

City of Titusville, Pennsylvania

Audit Report

December 31, 2008

City of Titusville
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December 31, 2008

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City of Titusville

December 31, 2008

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Section A
Management Discussion and Analysis (MD&A)

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities in Section C 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 D, 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 D.

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 D 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 D 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 E)

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedule in Section F 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").

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, 2008**

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Total % Change 07-08</i>
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	
Assets:							
Current and other assets	\$ 1,016,577	\$ 1,103,898	\$ 913,437	\$ 1,211,000	\$ 1,930,014	\$ 2,314,898	19.9%
Capital assets, (net of depreciation)	\$ 2,346,557	\$ 2,115,704	\$ 5,144,395	\$ 4,912,269	\$ 7,490,952	\$ 7,027,973	-6.2%
Total Assets	\$ 3,363,134	\$ 3,219,602	\$ 6,057,832	\$ 6,123,269	\$ 9,420,966	\$ 9,342,871	-0.8%
Liabilities:							
Current and other liabilities	\$ 109,462	\$ 113,648	\$ 890,659	\$ 1,045,765	\$ 1,000,121	\$ 1,159,413	15.9%
Long-term debt outstanding	\$ 475,516	\$ 438,189	\$ 6,941,806	\$ 6,092,262	\$ 7,417,322	\$ 6,530,451	-12.0%
Total Liabilities	\$ 584,978	\$ 551,837	\$ 7,832,465	\$ 7,138,027	\$ 8,417,443	\$ 7,689,864	-8.6%
Net Assets:							
Investment in capital assets (net of debt)	\$ 2,221,416	\$ 2,026,583	\$ (2,301,743)	\$ (1,796,915)	\$ (80,327)	\$ 229,668	-385.9%
Unrestricted	\$ 556,740	\$ 641,182	\$ 527,110	\$ 782,157	\$ 1,083,850	\$ 1,423,339	31.3%
Total Net Assets	\$ 2,778,156	\$ 2,667,765	\$ (1,774,633)	\$ (1,014,758)	\$ 1,003,523	\$ 1,653,007	64.7%

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 \$1,653,007, an increase of 65% from 2007. Net assets of the City's governmental activities decreased 4.14% to just under \$2.7 million. However, \$2,026,583 of those net assets is invested in capital assets. Consequently, unrestricted net assets showed \$641,314 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, for both governmental and proprietary funds, \$1,423,339 may be used to meet the government's ongoing obligations to citizens and creditors.

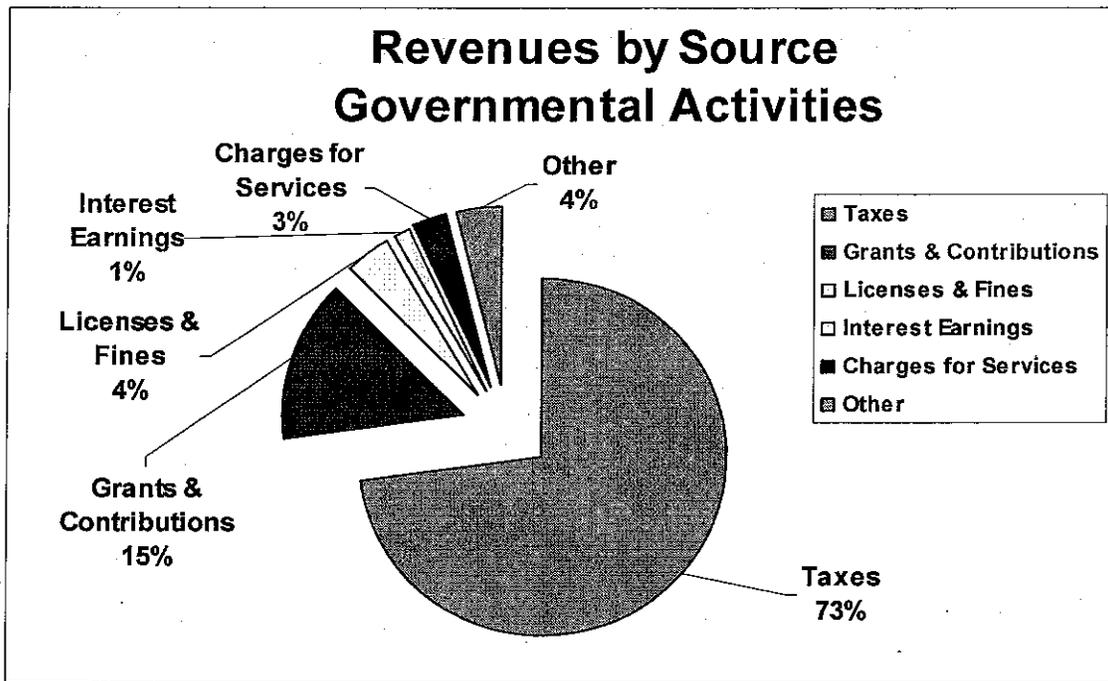
The following is a summary of the information presented in the Statement of Activities:

City of Titusville, Pennsylvania
Changes in Net Assets for the Year Ended December 31, 2008

