

CITY OF TITUSVILLE, PENNSYLVANIA

AUDIT REPORT

DECEMBER 31, 2011

CITY OF TITUSVILLE, PENNSYLVANIA

Table of Contents

December 31, 2011

	<u>Page</u>
Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-13
Government-Wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16-17
Fund Financial Statements	
Statement of Assets, Liabilities and Fund Balance - Governmental Funds	18
Statement of Assets, Liabilities and Fund Balance, and Reconciliation to the Statement of Net Assets - Governmental Funds	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	21
Statement of Net Assets - Proprietary Fund Types	22
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund Types	23
Statement of Cash Flows - Proprietary Fund Types	24-25
Statement of Fiduciary Net Assets - Fiduciary Funds - Trust and Agency	26
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds - Trust and Agency	27
Notes to Financial Statements	28-49
Combining Statement of Fiduciary Net Assets - Fiduciary Funds - Trust and Agency	50
Combining Statement of Changes in Fiduciary Net Assets - Fiduciary Funds - Trust and Agency	51
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	52
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Titusville, Pennsylvania's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2012 on our consideration of the City of Titusville, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

Independent Auditors' Report
(Continued)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 13 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Titusville, Pennsylvania's financial statements as a whole. The combining financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

March 26, 2012
Erie, Pennsylvania

CITY OF TITUSVILLE, PENNSYLVANIA
Management's Discussion & Analysis
For the Year Ended December 31, 2011

This discussion and analysis of the City of Titusville's financial performance provides an overview of the City's financial activities for the year ended December 31, 2011 and is intended to serve as an introduction to the City's basic financial statements. Please read it in conjunction with the City's financial statements and the accompanying notes to those financial statements that begin on page 28.

FINANCIAL HIGHLIGHTS

- The governmental activities assets of the City exceeded liabilities at the close of the most recent fiscal year by \$1,843,601 (*net assets*). The unrestricted portion is a deficit of \$202,287 (*unrestricted net assets*).
- At the close of the current fiscal year, the City reported combined ending net assets of \$4,309,708 for both governmental and business-type activities. Of this amount \$2,668,243 is available for spending at the City's discretion (*unrestricted net assets*).
- The City's General Fund reported a positive fund balance of \$474,001 as of December 31, 2011, compared to a positive fund balance of \$200,424 as of December 31, 2010.

THE FINANCIAL STATEMENTS

This annual report is represented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. The government-wide financial statements have been prepared using the accrual basis of accounting; whereas, the fund financial statements have been prepared using the modified accrual basis of accounting.

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

The *fund financial statements* include statements for each of the three categories-governmental, proprietary and fiduciary. The governmental funds are prepared using the modified accrual basis of accounting. The proprietary and fiduciary funds are prepared using the accrual basis of accounting. Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach prescribed by GASB No. 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities 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, the City's activities are separated as follows:

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

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 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 that statement of activities.

The City's governmental fund financial statements are presented on pages 18-21.

Proprietary Funds

Proprietary fund financial statements consist of a statement of net assets, statement of revenues, expenses and change 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.

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.

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.

The proprietary fund financial statements can be found on pages 22-25 of the 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 on pages 26-27 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 pages 28-49)

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 modified accrual basis of accounting. 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 accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of the related cash flows.

Government-Wide Financial Analysis

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

City of Titusville, Pennsylvania Net Assets at December 31, 2011

	Governmental Activities		Business-Type Activities		Total		Total % Change
	2011	2010	2011	2010	2011	2010	
Assets							
Current and other assets	\$ 1,024,308	\$ 764,737	\$ 2,969,177	\$ 2,333,142	\$ 3,993,485	\$ 3,097,879	28.9%
Capital assets, (net of depreciation)	2,105,751	2,327,824	4,345,360	4,494,177	6,451,111	6,822,001	(5.4%)
Total Assets	\$ 3,130,059	\$ 3,092,561	\$ 7,314,537	\$ 6,827,319	\$10,444,596	\$ 9,919,880	5.3%
Liabilities							
Current and other liabilities	\$ 52,391	\$ 67,134	\$ 349,234	\$ 626,844	\$ 401,625	\$ 693,978	(42.1%)
Noncurrent liabilities	1,234,067	1,269,419	4,499,196	4,825,610	5,733,263	6,095,029	(5.9%)
Total Liabilities	1,286,458	1,336,553	4,848,430	5,452,454	6,134,888	6,789,007	(9.6%)
Net Assets							
Investment in capital assets (net of debt)	2,045,888	2,238,417	(404,423)	(749,742)	1,641,465	1,488,675	10.3%
Unrestricted	(202,287)	(482,409)	2,870,530	2,124,607	2,668,243	1,642,198	62.5%
Total Net Assets	\$ 1,843,601	\$ 1,756,008	\$ 2,466,107	\$ 1,374,865	\$ 4,309,708	\$ 3,130,873	37.7%

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 \$4,309,708, an increase of 37.7% from 2010. Net assets of the City's governmental activities increased .05% to \$1,843,601. However \$2,045,888 of those net assets is invested in capital assets. Consequently, unrestricted governmental activity net assets showed a deficit of \$202,287 at the end of 2011.

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. Typically, the unrestricted net assets, (\$2,668,243 for both governmental and business-type activities), may be used to meet the government's ongoing obligations to citizens and creditors.

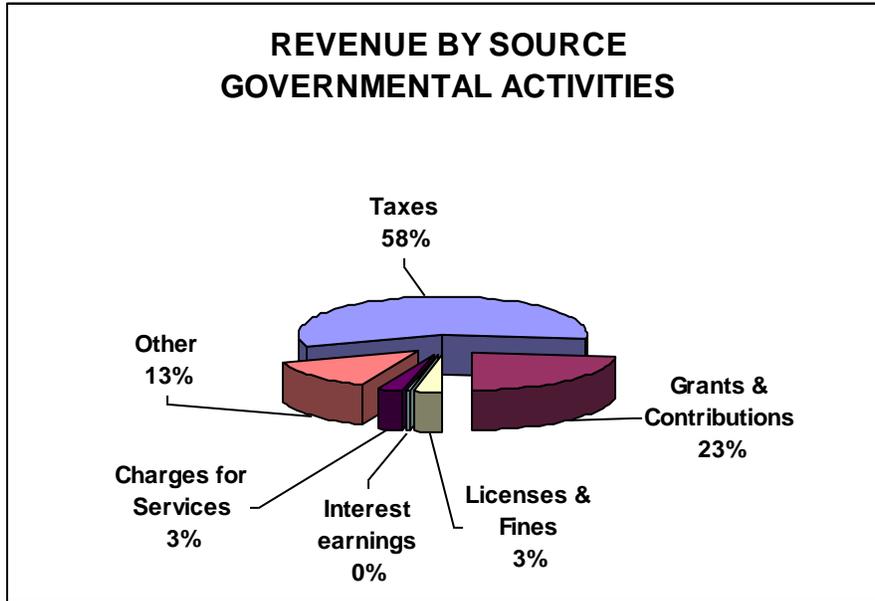
The following is a summary of the information presented in the Statement of Activities:

