at December 31, 2006, are summarized as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Internal Service Fund	General Fund	\$2,341
General Fund	Water Fund	488
General Fund	Sewer Fund	<u>492</u>
		<u>\$3,321</u>

Note 15 – Fringe Benefits Fund

The City maintains a separate fund for the payment of fringe benefits for its employees. Revenue of this fund consists of payments from the General, Water, and Sewer funds. Payments to this fund amounted to \$997,731 for the year ended December 31, 2006. Payments from this fund for various benefits provided by the City amounted to \$1,344,205 for the year ended December 31, 2006. Assets of this fund are included in the combined financials statements under proprietary fund types.

Note 16 – Post Employment Benefits

The City contributes a maximum of \$3,600 annually toward health care coverage for retired police officers and their family until they reach age 65. Coverage ends if the officer obtains post-retirement employment elsewhere that includes health benefits. Therefore, the City recognizes the expense as payments are made on the retirees’ behalf. Total expense for the year ended December 31, 2006 was \$19,620. The City’s potential liability for post-employment benefits based upon the retiree’s employment status as of December 31, 2006 was approximately \$235,980.

Note 17 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently reports its risk management activities in the general fund. The City carries commercial insurance for all other types of loss. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 18 – Related Organizations

Related organizations holding agency relationships with the City are excluded from the City’s financial reporting since the City does not carry a significant role in these organizations’ operations. Audited financial statements are available from the respective organizations. These organizations are described as follows:

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Titusville Municipal Water Authority	Provides repayment of loan from Pennvest with monthly lease payments made to the Authority by the City. The City has no significant influence over the Authority. The Titusville Municipal Authority reports separately.
Redevelopment Authority of the City of Titusville	Administers federal funding for housing condition improvements and community development activities approved by the U.S. Department of Housing and Urban Development. The City has no significant influence over the budget, management, or policies of the Authority. The Redevelopment Authority of the City of Titusville reports separately.
Titusville Airport Authority	Administers federal funding for airport improvements and maintenance approved by the Federal Aviation Administration. The City has no significant influence over the budget, management, or policies of the Authority. The Titusville Airport Authority reports separately.

Note 19 – Net Asset Restatement

Net assets as of December 31, 2005 have been restated to properly record the cost of capital assets for the governmental activities and the business type activities.

Governmental Type Activities/General Fund

The Government Wide Governmental Activities – net assets were restated as follows:

Net assets, December 31, 2005 as originally reported	\$2,995,436
Addition of capital assets	\$30,000
Less related accumulated depreciation	<u>(15,480)</u>
	<u>14,520</u>
Net assets, December 31, 2005, as restated	<u>\$3,009,956</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2006

Business Type Activities/Enterprise Fund

Enterprise fund net assets were restated as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Net assets, December 31, 2005, as originally reported	(\$86,041)	(\$1,830,920)	\$39,783	(\$1,877,178)
Less overstatement of construction in progress costs	_____	(1,318,003)	_____	(1,318,003)
Net assets, December 31, 2005, as restated	<u>(\$86,041)</u>	<u>(\$3,148,923)</u>	<u>\$39,783</u>	<u>(\$3,195,181)</u>

Note 20 – Contingent Liabilities

Grant Programs – The City participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City is potentially liable for any expenditures, which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

Litigation – Litigation was initiated by a local non-profit Organization contending that the City violated the Organization's rights under the First and Fourteenth Amendments of the United States Constitution, the Federal Religious Land Use and Institutionalized Persons Act and the Pennsylvania Religious Freedom Protection Act as a result of the City's commercial zoning act. A settlement was reached during 2006 in which the City agreed to pay \$7,500 over a two year period.

Note 21 – Subsequent Event

In January of 2007, the City entered into an agreement with a local banking institution for a tax anticipation note in the amount of \$825,000. The note bears interest at 4.3% and the principal and interest accrued are due December 31, 2007.

City of Titusville, Pennsylvania
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2006

A. Summary of Auditors' Results:

1. A qualified opinion was issued on the financial statements of the City of Titusville, Pennsylvania.
2. No internal control reportable conditions were disclosed during the audit.
3. No material noncompliance conditions were disclosed during the audit.
4. No reportable conditions in internal control over major programs were disclosed during the audit.
5. An unqualified opinion was issued on the major program compliance audit report.
6. There are no audit findings which are required to be reported under §510(a).
7. The major programs were the Capitalization Grants for Clean Water, CFDA 66.458 and the Airport Improvement Program, CFDA 20.106. The total expenditures for the Capitalization Grants for Clean Water and the Airport Improvement Program were \$464,924. Total federal expenditures per schedule of federal awards were \$672,642. 69.12% of federal expenditures were tested as a major program (464,924 / 672,642).
8. The threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as a low-risk auditee under §530.

B. There were no findings relating to the financial statements, which are required to be reported under GAGAS.

C. There were no findings and questioned costs relating to the federal awards, including audit findings as defined in §510(a).