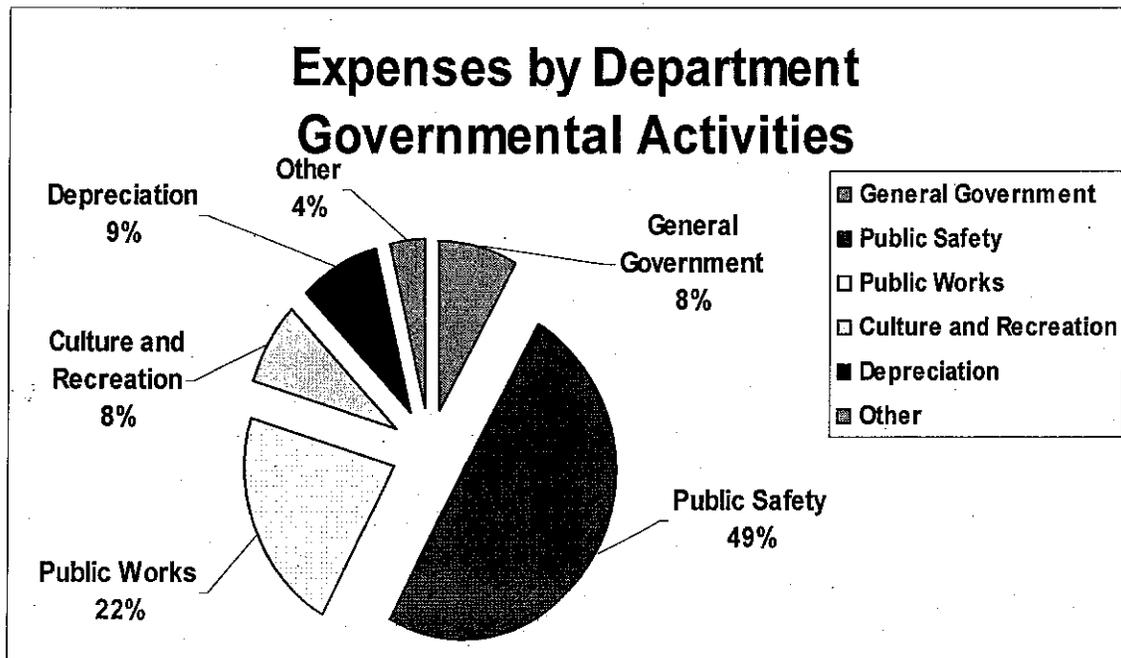
Revenues	Governmental Activities		Business-type Activities		Total		Total % Change
	2007	2008	2007	2008	2007	2008	
Program Revenues							
Charges for Services	\$119,264	\$93,977	\$4,110,989	\$4,036,291	\$4,230,253	\$4,130,268	-2.4%
Operating Grant and contributions	\$232,564	\$339,963	\$221,241	\$223,043	\$453,805	\$563,006	24.1%
Capital Grants and contributions	\$45,044	\$108,645	\$4,593	\$4,785	\$49,637	\$113,430	128.5%
General Revenues							
Taxes	\$2,286,529	\$2,241,192	\$0	\$0	\$2,286,529	\$2,241,192	-2.0%
Licenses and permits	\$71,887	\$65,094	\$0	\$0	\$71,887	\$65,094	-10.4%
Fines and forfeits	\$69,065	\$60,761	\$0	\$0	\$69,065	\$60,761	-12.0%
Interest earnings	\$71,778	\$41,426	\$38,182	\$24,408	\$109,960	\$65,834	-40.1%
Miscellaneous	\$82,314	\$91,320	\$49,387	\$63,613	\$131,701	\$154,933	17.6%
Transfers	\$51,030	\$31,676	(\$51,030)	(\$31,676)	\$0	\$0	0%
TOTAL REVENUES	\$3,029,475	\$3,074,054	\$4,373,362	\$4,320,464	\$7,402,837	\$7,394,518	-0.1%
Expenses							
General Government	\$263,114	\$266,747			\$263,114	\$266,747	1.4%
Public Safety	\$1,574,230	\$1,570,539			\$1,574,230	\$1,570,539	-0.2%
Public Works	\$659,416	\$691,390			\$659,416	\$691,390	4.8%
Human Services	\$1,909	\$2,050			\$1,909	\$2,050	7.4%
Culture and Recreation	\$185,575	\$255,389			\$185,575	\$255,389	37.6%
Depreciation	\$273,314	\$280,527			\$273,314	\$280,527	2.6%
Interest	\$39,085	\$38,963			\$39,085	\$38,963	-0.3%
Miscellaneous	\$77,296	\$78,840			\$77,296	\$78,840	2.0%
Internal Services Activities			\$1,359,670	\$1,267,335	\$1,359,670	\$1,267,335	-6.8%
Water, Sewer, and Refuse Facilities			\$2,108,472	\$2,032,246	\$2,108,472	\$2,032,246	-3.6%
Interest on Long-term Debt			\$180,407	\$261,008	\$180,407	\$261,008	44.7%
TOTAL EXPENSES	\$3,073,939	\$3,184,445	\$3,648,549	\$3,560,589	\$6,722,488	\$6,745,034	0.3%
Change in Net Assets	-\$44,464	-\$110,391	\$724,813	\$759,875	\$680,349	\$649,484	-4.75%
Net Assets, Beginning of Year	\$2,822,620	\$2,778,156	-\$2,499,446	-\$1,774,633	\$323,174	\$1,003,523	210.5%
Net Assets, End of Year	\$2,778,156	\$2,667,765	-\$1,774,633	-\$1,014,758	\$1,003,523	\$1,653,007	64.72%

The City's governmental activities rely heavily upon Tax Revenue (73%) to fund its operations. The cost of governmental activities totaled \$3,184,445 for the year ended December 31, 2008.

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



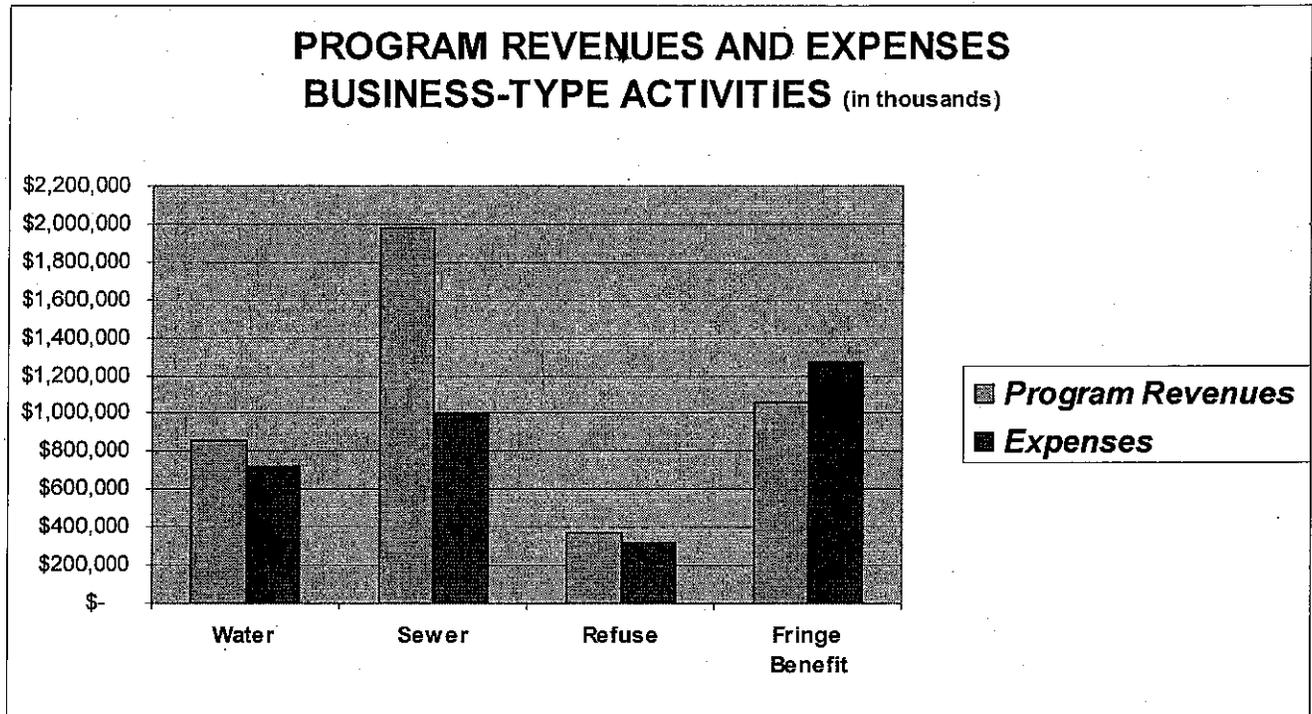
The following chart presents governmental expenses by function:



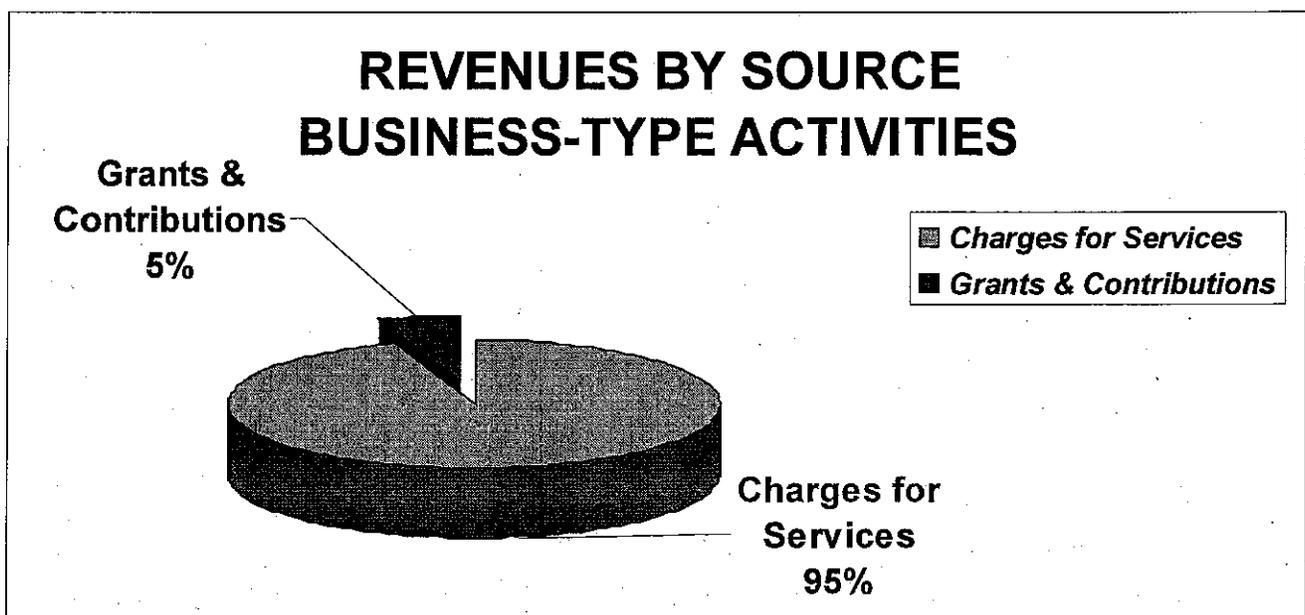
Business-type Activities

Business-type activities increased the City's net assets by \$759,875.

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 D. 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 \$141,396, while the total governmental fund balance was \$779,418. 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 decreased by \$117,385 during the current fiscal year. Key factors for this increase include:

- ❖ Annual revenues were under the budget by \$260,484. The main revenue stream continues to come from taxes which were under budget by \$77,328 and interest revenue was under budget by \$31,554. Fines and forfeits were under budget by \$19,939.
- ❖ Expenditures were under budget by \$143,099. Public Works expenditures were under budget by \$64,486, Culture and Recreation under budget by \$3,182 and Public Safety by \$77,726 while General Government and Debt Service exceeded their budgets by \$11,447 and \$263, respectively.
- ❖ On a positive note, the carryover funds of \$117,385 were used in 2008 to balance the budget while \$178,928 was used in 2007.

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, 2008, amounts to \$7,027,973 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, equipment and systems, and construction in process.

City of Titusville, Pennsylvania
Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2008	2007	2008	2007	2008
Land	\$170,813	\$170,813	\$32,245	\$32,245	\$203,058	\$203,058
Buildings/Improvements	\$4,510,461	\$4,510,461	\$6,882,079	\$6,882,079	\$11,392,540	\$11,392,540
Equipment and Systems	\$2,668,529	\$2,703,204	\$5,961,803	\$5,957,803	\$8,630,332	\$8,661,007
Total	\$7,349,803	\$7,384,478	\$12,876,127	\$12,872,127	\$20,225,930	\$20,256,605
Less Accum. Depreciation	(\$5,003,246)	(\$5,268,774)	(\$7,731,732)	(\$7,959,858)	(\$12,734,978)	(\$13,228,632)
Total Capital Assets	\$2,346,557	\$2,115,704	\$5,144,395	\$4,912,269	\$7,490,952	\$7,027,973

Long-Term Debt

At the end of the current fiscal year, the City had total debt and accrued interest of \$7,136,200. 80% of the total indebtedness is attributed to notes payable. Total debt and accrued interest is down by 9% from 2007.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For the upcoming Fiscal Year 2009, the City's budget was increased by \$351,662 to initiate a multi-year street paving program.

The General Fund property tax millage was increased by 3 mills to fund the street paving program. Prior to this increase the City had experienced relatively flat-tax revenue over several years and historically the amount of tax-exempt property value increases annually. As a result, the City has asked tax-exempt entities to consider making voluntary contributions of 10% of their City real estate tax amount.

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 City Manager, 107 N. Franklin Street, Titusville, Pennsylvania 16354 or telephone at 814-827-5300 Extension 303.

Section B
Auditors' Reports



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, 2008, 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.

The financial statements referred to above include only the primary government of the City of Titusville, Pennsylvania which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Titusville, Pennsylvania as of December 31, 2008, and the changes in its financial position, and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. City of Titusville, Pennsylvania's management has indicated that this legally separate component unit is in the process of issuing a separate audited financial statement.

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 entity-wide 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, 2008, 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.

Additionally, 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, 2008, 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 August 14, 2009, 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis, budgetary comparison information and required Pension Plan supplemental schedule in Section F are not a required part of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

O'Polka & Company, Inc.

August 14, 2009
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, 2008, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements, and have issued our report thereon dated August 14, 2009 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 City of Titusville, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Titusville, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Titusville, Pennsylvania's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Titusville, Pennsylvania's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Titusville, Pennsylvania's financial statements that is more than inconsequential will not be prevented or detected by the City of Titusville, Pennsylvania's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Titusville, Pennsylvania's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control

that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters.

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

We noted certain matters that we reported to management of City of Titusville, Pennsylvania, in a separate letter dated August 14, 2009.

This report is intended solely for the information and use of the Mayor, members of council, management, federal awarding agencies, the Pennsylvania Department of Community and Economic Development 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.

August 14, 2009
Franklin, Pennsylvania

Section C
Government-Wide Financial Statements

City of Titusville
Statement of Net Assets
December 31, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash	\$ 791,474	\$ 1,138,369	\$ 1,929,843
Accounts receivable			
Taxes, net of allowance for doubtful accounts	270,396		270,396
City services		55,598	55,598
Other	31,507	1,518	33,025
Due from other funds	10,521	15,515	26,036
Total current assets	<u>1,103,898</u>	<u>1,211,000</u>	<u>2,314,898</u>
Noncurrent assets			
Land	170,813	32,245	203,058
Buildings and building improvements	4,510,461	6,882,079	11,392,540
Equipment and systems	2,703,204	5,957,803	8,661,007
	<u>7,384,478</u>	<u>12,872,127</u>	<u>20,256,605</u>
Accumulated depreciation	<u>(5,268,774)</u>	<u>(7,959,858)</u>	<u>(13,228,632)</u>
Total capital assets, net	<u>2,115,704</u>	<u>4,912,269</u>	<u>7,027,973</u>
Total assets	<u>\$ 3,219,602</u>	<u>\$ 6,123,269</u>	<u>\$ 9,342,871</u>
Liabilities and net assets			
Current liabilities			
Vouchers payable and other current liabilities	\$ 39,903	\$ 10,168	\$ 50,071
Due to other funds	15,515	10,521	26,036
Accrued compensated absences	20,365	16,098	36,463
Accrued interest		122,476	122,476
Notes payable	37,865	366,502	404,367
General obligation bonds payable		520,000	520,000
Total current liabilities	<u>113,648</u>	<u>1,045,765</u>	<u>1,159,413</u>
Noncurrent liabilities			
Accrued compensated absences	386,933	54,161	441,094
Notes payable	51,256	5,283,692	5,334,948
General obligation bonds payable		538,990	538,990
Accrued long-term bond interest		215,419	215,419
Total non-current liabilities	<u>438,189</u>	<u>6,092,262</u>	<u>6,530,451</u>
Total liabilities	<u>551,837</u>	<u>7,138,027</u>	<u>7,689,864</u>
Net assets			
Invested in capital assets, net of related debt	2,026,583	(1,796,915)	229,668
Unrestricted	641,182	782,157	1,423,339
Total net assets	<u>2,667,765</u>	<u>(1,014,758)</u>	<u>1,653,007</u>
Total liabilities and net assets	<u>\$ 3,219,602</u>	<u>\$ 6,123,269</u>	<u>\$ 9,342,871</u>