City of Titusville, Pennsylvania
Changes in Net Assets for the Year Ended December 31, 2011

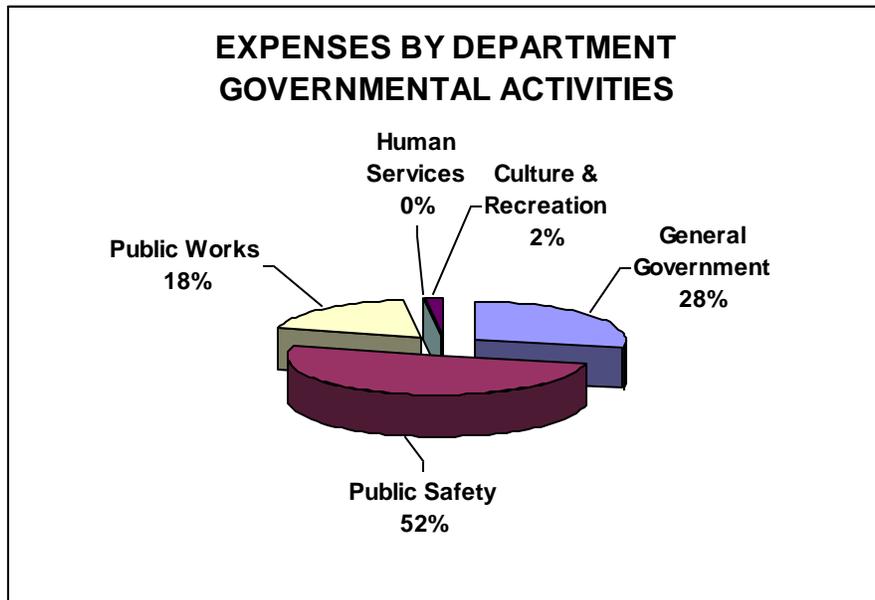
	Governmental Activities		Business-Type Activities		Total		Total % Change
	2011	2010	2011	2010	2011	2010	2010-2011
Revenues							
Program Revenues							
Charges for services	\$ 112,885	\$ 122,522	\$ 3,189,604	\$ 3,099,299	\$ 3,302,489	\$ 3,221,821	2.5%
Operating grant and contributions	424,322	348,728	-	-	424,322	348,728	21.7%
Capital grants and contributions	514,787	532,738	-	-	514,787	532,738	(3.4%)
General Revenues							
Taxes	2,344,848	2,365,330	-	-	2,344,848	2,365,330	(0.9%)
Licenses and permits	76,945	72,932	-	-	76,945	72,932	5.5%
Fines and forfeits	52,447	58,570	-	-	52,447	58,570	(10.5%)
Interest earnings	16,193	10,903	13,749	11,909	29,942	22,812	31.3%
Miscellaneous	34,325	11,046	66,983	54,456	101,308	65,502	54.7%
Sale of fixed assets	13,336	-	-	-	13,336	-	100.0%
Transfers	489,900	234,500	(489,900)	(234,500)	-	-	-
Total Revenues	4,079,988	3,757,269	2,780,436	2,931,164	6,860,424	6,688,433	(2.6%)
Expenses							
General government	1,113,406	996,809	-	-	1,113,406	996,809	(11.7%)
Public safety	2,069,538	1,857,608	-	-	2,069,538	1,857,608	11.4%
Public works	729,329	830,271	-	-	729,329	830,271	(12.2%)
Human services	2,078	1,689	-	-	2,078	1,689	23.0%
Culture and recreation	78,044	78,960	-	-	78,044	78,960	(1.2%)
Interest	-	5,505	-	-	-	5,505	(100.0%)
Water, sewer and refuse Facilities	-	-	1,689,194	1,659,761	1,689,194	1,659,761	1.8%
Total Expenses	3,992,395	3,770,842	1,689,194	1,659,761	5,681,589	5,430,603	(4.6%)
Change in Net Assets	87,593	(13,573)	1,091,242	1,271,403	1,178,835	1,257,830	(6.3%)
Net Assets, Beginning of Year	1,756,008	1,769,581	1,374,865	103,462	3,130,873	1,873,043	67.2%
Net Assets, End of Year	\$ 1,843,601	\$ 1,756,008	\$ 2,466,107	\$ 1,374,865	\$ 4,309,708	\$ 3,130,873	37.7%

The City's governmental activities rely heavily upon tax revenue (58%) to fund its operations. The cost of governmental activities totaled \$3,992,395 for the year ended December 31, 2011.

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



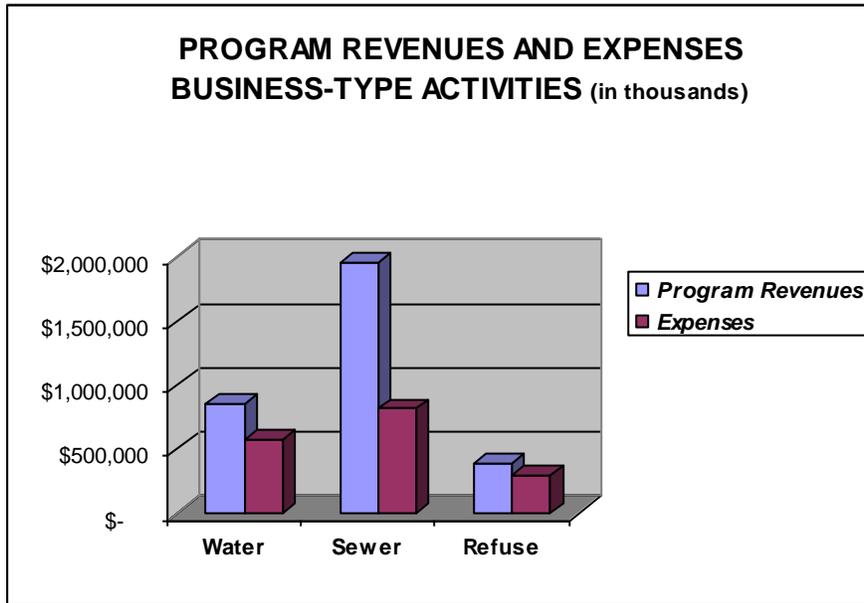
The following chart presents governmental expenses by departmental function:



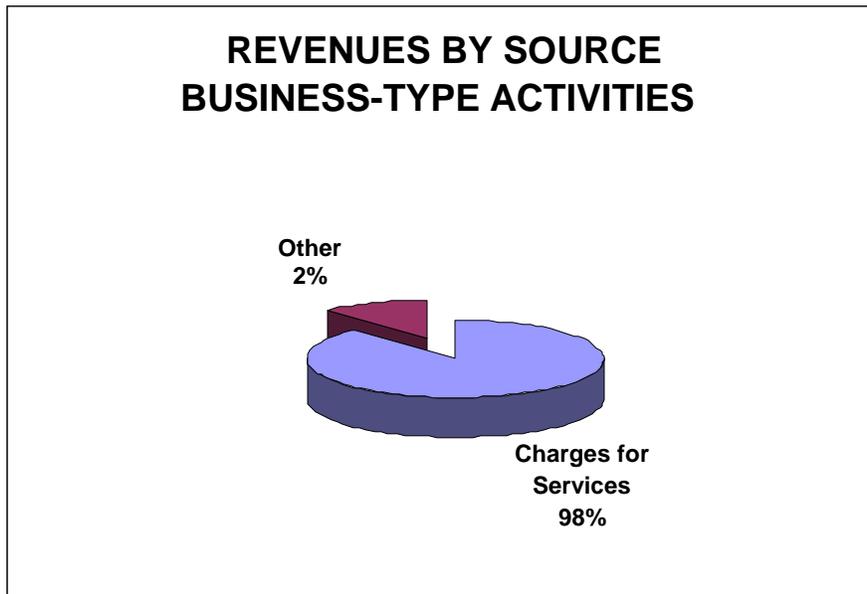
Business-Type Activities

Business-Type activities increased the City's net assets by \$1,091,242, accounting for the majority of growth in the City's net assets.