City of Titusville
Statement of Activities
For the Year ended December 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities							
General government	\$ 266,747	\$ 56,350	\$ -	\$ -	\$ (210,397)	\$ -	\$ (210,397)
Public safety	1,570,539	37,627			(1,532,912)		(1,532,912)
Public works	691,390		154,373	108,645	(428,372)		(428,372)
Human services	2,050				(2,050)		(2,050)
Culture and recreation	255,389		185,590		(69,799)		(69,799)
Depreciation	280,527				(280,527)		(280,527)
Interest expense	38,963				(38,963)		(38,963)
Miscellaneous	78,840				(78,840)		(78,840)
Total governmental activities	3,184,445	93,977	339,963	108,645	(2,641,860)		(2,641,860)
Business-type activities							
Internal service activities	1,267,335	836,558	223,043			(207,734)	(207,734)
Water, sewer and refuse facilities	2,293,254	3,199,733		4,785		911,264	911,264
Total business-type activities	3,560,589	4,036,291	223,043	4,785		703,530	703,530
Total primary government	\$ 6,745,034	\$ 4,130,268	\$ 563,006	\$ 113,430	(2,641,860)	703,530	(1,938,330)
General revenues and transfers							
Taxes					2,241,192		2,241,192
Licenses and permits					65,094		65,094
Fines and forfeits					60,761		60,761
Interest earnings					41,426	24,408	65,834
Miscellaneous revenues					91,320	63,613	154,933
Transfers					31,676	(31,676)	
Total general revenues and transfers					2,531,469	56,345	2,587,814
Change in net assets					(110,391)	759,875	649,484
Net assets							
Beginning of year, January 1, 2008					2,778,156	(1,774,633)	1,003,523
End of year, December 31, 2008					<u>\$ 2,667,765</u>	<u>\$ (1,014,758)</u>	<u>\$ 1,653,007</u>

Section D
Fund Financial Statements

City of Titusville
Statement of Assets, Liabilities and Fund Balance,
and Reconciliation to the Statement of Net Assets
Governmental Funds
December 31, 2008

	General (Major Fund)	Special Revenue (Non-Major Fund)	Capital Projects (Major Fund)	Total Governmental Funds
Assets				
Cash	\$ 153,452	\$ 12,245	\$ 625,777	\$ 791,474
Due from other funds	10,521			10,521
Total assets	\$ 163,973	\$ 12,245	\$ 625,777	\$ 801,995
Liabilities and fund balance				
Vouchers payable and other current liabilities	\$ 7,062	\$ -	\$ -	\$ 7,062
Due to other funds	15,515			15,515
Total liabilities	22,577			22,577
Fund balance				
Designated			187,000	187,000
Undesignated	141,396	12,245	438,777	592,418
Total fund balance	141,396	12,245	625,777	779,418
Total liabilities and fund balance	\$ 163,973	\$ 12,245	\$ 625,777	

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	270,396
Other receivables	31,507

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,384,478 and the accumulated depreciation is \$5,268,774.

2,115,704

Liabilities are not recorded in the fund financial statements

Notes payable	(89,121)
Voucher payable and other current liabilities	(32,841)
Compensated absences	(407,298)

Total net assets - governmental activities

\$ 2,667,765

City of Titusville
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2008

	General (Major Fund)	Special Revenue (Non-Major Fund)	Capital Project (Major Fund)	Total Governmental Funds
Revenues				
Taxes	\$ 2,177,172	\$ -	\$ -	\$ 2,177,172
Interest income	28,446	2,378	10,602	41,426
Intergovernmental	56,350	154,373	185,590	396,313
Charges for services	37,627			37,627
Payments in lieu of taxes	36,593			36,593
Licenses and permits	68,087			68,087
Fines and forfeits	60,761			60,761
Miscellaneous revenues	46,832		109,438	156,270
Total revenues	<u>2,511,868</u>	<u>156,751</u>	<u>305,630</u>	<u>2,974,249</u>
Expenditures				
General government	273,750			273,750
Public safety	1,557,758		74,845	1,632,603
Public works	425,497	219,091	49,250	693,838
Human services	2,050			2,050
Culture and recreation	203,128		32,171	235,299
Debt service	47,906	27,076		74,982
Miscellaneous	78,840			78,840
Total expenditures	<u>2,588,929</u>	<u>246,167</u>	<u>156,266</u>	<u>2,991,362</u>
Excess (deficiency) of revenues over expenditures	<u>(77,061)</u>	<u>(89,416)</u>	<u>149,364</u>	<u>(17,113)</u>
Other financing sources (uses)				
Operating transfers in	65,500	6,267	72,000	143,767
Operating transfers (out)	(105,824)		(6,267)	(112,091)
Total other financing sources (uses)	<u>(40,324)</u>	<u>6,267</u>	<u>65,733</u>	<u>31,676</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(117,385)</u>	<u>(83,149)</u>	<u>215,097</u>	<u>14,563</u>
Fund balance				
Beginning of year, January 1, 2008	<u>258,781</u>	<u>95,394</u>	<u>410,680</u>	<u>764,855</u>
End of year, December 31, 2008	<u>\$ 141,396</u>	<u>\$ 12,245</u>	<u>\$ 625,777</u>	<u>\$ 779,418</u>

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, 2008

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

Total net changes in fund balances-governmental funds		\$ 14,563
<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	\$ 280,527	
Capital outlays	\$ 49,675	(230,852)
Principal repayment of notes payable		36,020
Other		
Decrease in accounts receivable		75,302
Decrease in compensated absences		13,501
Decrease in accounts payable		<u>(18,925)</u>
Changes in net assets of governmental activities		<u>\$ (110,391)</u>

City of Titusville
Combining Statement of Net Assets
Proprietary Fund Types
December 31, 2008

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	Fringe Benefits
Assets					
Current assets					
Cash	\$ 15,473	\$ 925,753	\$ 771	\$ 941,997	\$ 196,372
Accounts receivable					
City services	21,047	27,979	6,572	55,598	
Other		1,379		1,379	139
Due from other funds	8,410	7,105		15,515	
Total current assets	<u>44,930</u>	<u>962,216</u>	<u>7,343</u>	<u>1,014,489</u>	<u>196,511</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	590,387	5,367,416		5,957,803	
	<u>1,263,620</u>	<u>11,608,507</u>		<u>12,872,127</u>	
Accumulated depreciation	<u>(1,115,176)</u>	<u>(6,844,682)</u>		<u>(7,959,858)</u>	
Total capital assets, net	<u>148,444</u>	<u>4,763,825</u>		<u>4,912,269</u>	
Total assets	<u>\$ 193,374</u>	<u>\$ 5,726,041</u>	<u>\$ 7,343</u>	<u>\$ 5,926,758</u>	<u>\$ 196,511</u>
Liabilities and net assets					
Current liabilities					
Vouchers payable and other current liabilities	\$ 6,064	\$ 1,226	\$ -	\$ 7,290	\$ 2,878
Due to other funds					10,521
Accrued compensated absences	7,920	8,178		16,098	
Accrued Interest		122,476		122,476	
Notes payable	99,450	267,052		366,502	
General obligation bonds payable		520,000		520,000	
Total current liabilities	<u>113,434</u>	<u>918,932</u>		<u>1,032,366</u>	<u>13,399</u>
Noncurrent liabilities					
Accrued compensated absences	37,778	16,383		54,161	
Notes payable	51,025	5,232,667		5,283,692	
General obligation bonds payable		538,990		538,990	
Accrued long-term bond interest		215,419		215,419	
Total non-current liabilities	<u>88,803</u>	<u>6,003,459</u>		<u>6,092,262</u>	
Total liabilities	<u>202,237</u>	<u>6,922,391</u>		<u>7,124,628</u>	<u>13,399</u>
Net assets					
Invested in capital assets, net of related debt	(2,031)	(1,794,884)		(1,796,915)	
Unrestricted	(6,832)	598,534	7,343	599,045	183,112
Total net assets	<u>(8,863)</u>	<u>(1,196,350)</u>	<u>7,343</u>	<u>(1,197,870)</u>	<u>183,112</u>
Total liabilities and net assets	<u>\$ 193,374</u>	<u>\$ 5,726,041</u>	<u>\$ 7,343</u>	<u>\$ 5,926,758</u>	<u>\$ 196,511</u>