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



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



General Fund Budgetary Highlights

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$474,001, while the total governmental fund balance was \$878,814. As a measure of the General Fund's liquidity, it may be useful to note that the total fund balance is unassigned.

Fund balance in the City's General Fund increased by \$273,577 during the 2011 fiscal year. Key factors for this increase include:

- Annual revenues were in excess of the budget by \$624,747 for 2011. The main revenue stream continues to come from taxes which were in excess of budget by \$109,819. Of this amount Local Services Tax (LST) and Earned Income Tax (EIT) collections were in excess of budget by \$22,957 and \$27,916 respectively. The PILOT program also ended in excess of budget at \$43,375. Pension State Aid came in \$124,247 in excess of budget. The State has cautioned that this increase in Aid should not be expected in future years.
- Expenditures were over budget by \$351,506 for 2011. Public Works and Culture & Recreation expenditures were under budget by \$180,277 and \$46,502 respectively. The budget surplus was countered by those departments over budget due to the fact that budgeted layoffs of personnel were not implemented. The general government fluctuations from the budget are due to pass through funds from CDBG not budgeted for by the City and recorded on the books at year end.

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, 2011, amounts to \$6,451,111 (net of 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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 170,813	\$ 170,813	\$ 32,245	\$ 32,245	\$ 203,058	\$ 203,058
Construction in progress	-	-	42,688	41,474	42,688	41,474
Buildings/improvements	4,968,670	4,968,670	6,882,079	6,882,079	11,850,749	11,850,749
Equipment and systems	2,753,311	2,916,224	6,035,404	5,954,698	8,788,715	8,870,922
Total	7,892,794	8,055,707	12,992,416	12,910,496	20,885,210	20,966,203
Less accumulated depreciation	(5,787,043)	(5,727,883)	(8,647,056)	(8,416,319)	(14,434,099)	(14,144,202)
Total Capital Assets	\$ 2,105,751	\$ 2,327,824	\$ 4,345,360	\$ 4,494,177	\$ 6,451,111	\$ 6,822,001

Long-Term Debt

At the end of the current fiscal year, the City had total debt of \$4,809,646. 92% of the total indebtedness is attributed to notes payable. Total debt and accrued interest is down by 10% from 2010.

Additional information on the City's long-term debt and related accrued interest can be found in the Notes to Financial Statements, on pages 41-44 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2012 annual operating budget and Capital Plan spending strategies reflect management's commitment to provide essential services to our residents while preserving our City's long-term financial viability.

As Titusville enters another tough budget year both city management and staff have worked well together in estimating operational needs for the next fiscal year. When comparing Titusville to some other governmental entities, we feel fortunate that drastic cuts and employee layoffs are not projected for FY 2012. We will continue to spend conservatively, although we are very much aware that the retirement system, health insurance, and general operating costs will continue to rise.

The FY 2012 Budget looks at Capital Improvement items that have been postponed for the last 3-5 five years with the need to fund the bulk of them with carryover Capital reserves.

The General Fund property tax millage was not increased for 2012.

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 Finance Director, 107 N. Franklin Street, Titusville, Pennsylvania 16354, via email at adminsivices@cityoftitusvillepa.gov or by phone at 814-827-5300 Extension 303.

This Page Intentionally Left Blank

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 764,481	\$ 2,806,973	\$ 3,571,454
Accounts receivable			
Taxes, net of allowance for doubtful accounts	213,049	-	213,049
City services	-	156,411	156,411
Other	42,790	9,781	52,571
Interfund receivable	3,988	(3,988)	-
Total current assets	<u>1,024,308</u>	<u>2,969,177</u>	<u>3,993,485</u>
Noncurrent assets			
Land	170,813	32,245	203,058
Construction in progress	-	42,688	42,688
Capital assets, net	1,934,938	4,270,427	6,205,365
Total noncurrent assets	<u>2,105,751</u>	<u>4,345,360</u>	<u>6,451,111</u>
Total assets	<u>\$ 3,130,059</u>	<u>\$ 7,314,537</u>	<u>\$ 10,444,596</u>
Liabilities and net assets			
Current liabilities			
Vouchers payable and other current liabilities	\$ 15,587	\$ 48,915	\$ 64,502
Accrued compensated absences	16,537	11,288	27,825
Notes payable	1,520	289,031	290,551
Capital lease obligations	18,747	-	18,747
Total current liabilities	<u>52,391</u>	<u>349,234</u>	<u>401,625</u>
Noncurrent liabilities			
Accrued compensated absences	264,471	38,444	302,915
OPEB obligation	930,000	-	930,000
Notes payable	-	4,460,752	4,460,752
Capital lease obligations	39,596	-	39,596
Total noncurrent liabilities	<u>1,234,067</u>	<u>4,499,196</u>	<u>5,733,263</u>
Total liabilities	<u>1,286,458</u>	<u>4,848,430</u>	<u>6,134,888</u>
Net assets			
Invested in capital assets, net of related debt	2,045,888	(404,423)	1,641,465
Unrestricted (deficit)	(202,287)	2,870,530	2,668,243
Total net assets	<u>1,843,601</u>	<u>2,466,107</u>	<u>4,309,708</u>
Total liabilities and net assets	<u>\$ 3,130,059</u>	<u>\$ 7,314,537</u>	<u>\$ 10,444,596</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Activities

For the Year Ended December 31, 2011

Functions/Programs	Program Revenue			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities				
General government	\$ 1,113,406	\$ 65,607	\$ 361,822	\$ 368,187
Public safety	2,069,538	25,103	62,500	-
Public works	729,329	19,983	-	146,600
Human services	2,078	-	-	-
Culture and recreation	78,044	2,192	-	-
Total governmental activities	3,992,395	112,885	424,322	514,787
Business-type activities				
Water fund	577,558	846,938	-	-
Sewer fund	814,194	1,954,008	-	-
Refuse fund	297,442	388,658	-	-
Total business-type activities	1,689,194	3,189,604	-	-
Total primary government	\$ 5,681,589	\$ 3,302,489	\$ 424,322	\$ 514,787
General revenues				
Taxes				
Licenses and permits				
Fines and forfeitures				
Interest earnings				
Other revenues				
Sale of Fixed Assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets				
Beginning of year				
End of year				

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (317,790)	\$ -	\$ (317,790)
(1,981,935)	-	(1,981,935)
(562,746)	-	(562,746)
(2,078)	-	(2,078)
(75,852)	-	(75,852)
(2,940,401)	-	(2,940,401)
-	269,380	269,380
-	1,139,814	1,139,814
-	91,216	91,216
-	1,500,410	1,500,410
(2,940,401)	1,500,410	(1,439,991)
2,344,848	-	2,344,848
76,945	-	76,945
52,447	-	52,447
16,193	13,749	29,942
34,325	66,983	101,308
13,336	-	13,336
489,900	(489,900)	-
3,027,994	(409,168)	2,618,826
87,593	1,091,242	1,178,835
1,756,008	1,374,865	3,130,873
\$ 1,843,601	\$ 2,466,107	\$ 4,309,708

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Assets, Liabilities and Fund Balance
Governmental Funds
December 31, 2011

	General	Special Revenue	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 359,668	\$ 34,864	\$ 369,949	\$ 764,481
Taxes receivable, net	213,049	-	-	213,049
Interfund receivable	3,988	-	-	3,988
Accounts receivable	42,790	-	-	42,790
Total assets	\$ 619,495	\$ 34,864	\$ 369,949	\$ 1,024,308
Liabilities and fund balance				
Vouchers payable and other current liabilities	\$ 15,587	\$ -	\$ -	\$ 15,587
Deferred taxes	129,907	-	-	129,907
Total liabilities	145,494	-	-	145,494
Restricted				
Liquid fuels	-	34,864	-	34,864
Assigned				
Capital projects	-	-	369,949	369,949
Unassigned	474,001	-	-	474,001
Total fund balance	474,001	34,864	369,949	878,814
Total liabilities and fund balance	\$ 619,495	\$ 34,864	\$ 369,949	\$ 1,024,308

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Assets, Liabilities and Fund Balance,
and Reconciliation to the Statement of Net Assets
Governmental Funds
December 31, 2011

Differences in amounts reported for governmental activities in the Statement of Net Assets

Fund balances - total governmental funds	\$		878,814
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds			2,105,751
Certain long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds			129,907
Other post-employment benefits are reflected on the Statement of Net Assets, but are not considered a current expenditure for the fund statements			(930,000)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds			
Compensated absences	\$	(281,008)	
Long-term debt		(59,863)	(340,871)
Net assets of governmental activities			\$ 1,843,601

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Special Revenue	Capital Projects	Total Governmental Funds
Revenues				
Taxes	\$ 2,381,938	\$ -	\$ -	\$ 2,381,938
Interest, rents and royalties	15,658	111	424	16,193
Intergovernmental	792,509	146,600	-	939,109
Charges for services	112,885	-	-	112,885
Licenses and permits	76,945	-	-	76,945
Fines and forfeitures	52,447	-	-	52,447
Contributions and donations	7,225	-	-	7,225
Other	20,976	-	6,124	27,100
Total revenues	3,460,583	146,711	6,548	3,613,842
Expenditures				
General government	817,956	-	2,000	819,956
Public safety	2,057,134	-	12,404	2,069,538
Public works	607,049	125,274	8,153	740,476
Human services	2,078	-	-	2,078
Culture and recreation	78,044	-	-	78,044
Debt service	28,175	-	-	28,175
Other	71,806	-	-	71,806
Total expenditures	3,662,242	125,274	22,557	3,810,073
Excess (deficiency) of revenues over expenditures	(201,659)	21,437	(16,009)	(196,231)
Other financing sources (uses)				
Sale of fixed assets	13,336	-	-	13,336
Operating transfers in	489,900	-	28,000	517,900
Operating transfers (out)	(28,000)	-	-	(28,000)
Total other financing sources (uses)	475,236	-	28,000	503,236
Excess of revenues and other financing sources over (under) expenditures and other financing uses	273,577	21,437	11,991	307,005
Fund balance				
Beginning of year	200,424	13,427	357,958	571,809
End of year	\$ 474,001	\$ 34,864	\$ 369,949	\$ 878,814

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
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, 2011

Net change in fund balances - total governmental funds	\$	307,005
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Assets		11,147
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(233,220)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
Deferred real estate tax		(37,090)
Repayment of long-term debt is reported as expenditures in governmental funds, but as a reduction of long-term liabilities in the Statement of Net Assets. In the current year, these amounts are:		
Note payable	\$	12,287
Capital lease obligation		17,257
Change in OPEB		30,000
Change in compensated absences		(19,793)
		39,751
Change in net assets of governmental activities	\$	87,593

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

**Statement of Net Assets
Proprietary Fund Types
December 31, 2011**

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 468,457	\$ 2,270,634	\$ 67,882	\$ 2,806,973
Accounts receivable, net				
City services	38,258	111,581	6,572	156,411
Other	8,402	1,379	-	9,781
Total current assets	<u>515,117</u>	<u>2,383,594</u>	<u>74,454</u>	<u>2,973,165</u>
Noncurrent assets				
Land	6,003	26,242	-	32,245
Construction in progress	-	42,688	-	42,688
Capital assets, net	147,340	4,123,087	-	4,270,427
Total noncurrent assets	<u>153,343</u>	<u>4,192,017</u>	<u>-</u>	<u>4,345,360</u>
Total assets	<u>\$ 668,460</u>	<u>\$ 6,575,611</u>	<u>\$ 74,454</u>	<u>\$ 7,318,525</u>
Liabilities and net assets				
Current liabilities				
Vouchers payable and other current liabilities	\$ 15,823	\$ 6,532	\$ 26,560	\$ 48,915
Interfund payable	3,623	365	-	3,988
Accrued compensated absences	5,443	5,845	-	11,288
Notes payable	12,141	276,890	-	289,031
Total current liabilities	<u>37,030</u>	<u>289,632</u>	<u>26,560</u>	<u>353,222</u>
Noncurrent liabilities				
Accrued compensated absences	26,577	11,867	-	38,444
Notes payable	48,565	4,412,187	-	4,460,752
Total noncurrent liabilities	<u>75,142</u>	<u>4,424,054</u>	<u>-</u>	<u>4,499,196</u>
Total liabilities	<u>112,172</u>	<u>4,713,686</u>	<u>26,560</u>	<u>4,852,418</u>
Net assets				
Invested in capital assets, net of related debt	92,637	(497,060)	-	(404,423)
Unrestricted	463,651	2,358,985	47,894	2,870,530
Total net assets	<u>556,288</u>	<u>1,861,925</u>	<u>47,894</u>	<u>2,466,107</u>
Total liabilities and net assets	<u>\$ 668,460</u>	<u>\$ 6,575,611</u>	<u>\$ 74,454</u>	<u>\$ 7,318,525</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Revenues, Expenses and