City of Titusville
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund Types
For the Year Ended December 31, 2008

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	Fringe Benefits
Operating revenues					
Charges for services	\$ 851,673	\$ 1,978,258	\$ 369,802	\$ 3,199,733	\$ 836,558
Operating contributions			4,785	4,785	223,043
Total operating revenues	851,673	1,978,258	374,587	3,204,518	1,059,601
Operating expenses					
Salaries and wages	308,437	296,202		604,639	
Employee benefits	156,393	147,790		304,183	663,394
Utilities	109,588			109,588	
Materials and supplies	29,540	152,473		182,013	
Contractual services	20,859	85,317	309,495	415,671	
Equipment	8,941	21,864		30,805	
Depreciation	24,651	207,475		232,126	
Insurance	39,487	42,714		82,201	603,941
Administrative	22,693	43,835	4,492	71,020	
Total operating expenses	720,589	997,670	313,987	2,032,246	1,267,335
Operating income (loss)	131,084	980,588	60,600	1,172,272	(207,734)
Non-operating revenues (expenses)					
Interest income	1,553	20,168	487	22,208	2,200
Interest expense	(6,996)	(254,012)		(261,008)	
Other revenues	3,300	7,830	391	11,521	52,092
Total non-operating revenues (expenses)	(2,143)	(226,014)	878	(227,279)	54,292
Income (loss) before contributions and transfers	128,941	754,574	61,478	944,993	(153,442)
Capital contributions					
Transfers in					260,548
Transfers out	(117,362)	(109,362)	(65,500)	(292,224)	
Changes in net assets	11,579	645,212	(4,022)	652,769	107,106
Net assets					
Beginning of year, January 1, 2008	(20,442)	(1,841,562)	11,365	(1,850,639)	76,006
End of year, December 31, 2008	\$ (8,863)	\$ (1,196,350)	\$ 7,343	\$ (1,197,870)	\$ 183,112

City of Titusville
Combining Statement of Cash Flows
Proprietary Fund Types
For the Year Ended December 31, 2008

	Enterprise Funds			Total	Internal Service Fund
	Water Fund	Sewer Fund	Refuse Fund		Fringe Benefits Fund
Cash flows from operating activities					
Receipts from customers	\$ 843,271	\$ 1,980,182	\$ 374,230	\$ 3,197,683	\$ 836,558
Receipts from other governments					223,043
Payments to suppliers	(404,068)	(717,962)	(313,988)	(1,436,018)	(1,263,289)
Payments for personnel services	(306,919)	(292,257)		(599,176)	
Payments to other funds	(117,362)	(109,362)	(65,500)	(292,224)	
Payments from other funds					260,548
Other receipts	3,718	26,760	878	31,356	54,293
Net cash provided by operating activities	<u>18,640</u>	<u>887,361</u>	<u>(4,380)</u>	<u>901,621</u>	<u>111,153</u>
Cash flows from capital and related financing activities					
Repayment on general obligation bonds payable		(376,473)		(376,473)	
Repayment on notes payable	(96,083)	(264,398)		(360,481)	
Net cash provided by (used in) financing activities	<u>(96,083)</u>	<u>(640,871)</u>		<u>(736,954)</u>	
Net increase (decrease) in cash	(77,443)	246,490	(4,380)	164,667	111,153
Cash balance , January 1, 2008	92,916	679,263	5,151	777,330	85,219
Cash balance, December 31, 2008	<u>\$ 15,473</u>	<u>\$ 925,753</u>	<u>\$ 771</u>	<u>\$ 941,997</u>	<u>\$ 196,372</u>
Supplemental disclosures of cash flows information					
Cash paid during the year ended for					
Interest	<u>\$ 6,996</u>	<u>\$ 245,012</u>		<u>\$ 252,008</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Cash flows from operating activities					
Net income	\$ 11,579	\$ 645,212	\$ (4,022)	\$ 652,769	\$ 107,106
Adjustments to reconcile change in net income to net cash provided by operating activities					
Depreciation and amortization	24,651	207,475		232,126	
Changes in assets and liabilities					
(Increase) decrease in receivables	(16,807)	(5,922)	(358)	(23,087)	1,343
Increase (decrease) in payables	(2,300)	(7,809)		(10,109)	2,704
Increase (decrease) in accrued compensated absences	1,517	3,944		5,461	
Increase (decrease) in accrued interest		44,461		44,461	
Net cash provided by (used in) operations	<u>\$ 18,640</u>	<u>\$ 887,361</u>	<u>\$ (4,380)</u>	<u>\$ 901,621</u>	<u>\$ 111,153</u>

City of Titusville
Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Trust and Agency
December 31, 2008

	Nonexpendable Trust Funds			Trust Fund Totals	Agency Fund
	Police Pension Trust	Fire Pension Trust	General Pension Trust		
Assets					
Cash	\$ -	\$ -	\$ -	\$ -	\$ 17,504
Restricted cash	698,895	511,728		1,210,623	
Restricted investments	2,715,534	1,425,687	1,814,282	5,955,503	
Total assets	\$ 3,414,429	\$ 1,937,415	\$ 1,814,282	\$ 7,166,126	\$ 17,504
Liabilities and net assets					
Payroll Liabilities	\$ 7,113	\$ -	\$ -	\$ 7,113	\$ -
Funds held in escrow					17,504
Total Liabilities	7,113			7,113	17,504
Net assets	3,407,316	1,937,415	1,814,282	7,159,013	
Total liabilities and net assets	\$ 3,414,429	\$ 1,937,415	\$ 1,814,282	\$ 7,166,126	\$ 17,504

City of Titusville
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Trust
For the Year Ended December 31, 2008

	Nonexpendable Trust Funds			Totals
	Police Pension Trust	Fire Pension Trust	General Pension Trust	
Additions				
Contributions				
Contributions - Employees	\$ 28,995	\$ 20,304	\$ 40,870	\$ 90,169
Contributions - State and City	254,283	161,496	52,319	468,098
Total contributions	283,278	181,800	93,189	558,267
Investment income (loss)				
Realized and unrealized gains (losses) on assets	(1,832,116)	(1,119,603)	(167,960)	(3,119,679)
Interest and dividends	130,098	75,013		205,111
Total investment income (loss)	(1,702,018)	(1,044,590)	(167,960)	(2,914,568)
Total additions (deductions)	(1,418,740)	(862,790)	(74,771)	(2,356,301)
Deductions				
Benefits	520,106	283,898	55,979	859,983
Contribution return		1,976		1,976
Administrative expenses	26,098	16,917		43,015
Total deductions	546,204	302,791	55,979	904,974
Net increase (decrease)	(1,964,944)	(1,165,581)	(130,750)	(3,261,275)
Net assets held in trust for pension benefits				
Beginning of year, January 1, 2008	5,372,260	3,102,996	1,945,032	10,420,288
End of year, December 31, 2008	\$ 3,407,316	\$ 1,937,415	\$ 1,814,282	\$ 7,159,013

Section E
Notes to Financial Statements

City of Titusville, Pennsylvania
Notes to Financial Statements
December 31, 2008

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.