Changes in Fund Net Assets

Proprietary Fund Types

For the Year Ended December 31, 2011

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Operating revenues				
Charges for services	\$ 846,938	\$ 1,954,008	\$ 388,658	\$ 3,189,604
Other revenues	30,738	27,131	9,114	66,983
Total operating revenues	<u>877,676</u>	<u>1,981,139</u>	<u>397,772</u>	<u>3,256,587</u>
Operating expenses				
Salaries and wages	187,653	171,526	-	359,179
Employee benefits	83,431	78,526	-	161,957
Utilities	130,423	-	-	130,423
Materials and supplies	50,763	144,888	-	195,651
Contractual services	22,586	67,002	293,133	382,721
Equipment	12,896	31,250	-	44,146
Depreciation	27,116	203,621	-	230,737
Insurance	29,598	50,454	-	80,052
Administrative	33,092	9,175	4,309	46,576
Total operating expenses	<u>577,558</u>	<u>756,442</u>	<u>297,442</u>	<u>1,631,442</u>
Operating income (loss)	<u>300,118</u>	<u>1,224,697</u>	<u>100,330</u>	<u>1,625,145</u>
Non-operating revenues (expenses)				
Interest income	2,251	11,351	147	13,749
Interest expense	-	(57,752)	-	(57,752)
Total non-operating revenues (expenses)	<u>2,251</u>	<u>(46,401)</u>	<u>147</u>	<u>(44,003)</u>
Income (loss) before transfers	302,369	1,178,296	100,477	1,581,142
Other financing sources				
Transfers (out)	<u>(217,000)</u>	<u>(218,500)</u>	<u>(54,400)</u>	<u>(489,900)</u>
Change in net assets	85,369	959,796	46,077	1,091,242
Net assets				
Beginning of year	<u>470,919</u>	<u>902,129</u>	<u>1,817</u>	<u>1,374,865</u>
End of year	<u>\$ 556,288</u>	<u>\$ 1,861,925</u>	<u>\$ 47,894</u>	<u>\$ 2,466,107</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Cash Flows

Proprietary Fund Types

For the Year Ended December 31, 2011

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Cash flows from operating activities:				
Receipts from users	\$ 860,213	\$ 1,929,043	\$ 397,772	\$ 3,187,028
Payments to suppliers	(85,917)	(254,473)	(293,133)	(633,523)
Payments for personnel services	(271,168)	(246,841)	-	(518,009)
Payments for operating expenses	(193,113)	(59,629)	(4,309)	(257,051)
Net cash provided by operating activities	<u>310,015</u>	<u>1,368,100</u>	<u>100,330</u>	<u>1,778,445</u>
Cash flows from noncapital financing activities:				
Transfers to other funds	(217,000)	(218,500)	(54,400)	(489,900)
Net cash provided (used) by noncapital and related activities	<u>(217,000)</u>	<u>(218,500)</u>	<u>(54,400)</u>	<u>(489,900)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(80,706)	(1,214)	-	(81,920)
Repayment on general obligation bonds payable	-	(290,000)	-	(290,000)
Repayment on notes payable	-	(373,148)	-	(373,148)
Note proceeds	60,706	-	-	60,706
Change in accreted value	-	6,520	-	6,520
Interest paid on capital debt	-	(57,752)	-	(57,752)
Net cash provided (used) by financing activities	<u>(20,000)</u>	<u>(715,594)</u>	<u>-</u>	<u>(735,594)</u>
Cash flows from investing activities:				
Interest income	2,251	11,351	147	13,749
Net cash from investing activities	<u>2,251</u>	<u>11,351</u>	<u>147</u>	<u>13,749</u>
Net increase (decrease) in cash	75,266	445,357	46,077	566,700
Cash balance, January 1, 2011	<u>393,191</u>	<u>1,825,277</u>	<u>21,805</u>	<u>2,240,273</u>
Cash balance, December 31, 2011	<u>\$ 468,457</u>	<u>\$ 2,270,634</u>	<u>\$ 67,882</u>	<u>\$ 2,806,973</u>

See accompanying notes to financial statements.
Schedule continued on next page.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Cash Flows

Proprietary Fund Types

For the Year Ended December 31, 2011

(Continued)

	Enterprise Funds			Total
	Water	Sewer	Refuse	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income	\$ 300,118	\$ 1,224,697	\$ 100,330	\$ 1,625,145
Adjustments to reconcile operating income (loss) to net cash (used for) operating activities:				
Depreciation	27,116	203,621	-	230,737
Changes in compensated absences	(206)	3,109	-	2,903
Changes in assets and liabilities				
(Increase) decrease in receivables	(17,463)	(52,096)	-	(69,559)
Increase (decrease) in due to other funds	122	102	-	224
Increase (decrease) in payables	328	(11,333)	-	(11,005)
Net cash provided (used) by operations	<u>\$ 310,015</u>	<u>\$ 1,368,100</u>	<u>\$ 100,330</u>	<u>\$ 1,778,445</u>
Supplemental disclosures of cash flows information:				
Cash paid during the year ended for:				
Interest	<u>\$ -</u>	<u>\$ 57,752</u>	<u>\$ -</u>	<u>\$ 57,752</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

**Statement of Fiduciary Net Assets
Fiduciary Funds - Trust and Agency
December 31, 2011**

Assets	
Cash and cash equivalents	\$ 39,700
Investments	<u>8,322,701</u>
Total assets	<u><u>\$ 8,362,401</u></u>
Net assets	
Held in trust for pension benefits and other purposes	<u><u>\$ 8,362,401</u></u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Trust and Agency
For the Year Ended December 31, 2011

Additions	
Contributions	
Contributions - employees	\$ 80,523
Contributions - state and city	<u>580,883</u>
Total contributions	<u>661,406</u>
Investment income	
Net change in fair value of investments	(192,225)
Interest and dividends	<u>154,551</u>
Net investment income	<u>(37,674)</u>
Total additions	<u>623,732</u>
Deductions	
Benefits	1,036,782
Administrative expenses	<u>33,319</u>
Total deductions	<u>1,070,101</u>
Change in net assets	(446,369)
Net assets	
Beginning of year	<u>8,808,770</u>
End of year	<u><u>\$ 8,362,401</u></u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Notes to Financial Statements
December 31, 2011

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), public works (streets, sanitation, public improvements, etc.), 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 account 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.

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. For the most part, the effect of interfund activity has been removed from these statements except for interfund charges, see Note 13. 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 the program revenues are reported as general revenues.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City's fiduciary funds are presented in the fund financial statements by type (pension and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, litigants, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds are reported in separate columns.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough, thereafter, to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. The City of Titusville, Pennsylvania's special revenue fund is the liquid fuels fund, which monies awarded are used for public works expenditures including street improvements and lighting.

Capital Projects Funds - 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 fund).

Proprietary Fund Types

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 and 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. Proprietary funds employ the *economic resources measurement focus* and the *accrual basis of accounting*. The Water, Sewer, and Refuse Funds are proprietary funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Pension Trust is accounted for in a manner similar to a proprietary fund.