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 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 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, 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 not properly included with program revenues are reported as general revenues.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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. 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:

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.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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, 2008

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, 2008 the accumulated benefit payable was \$407,298 in the General Fund, \$45,698 for the Water Fund and \$24,561 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
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December 31, 2008

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, 2008, the deposits (cash) of the City of Titusville consist of:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Trust Fund</u>	<u>Agency Fund</u>	<u>Total</u>
Bank balance	\$1,405,946	\$12,245	\$634,777	\$967,189	\$196,434	\$1,230,450	\$17,504	\$4,464,545
FDIC insured	(349,563)	(12,245)	(326,252)	_____	_____	(250,000)	_____	(938,060)
Collateralized by securities held by the pledging financial institutions trust department	<u>\$1,056,383</u>	<u>\$ _____</u>	<u>\$308,525</u>	<u>\$967,189</u>	<u>\$196,434</u>	<u>\$ 980,450</u>	<u>\$17,504</u>	<u>\$3,526,485</u>
Carrying amount	<u>\$ 153,452</u>	<u>\$12,245</u>	<u>\$625,777</u>	<u>\$941,997</u>	<u>\$196,372</u>	<u>\$1,210,623</u>	<u>\$17,504</u>	<u>\$3,157,970</u>

At December 31, 2008 the City of Titusville's deposits exceeded the \$250,000 Federal Depository Insurance Corporation limit by \$3,526,485; however, no losses occurred due to this situation.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

Investments

The investments of the City of Titusville at December 31, 2008 consist of:

Fiduciary Fund Type – Pension Trust

	<u>Carrying Amount</u>	<u>Cost</u>
Police Pension	\$2,715,534	\$3,728,463
Fireman's Pension	1,425,687	1,984,257
General Pension	<u>1,814,282</u>	<u>1,814,282</u>
	<u>\$5,955,503</u>	<u>\$7,527,002</u>

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

	<u>Carrying Amount</u>	<u>Cost</u>
Police Pension		
Mutual Funds	\$2,714,305	\$3,727,222
U.S. Treasury Asset Backed Securities	<u>1,229</u>	<u>1,241</u>
	<u>\$2,715,534</u>	<u>\$3,728,463</u>
Fireman's Pension		
Mutual Funds	<u>\$1,425,687</u>	<u>\$1,984,257</u>
General Pension Trust		
Fixed Funds	\$1,471,382	\$1,471,382
Index Funds	<u>342,900</u>	<u>342,900</u>
	<u>\$1,814,282</u>	<u>\$1,814,282</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 100% of base values. Millage rates during 2008 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

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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 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, 2008:

Real estate taxes – current year	\$ 12,272
Delinquent real estate taxes	243,309
Per capita tax	6,119
License and permits	<u>11,129</u>
	272,829
Allowance for doubtful accounts	<u>(2,433)</u>
	<u>\$270,396</u>

Note 6 – Accounts Receivable – Other

Accounts receivable – other consisted of the following at December 31, 2008:

Governmental Funds	
General Funds	<u>\$31,507</u>
Proprietary Funds	
Sewer Fund	<u>\$ 1,379</u>
Internal Service Fund	
Fringe Benefits	<u>\$ 139</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 are charged to operations when that determination is made.

Accounts receivable – city services at December 31, 2008 consisted of:

Water charges	\$21,047
Sewer charges	27,979
Refuse charges	<u>6,572</u>
	<u>\$55,598</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

Note 8 – Property, Plant and Equipment

Proprietary Fund Types

The following is a summary of the proprietary fund types' capital assets at December 31, 2008:

	<u>Balance at</u> <u>12/31/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>12/31/08</u>
Water Fund				
Land	\$ 6,003	\$	\$	\$ 6,003
Buildings and building improvements	667,230			667,230
Equipment and systems	<u>594,387</u>	<u> </u>	<u>4,000</u>	<u>590,387</u>
	<u>\$1,267,620</u>	<u>\$</u>	<u>\$4,000</u>	<u>\$1,263,620</u>
Accumulated depreciation	<u>\$1,094,525</u>	<u>\$24,651</u>	<u>\$4,000</u>	<u>\$1,115,176</u>
Depreciation expense for the year ended December 31, 2008	<u>\$ 24,651</u>			
Sewer Fund				
Land	\$ 26,242	\$	\$	\$ 26,242
Buildings and building improvements	6,214,849			6,214,849
Equipment and systems	<u>5,367,416</u>	<u> </u>	<u> </u>	<u>5,367,416</u>
	<u>\$11,608,507</u>	<u>\$</u>	<u>\$</u>	<u>\$11,608,507</u>
Accumulated depreciation	<u>\$ 6,637,207</u>	<u>\$207,475</u>	<u>\$</u>	<u>\$ 6,844,682</u>
Depreciation expense for the year ended December 31, 2008	<u>\$ 207,475</u>			

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

Governmental Fund Type

The following is a summary of the changes in capital assets during the year ended December 31, 2008:

	<u>Balance at</u> <u>12/31/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>12/31/08</u>
Land	\$ 170,813	\$	\$	\$ 170,813
Buildings and building improvements	4,510,461			4,510,461
Equipment and systems	<u>2,668,529</u>	<u>49,675</u>	<u>15,000</u>	<u>2,703,204</u>
	<u>\$7,349,803</u>	<u>\$ 49,675</u>	<u>\$15,000</u>	<u>\$7,384,478</u>
Accumulated depreciation	<u>\$5,003,247</u>	<u>\$280,527</u>	<u>\$15,000</u>	<u>\$5,268,774</u>
Depreciation expense for the year ended December 31, 2008	<u>\$ 280,527</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 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 2008 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, 2008

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, 2007, 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	14	18
Terminated Members with Vested Benefits	1	1
Active Plan Members	18	12

Contributions to the Firemen's Pension Fund 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, 2008 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 (\$1,733,931) and (\$766,058) for the Police Pension and Firemen's Pension, respectively, at December 31, 2008. 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 2008, the realized gains (losses) from the sale of investments for the Police Pension and the Firemen's Pension were (\$98,185) and (\$353,545), respectively. Interest and dividend earnings during the period amounted to \$130,098 and \$75,013, respectively, for the Police Pension and the Firemen's Pension.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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>
MANAGED MUTUAL FUNDS				
American Growth Fund of America	N/A	N/A	\$113,538	5.92
American Washington Mutual Investors Fund	\$265,943	7.81	N/A	N/A
American Capital World Growth	\$305,232	8.96	\$272,253	14.19
American Capital Income Builder	\$351,099	10.31	\$146,136	7.61
Franklin Rising Dividends	\$620,635	18.22	\$210,222	10.95
Mutual Series Mutual Discovery	\$246,762	7.24	\$230,964	12.03

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>
MANAGED MUTUAL FUNDS		
Traveler's Broad Market Index Fund	\$ 342,900	18.90%
INSURANCE CONTRACTS		
Traveler's SV Fixed Fund	\$1,814,282	81.10%

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 Commonwealth of Pennsylvania, approved December 19, 1996, Act No. 177, codified at 53 Pa.C.S.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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 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>
2009	4.15%	\$520,000	\$	\$ 10,660	\$ 530,660
2010	4.50%		357,296	182,704	540,000
2011	4.60%		181,694	108,306	290,000
		<u>\$520,000</u>	<u>\$538,990</u>	<u>\$301,670</u>	<u>\$1,360,660</u>

Interest expense for the year ended December 31, 2008 was \$28,003.