Budgets and Budgetary Accounting

The City annually adopts budgets for the General Fund, Special Revenue Funds, Water Fund and Sewer 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. Unexpected appropriations lapse at the end of the year.

General fund expenditures exceeded the budget by \$351,506. This is mainly related to CDBG funds received and passed through to the Redevelopment Authority. These revenues and expenditures are not budgeted.

Cash and Cash Equivalents

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.

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.

In the case of capitalization of general infrastructure assets, as allowed from smaller governments, the City has elected to report these items prospectively (as the government constructs or acquires additional infrastructure assets).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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
Infrastructure	25-50 years	25-50 years

Compensated Absences

City employees are permitted to accumulate unused vacation, sick and personal time. Contract provisions require payment of this benefit upon retirement, death or disability based on fifty percent of the accumulated days up to a maximum of 150.

Use of Estimates

The preparation of financial statements in conformity with the 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.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not employed by the City.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Credit Risk

During the course of operations, the City grants credit to its customers, substantially all of whom are located in the City's area.

Fund Balance

In the fund financial statements, governmental funds report the following:

- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by external resource providers. Effectively, restrictions may be changed or lifted only with the consent of resource providers. The City has restricted funds for liquid fuels.
- Assigned – Amounts intended to be used by the City for specific purposes. Intent can be expressed by the governing body or official to which governing body delegates the authority. The City has assigned funds for capital projects.
- Unassigned – The residual classification includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. The City does not currently have a minimum fund balance policy. The City's policy is that assigned funds will be reduced first and then unassigned funds.

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.

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 fair market value.

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.

Investments are reported at fair value, which is determined using selected basis. 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.

Cash and Cash Equivalents

Custodial credit risk is credit that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2011, \$2,893,762 of the City's bank balance of \$3,643,762 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the City's name	<u>\$ 2,893,762</u>
---	---------------------

Reconciliation to Financial Statements

Insured amount	\$ 750,000
Uninsured amount	2,893,762
Add: deposits in transit	6,388
Less: outstanding checks	<u>(79,196)</u>
Carrying amount of bank balances	3,570,954
Plus: petty cash	<u>500</u>
Total cash and cash equivalents per financial statements	<u>\$ 3,571,454</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 month ended January 31 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 2011 were 71.25 mills and 20.71 mills for land and buildings, respectively.

City real estate taxes are levied in March and are due December 31. A 2% discount is permitted if taxes are paid prior to April 30. A penalty is imposed after June 30. All unpaid taxes become delinquent December 31 of the current year. The City bills and collects its own real estate taxes, except for delinquent taxes, which are collected by Crawford County, Pennsylvania and remitted to the City.

Taxes Receivable

Taxes receivable consisted of the following at December 31, 2011:

Real estate taxes - current year	\$ 7,275
Delinquent real estate taxes	129,907
Per capita tax	6,119
Earned income tax receivable	72,181
Allowance for doubtful accounts	<u>(2,433)</u>
	<u>\$ 213,049</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At December 31, 2011, the amount of delinquent property taxes receivable reported as deferred revenue is \$129,907.

NOTE 6 - ACCOUNTS RECEIVABLE - OTHER

Accounts receivable - other consisted of the following at December 31, 2011:

Governmental Funds	
General Funds	<u>\$ 42,790</u>
Proprietary Funds	
Sewer Fund	\$ 1,379
Water Fund	<u>8,402</u>
	<u>\$ 9,781</u>

NOTE 7 - ACCOUNTS RECEIVABLE - CITY SERVICES

Accounts receivable as of December 31, 2011 for city services, including the applicable allowance for uncollectible accounts, are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Accounts receivable	\$ 50,258	\$ 126,581	\$ 6,572	\$ 183,411
Less allowance for uncollectibles	<u>(12,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>(27,000)</u>
	<u>\$ 38,258</u>	<u>\$ 111,581</u>	<u>\$ 6,572</u>	<u>\$ 156,411</u>

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

Proprietary Fund Types

The following is a summary of the proprietary fund types' capital assets at December 31, 2011:

	<u>Balance at 12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/11</u>
Capital assets not being depreciated:				
Land	\$ 32,245	\$ -	\$ -	\$ 32,245
Construction in progress	41,474	1,214	-	42,688
	<u>\$ 73,719</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 74,933</u>
Capital assets being depreciated:				
Buildings and building improvements	\$ 6,882,079	\$ -	\$ -	\$ 6,882,079
Equipment and systems	5,954,698	80,706	-	6,035,404
	12,836,777	80,706	-	12,917,483
Accumulated depreciation	<u>(8,416,319)</u>	<u>(230,737)</u>	<u>-</u>	<u>(8,647,056)</u>
Total capital assets being depreciated, net	<u>\$ 4,420,458</u>	<u>\$ (150,031)</u>	<u>\$ -</u>	<u>\$ 4,270,427</u>
Depreciation expense for the year ended December 31, 2011				
Water fund	\$ 27,116			
Sewer fund	<u>203,621</u>			
	<u>\$ 230,737</u>			

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Government Fund Type

The following is a summary of the changes in capital assets during the year ended December 31, 2011:

	Balance at 12/31/10	Additions	Deletions	Balance at 12/31/11
Capital assets not being depreciated:				
Land	\$ 170,813	\$ -	\$ -	\$ 170,813
	<u>\$ 170,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,813</u>
Capital assets being depreciated:				
Buildings and building improvements	\$ 4,968,670	\$ -	\$ -	\$ 4,968,670
Equipment and systems	2,916,224	11,147	(174,060)	2,753,311
	7,884,894	11,147	(174,060)	7,721,981
Accumulated depreciation	(5,727,883)	(233,220)	174,060	(5,787,043)
Total capital assets being depreciated, net	<u>\$ 2,157,011</u>	<u>\$ (222,073)</u>	<u>\$ -</u>	<u>\$ 1,934,938</u>
Depreciation expense for the year ended December 31, 2011				
General government	<u>\$ 233,220</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.

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 2011, 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 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.

NOTE 9 - PENSION PLANS (CONTINUED)

Summary of Significant Accounting Policies

Basis of Accounting – The Plan’s financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

The Plan’s investments at December 31, 2011 are as follows:

	<u>Fair Value</u>
Fixed Income	\$ 1,616,186
Equities	<u>323,144</u>
	<u>\$ 1,939,330</u>

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

1. Plan Description

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. City Ordinance No. 141 (Police) and 143 (Fire) assigns the Authority to establish and amend benefit provisions to City Council. A separate financial report is not issued for the City of Titusville Police and Fire Pension Plans. The financial statements of the Plan are included in the financial statements of the City of Titusville.

Plan Membership

Membership information for each plan consisted of the following at January 1, 2011, 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	22	18
Terminated Members with Vested Benefits	-	1
Active Plan Members	10	9

NOTE 9 - PENSION PLANS (CONTINUED)

2. Summary of Significant Accounting Policies

Basis of Accounting – The Plan’s financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Valuation of Investments - Investments are stated at market value.

3. Contributions

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.