The following is a summary of changes in General Obligation Bonds Payable for the year ended December 31, 2008.

	<u>Balance 12/31/07</u>	<u>Additions</u>	<u>Repayment</u>	<u>Balance 12/31/08</u>
Series B of 1989				
7.10% Capital Appreciation Bonds	\$ 46,473	\$	\$ 46,473	\$

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Notes to Financial Statements, continued
December 31, 2008

	<u>Balance</u> <u>12/31/07</u>	<u>Additions</u>	<u>Repayment</u>	<u>Balance</u> <u>12/31/08</u>
Series of 2001				
Current Interest Bonds	\$ 850,000	\$	\$330,000	\$ 520,000
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>\$1,435,463</u>	<u>\$ </u>	<u>\$376,473</u>	<u>\$1,058,990</u>

The following is a summary of changes in accrued bond interest for the year ended December 31, 2008:

	<u>Balance</u> <u>12/31/07</u>	<u>Additions</u>	<u>Repayment</u>	<u>Balance</u> <u>12/31/08</u>
Series B of 1989				
7.10% Capital Appreciation Bonds	\$111,090	\$11,386	\$	\$122,476
Series of 2001				
4.50% Capital Appreciation Bonds	119,850	21,713		141,563
4.60% Capital Appreciation Bonds	<u>62,494</u>	<u>11,362</u>	<u> </u>	<u>73,856</u>
	<u>\$293,434</u>	<u>\$44,461</u>	<u>\$ </u>	<u>\$337,895</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, 2008, the outstanding balance on this amount was \$150,475.

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>
2009	3.45%	\$ 99,450	\$3,629	\$103,079
2010	3.45%	<u>51,025</u>	<u>514</u>	<u>51,539</u>
		<u>\$150,475</u>	<u>\$4,143</u>	<u>\$154,618</u>

Interest expense for the year ended December 31, 2008 was \$6,996.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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, 2008 the principal balance due to Pennvest was \$203,713.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
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>\$203,713</u>	<u>\$12,816</u>	<u>\$216,529</u>

Interest expense for the year ended December 31, 2008 was \$2,122.

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, 2008, the principal balance due was \$1,454,110.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2009	1.00%	\$ 108,986	\$ 14,042	\$ 123,028
2010	1.00%	110,082	12,947	123,029
2011	1.00%	111,188	11,841	123,029
2012	1.00%	112,305	10,724	123,029
2013-2017	1.00%	578,675	42,228	620,903
2018-2021	1.00%	<u>432,874</u>	<u>12,954</u>	<u>445,828</u>
		<u>\$1,454,110</u>	<u>\$104,736</u>	<u>\$1,558,846</u>

Interest expense for the year ended December 31, 2008 was \$15,126

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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, 2008, principle balance due was \$3,841,896.

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>
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	1.00%	146,688	33,435	180,123
2013-2017	1.00%	755,845	144,768	900,613
2018-2022	1.00%	794,581	106,032	900,613
2023-2027	1.00%	835,302	65,311	900,613
2028-2032	1.00%	878,110	22,499	900,609
		<u>\$3,841,896</u>	<u>\$481,044</u>	<u>\$4,322,940</u>

Interest expense for the year ended December 31, 2008 was \$39,184.

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, 2008, the principle balance due was \$51,809.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2009	3.00%	\$25,522	\$1,554	\$27,076
2010	3.00%	<u>26,287</u>	<u>789</u>	<u>27,076</u>
		<u>\$51,809</u>	<u>\$2,343</u>	<u>\$54,152</u>

Interest expense for the year ended December 31, 2008 was \$2,298.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
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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, 2008, the principle balance due was \$19,206.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
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>1,521</u>	<u>7</u>	<u>1,528</u>
		<u>\$19,206</u>	<u>\$679</u>	<u>\$19,885</u>

Interest expense for the year ended December 31, 2008 was \$455.

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, 2008, the principle balance due was \$18,106.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
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>\$18,106</u>	<u>\$1467</u>	<u>\$19,573</u>

Interest expense for the year ended December 31, 2008 was \$947.

2008 Tax Anticipation Note

In January of 2008, the City entered into an agreement with a local banking institution for a 3.94% tax anticipation note in the amount of \$900,000. Interest in the amount of \$35,263 was paid along with the principal in December of 2008.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

The following is a summary of changes in notes payable for the year ended December 31, 2008:

	<u>Balance</u> <u>12/31/07</u>	<u>Additions</u>	<u>Repayment</u> <u>of Debt</u>	<u>Balance</u> <u>12/31/08</u>
Governmental activities				
2005 Commonwealth of Pennsylvania Note	\$ 76,587	\$ -	\$ 24,778	\$51,810
2006 Commonwealth of Pennsylvania Note	24,871		5,665	19,206
2006 Commonwealth of Pennsylvania Note	23,683		5,577	18,106
2007 Tax Anticipation Note		<u>900,000</u>	<u>900,000</u>	
	<u>125,141</u>	<u>900,000</u>	<u>936,020</u>	<u>89,121</u>
Business-type activities				
1992 Titusville Municipal Water Auth Note	246,559		96,084	150,475
2000 Pennvest Sanitary Sewer Note	219,267		15,554	203,713
2001 Pennvest Stormwater Note	1,562,014		107,904	1,454,110
2003 Pennvest Stormwater Note	<u>3,982,835</u>		<u>140,939</u>	<u>3,841,896</u>
	<u>6,010,675</u>		<u>360,481</u>	<u>5,650,194</u>
	<u>\$6,135,816</u>	<u>\$900,000</u>	<u>\$1,296,501</u>	<u>\$5,739,315</u>

Note 12 – Leases

The City has entered into several operating leases for office equipment which leases extend beyond one year.

Future minimum lease expense is as follows:

Year ending December 31, 2009	\$ 6,930
Year ending December 31, 2010	6,930
Year ending December 31, 2011	6,930
Year ending December 31, 2012	<u>1,155</u>
	<u>\$21,945</u>

The City also leases equipment on month-to-month basis. The total lease expense for the year ended December 31, 2008 was \$13,535.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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, 2008 is as follows:

Water Fund	(\$ 68,504)
Sewer Fund	\$ 43,284
Refuse Fund	\$ 7,343
Fringe Benefit Fund	\$183,112

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, 2008, are summarized as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Water Fund	General Fund	\$ 8,410
Sewer Fund	General Fund	7,105
General Fund	Fringe Benefits Fund	<u>10,521</u>
		<u>\$26,036</u>

Note 15 – Designated Capital Project Net Assets

Net assets of the Capital Project Fund have been reserved based upon recommendations made as part of the rate studies conducted of the water and sewer funds for future equipment acquisitions. Designated funds totaled \$87,000 and \$100,000, respectively, related to the Water and Sewer funds, at December 31, 2008.

The funds have been designated as follows:

<u>Year</u>	<u>Water</u>	<u>Sewer</u>
2008	\$37,000	\$25,000
2007	25,000	25,000
2006	25,000	25,000
2005		25,000

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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 \$836,558 for the year ended December 31, 2008. Payments from this fund for various benefits provided by the City amounted to \$1,267,335 for the year ended December 31, 2008. 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, 2008 was \$25,379. The City's potential liability for post-employment benefits based upon the retiree's employment status as of December 31, 2008 was approximately \$187,296.

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:

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 Water 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.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2008

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 – 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.

Note 20 – Subsequent Event

In January of 2009, the City entered into an agreement with a local banking institution for a tax anticipation note in the amount of \$900,000. The note bears interest at 3% and the principal and interest accrued are due December 31, 2009.

Section F
Required Supplemental Financial Information

**City of Titusville
Pension Plans
Required Supplemental Schedule
For the Year Ended December 31, 2007**

A. Schedule of Employer Contribution

	<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Police Pension	2003	\$ 188,606	100%
	2004	\$ 202,899	100%
	2005	\$ 208,921	100%
	2006	\$ 243,227	100%
Fire Pension	2002	\$ 90,192	100%
	2003	\$ 91,591	100%
	2004	\$ 176,520	100%
	2005	\$ 178,522	100%
	2006	\$ 182,717	100%
Non-uniformed Pension	2001	\$ 58,032	100%
	2002	\$ 68,160	100%
	2003	\$ 60,760	100%
	2004	\$ 57,106	100%
	2005	\$ 59,811	100%

B. Firemen's and Police Pension Schedules of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (JAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<u>Police Pension</u>						
1/1/2001	\$ 4,280,461	\$ 4,672,936	\$ 392,475	91.60%	\$ 546,749	71.78%
1/1/2003	\$ 3,986,545	\$ 5,249,416	\$ 1,262,871	75.94%	\$ 594,211	212.53%
1/1/2005	\$ 4,495,885	\$ 5,779,582	\$ 1,283,697	77.80%	\$ 604,734	212.30%
1/1/2007	\$ 5,321,375	\$ 6,282,698	\$ 961,424	84.70%	\$ 608,686	158.00%
<u>Firemen's Pension</u>						
1/1/1999	\$ 2,750,001	\$ 2,664,253	\$ (85,748)	103.22%	\$ 246,321	(34.81%)
1/1/2001	\$ 2,776,751	\$ 3,348,998	\$ 572,247	82.91%	\$ 173,637	329.57%
1/1/2003	\$ 2,134,605	\$ 3,610,563	\$ 1,475,958	59.12%	\$ 299,886	492.17%
1/1/2005	\$ 2,522,518	\$ 3,966,117	\$ 1,443,599	63.60%	\$ 294,194	490.70%
1/1/2007	\$ 3,000,164	\$ 4,170,056	\$ 1,169,892	71.90%	\$ 327,911	356.80%

C. Notes to Required Supplemental Schedule

The information presented in the required schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation date	1/1/2007	1/1/2007
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	9 years	20 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return*	8.0%	8.0%
Projected salary increases*	4%	5%
* Includes inflation at	0%	0%
Cost of living adjustments	None	None

See independent auditors' report

City of Titusville
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund - Statutory Basis
For the Year Ended December 31, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 2,254,500	\$ 2,177,172	\$ (77,328)
Interest income	60,000	28,446	(31,554)
Intergovernmental	40,425	56,350	15,925
Charges for services	49,800	37,627	(12,173)
Payment in lieu of taxes	25,000	36,593	11,593
Licenses and permits	99,602	68,087	(31,515)
Fines and forfeits	80,700	60,761	(19,939)
Miscellaneous revenues	162,325	46,832	(115,493)
Total revenues	2,772,352	2,511,868	(260,484)
Expenditures			
General government	262,303	273,750	(11,447)
Public safety	1,635,484	1,557,758	77,726
Public works	489,983	425,497	64,486
Human Services	2,125	2,050	75
Culture and recreation	206,310	203,128	3,182
Debt service	47,643	47,906	(263)
Miscellaneous	88,180	78,840	9,340
Total expenditures	2,732,028	2,588,929	143,099
Excess (deficiency) of revenues over expenditures	40,324	(77,061)	(117,385)
Other financing sources (uses)			
Operating transfers in	65,500	65,500	
Operating transfers (out)	(105,824)	(105,824)	
Total other financing sources	(40,324)	(40,324)	
Excess of revenues and other financing sources over (under) expenditures and other financing uses		(117,385)	(117,385)
Fund balance			
Beginning of year, January 1, 2008	258,781	258,781	
End of year, December 31, 2008	<u>\$ 258,781</u>	141,396	<u>\$ (117,385)</u>
Adjustments to generally accepted accounting principles			
Taxes receivable		270,396	
Other receivables		31,507	
Capital assets		7,384,478	
Accumulated depreciation		(5,268,774)	
Accounts payable		(19,676)	
Compensated absences		407,298	
Fund balance (GAAP basis) at December 31, 2008		<u>\$ 2,946,625</u>	

Note: No budgetary transfers occurred during 2008. The original and final budget are reported under the column titled "Budget" Additionally, the budget has been prepared in accordance with the cash basis of accounting and the budget laws of the Commonwealth of Pennsylvania

City of Titusville
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Special Revenue - Statutory Basis
For the Year Ended December 31, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Interest income	\$ 3,500	\$ 2,378	\$ (1,122)
Intergovernmental	<u>254,576</u>	<u>154,373</u>	<u>(100,203)</u>
Total revenues	<u>258,076</u>	<u>156,751</u>	<u>(101,325)</u>
Expenditures			
Public works	231,000	219,091	11,909
Debt Service	<u>27,076</u>	<u>27,076</u>	
Total expenditures	<u>258,076</u>	<u>246,167</u>	<u>11,909</u>
Excess (deficiency) of revenues over expenditures		<u>(89,416)</u>	<u>(89,416)</u>
Other financing sources (uses)			
Operating transfers in		<u>6,267</u>	<u>6,267</u>
Total other financing sources (uses)		<u>6,267</u>	<u>6,267</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses		<u>(83,149)</u>	<u>(83,149)</u>
Fund balance			
Beginning of year, January 1, 2008	<u>95,394</u>	<u>95,394</u>	
End of year, December 31, 2008	<u>\$ 95,394</u>	<u>\$ 12,245</u>	<u>\$ (83,149)</u>

Note: No budgetary transfers occurred during 2008. The original and final budget are reported under the column titled "Budget". Additionally, the budget has been prepared in accordance with the cash basis of accounting and the budget laws of the Commonwealth of Pennsylvania

City of Titusville
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Capital Projects - Statutory Basis
For the Year Ended December 31, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Interest income	\$ 6,000	\$ 10,602	\$ 4,602
Intergovernmental		185,590	185,590
Miscellaneous revenues	189,700	109,438	(80,262)
Total revenues	195,700	305,630	109,930
Expenditures			
Public safety	53,200	74,845	(21,645)
Public works	151,000	49,250	101,750
Culture and recreation	42,250	32,171	10,079
Miscellaneous	21,250		21,250
Total expenditures	267,700	156,266	111,434
Excess (deficiency) of revenues over expenditures	(72,000)	149,364	221,364
Other financing sources (uses)			
Operating transfers in	72,000	72,000	
Operating transfers (out)		(6,267)	(6,267)
Total other financing sources	72,000	65,733	
Excess of revenues and other financing sources over (under) expenditures and other financing uses		215,097	215,097
Fund balance			
Beginning of year, January 1, 2008	410,680	410,680	
End of year, December 31, 2008	\$ 410,680	\$ 625,777	\$ 215,097

Note: No budgetary transfers occurred during 2008. The original and final budget are reported under the column titled "Budget". Additionally, the budget has been prepared in accordance with the cash basis of accounting and the budget laws of the Commonwealth of Pennsylvania.