4. Investments

The Plan’s investments at December 31, 2011 are as follows:

	Fair Value	
	Police Pension	Fire Pension
Fixed Income	\$ 1,676,362	\$ 479,079
Equities	2,476,212	1,751,718
	<u>\$ 4,152,574</u>	<u>\$ 2,230,797</u>

5. Reserves

There are not assets legally reserved for purposes other than the payment of Plan member benefits. There are no long-term contracts for contributions. The Plan held no individual investments whose fair value exceeded 5% or more of the net assets available for benefit.

NOTE 9 - PENSION PLANS (CONTINUED)

6. Trend Information

<u>A. Schedule of Employer Contribution</u>	<u>Year Ended December 31,</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
Police Pension	2005	\$ 208,921	100%
	2006	\$ 243,227	100%
	2007	\$ 241,556	100%
	2008	\$ 254,183	100%
	2009	\$ 250,384	100%
	2010	\$ 260,568	100%
	2011	\$ 326,108	100%
Fire Pension	2005	\$ 178,522	100%
	2006	\$ 182,717	100%
	2007	\$ 184,115	100%
	2008	\$ 161,496	100%
	2009	\$ 166,383	100%
	2010	\$ 178,875	100%
	2011	\$ 200,927	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 (UAAL) (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	\$ 961,323	84.70%	\$ 608,686	158.00%
1/1/2009	\$ 4,097,309	\$ 6,777,467	\$ 2,680,158	60.50%	\$ 536,350	499.70%
1/1/2011	\$ 4,714,421	\$ 7,343,375	\$ 2,628,954	64.20%	\$ 535,769	490.70%
<u>Firemen's Pension</u>						
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%
1/1/2009	\$ 2,324,898	\$ 4,393,891	\$ 2,068,993	52.90%	\$ 341,699	605.50%
1/1/2011	\$ 2,697,860	\$ 4,440,261	\$ 1,742,401	60.80%	\$ 359,134	485.20%

NOTE 9 - PENSION PLANS (CONTINUED)

7. Supplemental Information

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation Date	1/1/2011	1/1/2011
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	15 Years	16 Years
Asset valuation method	5 year smoothing	5 year smoothing
Actuarial assumptions:		
Investment rate of return*	8.0%	8.0%
Projected salary increases*	5.0%	5.0%
* Includes inflation at	0.0%	0.0%
Cost of living adjustments	None	None

NOTE 10 - LONG-TERM DEBT

2000 Pennvest Sanitary Sewer Note

During 2000, the City entered into 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, 2011, the principal balance due to Pennvest was \$155,138.

Scheduled maturities of this debt are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2012	1.00%	\$ 16,680	\$ 996	\$ 17,676
2013	1.00%	16,847	829	17,676
2014	1.00%	17,017	659	17,676
2015	1.00%	17,187	489	17,676
2016	1.00%	17,360	316	17,676
2017-2021	1.00%	70,047	4,876	74,923
		<u>\$ 155,138</u>	<u>\$ 8,165</u>	<u>\$ 163,303</u>

Interest expense for the year ended December 31, 2011 was \$1,162.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

2001 Pennvest Stormwater Sewer Note

During 2001, the City entered into 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, 2011, the principal balance due was \$1,123,740.

Scheduled maturities of this debt are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2012	1.00%	\$ 112,355	\$ 10,675	\$ 123,030
2013	1.00%	113,479	9,551	123,030
2014	1.00%	114,613	8,417	123,030
2015	1.00%	115,759	7,271	123,030
2016	1.00%	116,917	6,113	123,030
2017-2021	1.00%	550,617	12,875	563,492
		<u>\$1,123,740</u>	<u>\$ 54,902</u>	<u>\$ 1,178,642</u>

Interest expense for the year ended December 31, 2011 was \$11,787.

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, 2011, the principal balance due was \$3,410,199.

Scheduled maturities as of this debt are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2012	1.00%	\$ 147,855	\$ 32,268	\$ 180,123
2013	1.00%	148,313	31,810	180,123
2014	1.00%	149,796	30,327	180,123
2015	1.00%	151,294	28,829	180,123
2016	1.00%	152,807	27,316	180,123
2017-2021	1.00%	787,264	113,349	900,613
2022-2026	1.00%	827,423	73,190	900,613
2027-2031	1.00%	869,630	30,983	900,613
2032	1.00%	175,817	1,954	177,771
		<u>\$3,410,199</u>	<u>\$ 370,026</u>	<u>\$ 3,780,225</u>

Interest expense for the year ended December 31, 2011 was \$34,732.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

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, 2011, the principal balance was \$1,520.

Scheduled maturities as of this debt are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2012	2.00%	\$ 1,520	\$ 7	\$ 1,527
		<u>\$ 1,520</u>	<u>\$ 7</u>	<u>\$ 1,527</u>

Interest expense for the year ended December 31, 2011 was \$106.

2011 General Obligation Note

During 2011, the City entered into a \$60,706 agreement with the Commonwealth of Pennsylvania for a capital expenditure loan to assist with the purchase of a backhoe for the water fund. The agreement requires annual principal payments of \$12,141 and additional interest at 3.5%, commencing in January of 2012. As of December 31, 2011, the principal balance was \$60,706.

Scheduled maturities of this debt are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2012	3.5%	\$ 12,141	\$ 2,125	\$ 14,266
2013	3.5%	12,141	1,700	13,841
2014	3.5%	12,141	1,275	13,416
2015	3.5%	12,141	850	12,991
2016	3.5%	12,142	425	12,567
		<u>\$ 60,706</u>	<u>\$ 6,375</u>	<u>\$ 67,081</u>

Interest expense for the year ended December 31, 2011 was \$0.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	Balance at 12/31/10	Additions	Reductions	Balance at 12/31/11	Due Within One Year
<u>Governmental Activities</u>					
2006 Commonwealth of Pennsylvania Note	\$ 7,533	\$ -	\$ 6,013	\$ 1,520	\$ 1,520
2006 Commonwealth of Pennsylvania Note	6,274	-	6,274	-	-
2011 Tax Anticipation Note	-	895,000	895,000	-	-
	<u>\$ 13,807</u>	<u>\$ 895,000</u>	<u>\$ 907,287</u>	<u>\$ 1,520</u>	<u>\$ 1,520</u>
Compensated absences	<u>\$ 261,215</u>	<u>\$ 107,753</u>	<u>\$ 87,960</u>	<u>\$ 281,008</u>	<u>\$ 16,537</u>
<u>Business-Type Activities</u>					
2000 Pennvest Sanitary Sewer Note	\$ 171,652	\$ -	\$ 16,514	\$ 155,138	\$ 16,680
2001 Pennvest Stormwater Note	1,234,983	-	111,243	1,123,740	112,355
2003 Pennvest Stormwater Note	3,555,590	-	145,391	3,410,199	147,855
2010 Phase III Note	100,000	-	100,000	-	-
2011 Commonwealth of Pennsylvania Note	-	60,706	-	60,706	12,141
	<u>\$5,062,225</u>	<u>\$ 60,706</u>	<u>\$ 373,148</u>	<u>\$ 4,749,783</u>	<u>\$ 289,031</u>
Series of 2001 4.60% Capital Appreciation Bonds	<u>\$ 181,694</u>	<u>\$ -</u>	<u>\$ 181,694</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 181,694</u>	<u>\$ -</u>	<u>\$ 181,694</u>	<u>\$ -</u>	<u>\$ -</u>

The following is a summary of changes in accrued bond interest for the year ended December 31, 2011:

	Balance at 12/31/10	Additions	Reductions	Balance at 12/31/11	Due Within One Year
Series of 2001 4.60% Capital Appreciation Bonds	\$ 101,786	\$ 6,520	\$ 108,306	\$ -	\$ -
	<u>\$ 101,786</u>	<u>\$ 6,520</u>	<u>\$ 108,306</u>	<u>\$ -</u>	<u>\$ -</u>
Compensated absences	<u>\$ 46,829</u>	<u>\$ 22,093</u>	<u>\$ 19,190</u>	<u>\$ 49,732</u>	<u>\$ 11,288</u>

The liability for compensated absences is normally liquidated by the general or proprietary funds depending on what department the employee is assigned to.

NOTE 11 - CAPITAL LEASES

The City has entered into lease agreements to purchase a street sweeper. The asset acquired through the capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Street sweeper	\$ 109,000
Less: accumulated depreciation	<u>(42,821)</u>
	<u>\$ 66,179</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2011 are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>
2012	\$ 24,034
2013	24,034
2014	<u>24,034</u>
Total minimum lease payments	72,102
Less amount representing interest	<u>(13,759)</u>
Present value of minimum lease payments	<u>\$ 58,343</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, 2012	<u>\$ 1,155</u>
	<u>\$ 1,155</u>

The City also leases equipment on a month-to-month basis. The total lease expense for the year ended December 31, 2011 was \$6,930.

NOTE 13 - INTERFUND DUE TO/DUE FROM

The composition of interfund balances as of December 31, 2011 is as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund	Sewer Fund	\$ 365
General Fund	Water Fund	3,623
		<u>\$ 3,988</u>

The outstanding balances between funds result mainly from time lags between the date that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

<u>Transfer In:</u>	<u>Transfer Out</u>				<u>Total</u>
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	
General Fund	\$ -	\$ 217,000	\$ 218,500	\$ 54,400	\$ 489,900
Capital Projects Fund	28,000	-	-	-	28,000
	<u>\$ 28,000</u>	<u>\$ 217,000</u>	<u>\$ 218,500</u>	<u>\$ 54,400</u>	<u>\$ 517,900</u>

Transfers are used to move unrestricted General Fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, excluding amounts provided as subsidies or matching funds for various grant programs.

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

In addition to the pension benefits described in Note 9, the City provides post-employment health insurance to retirees. The Plan is not accounted for as a trust fund. The Plan does not issue a separate report and activity of the Plan is reported in the General Fund. The City has implemented GASB 45 prospectively for the year ended December 31, 2009.

Hospitalization coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. As of December 31, 2011, 9 retired employees are covered by health insurance.

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Funding Policy

The benefits for employees are expensed when incurred and are financed on a pay-as-you-go basis. Retirees currently pay a portion of the monthly premium. The City covers up to \$300 of the premium not paid by the retiree. Retiree and dependent coverage, group plans, and costs to the retiree are subject to change. A spouse may be covered as a dependent until the death of the retiree; thereafter, they are eligible to continue coverage by paying 100% of the monthly insurance premium.

The City's annual OPEB cost is calculated based on the annual required contribution of the employees (ARC), an amount determined in accordance with the alternate measurement method parameters of GASB Statement No 45. The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is determined in accordance with the requirements so that if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both normal cost for each year and the amortized unfunded liability.

The following table shows the component of the City's annual OPEB cost for the year, the amount actually contributed, and changes in the City's net OPEB obligation/(asset):

Annual required contribution	\$ 87,600
Interest on net OPEB obligation	-
Adjustment to net OPEB obligation	(102,000)
Annual OPEB cost	<u>(14,400)</u>
Contribution made	<u>(15,600)</u>
Decrease in net OPEB obligation/(asset)	(30,000)
Net OPEB obligation/(asset) - beginning of year	<u>960,000</u>
Net OPEB obligation/(asset) - end of year	<u>\$ 930,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation/(asset) were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
December 31, 2011	\$ 930,000	100%	\$ 930,000
December 31, 2010	\$ 960,000	100%	\$ 960,000
December 31, 2009	\$ 1,047,600	100%	\$ 1,047,600

The City uses the alternative measurement method using the following information: (1) expected retirement age, (2) expected age when eligible for Medicare, and (3) actual health insurance costs for the current year.

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

The alternative measurement method of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

NOTE 15 - 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 16 - 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.
---	--

NOTE 16 - RELATED ORGANIZATIONS (CONTINUED)

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.
Leisure Services Board	Organized for the establishment and maintenance of recreational activities and services. The City has no significant influences over the Board. The Leisure Services Board reports separately.

NOTE 17 - CONTINGENT LIABILITES

General 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 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.

CITY OF TITUSVILLE, PENNSYLVANIA
Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Trust and Agency
December 31, 2011

	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
Assets				
Cash and cash equivalents	\$ 14,017	\$ 25,683	\$ -	\$ 39,700
Investments	4,152,574	2,230,797	1,939,330	8,322,701
Total assets	<u>\$ 4,166,591</u>	<u>\$ 2,256,480</u>	<u>\$ 1,939,330</u>	<u>\$ 8,362,401</u>
Net assets				
Held in trust for pension benefits and other purposes	<u>\$ 4,166,591</u>	<u>\$ 2,256,480</u>	<u>\$ 1,939,330</u>	<u>\$ 8,362,401</u>

CITY OF TITUSVILLE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Trust and Agency
For the Year Ended December 31, 2011

	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
Additions				
Contributions				
Contributions - employees	\$ 29,625	\$ 21,245	\$ 29,653	\$ 80,523
Contributions - state and city	326,108	200,927	53,848	580,883
Total contributions	<u>355,733</u>	<u>222,172</u>	<u>83,501</u>	<u>661,406</u>
Investment income				
Net change in fair value of investments	(101,761)	(167,171)	76,707	(192,225)
Interest and dividends	77,861	76,690	-	154,551
Net investment income	<u>(23,900)</u>	<u>(90,481)</u>	<u>76,707</u>	<u>(37,674)</u>
Total additions	<u>331,833</u>	<u>131,691</u>	<u>160,208</u>	<u>623,732</u>
Deductions				
Benefits	484,018	299,073	253,691	1,036,782
Administrative expenses	17,784	15,535	-	33,319
Total deductions	<u>501,802</u>	<u>314,608</u>	<u>253,691</u>	<u>1,070,101</u>
Change in net assets	(169,969)	(182,917)	(93,483)	(446,369)
Net assets				
Beginning of year	4,336,560	2,439,397	2,032,813	8,808,770
End of year	<u>\$ 4,166,591</u>	<u>\$ 2,256,480</u>	<u>\$ 1,939,330</u>	<u>\$ 8,362,401</u>

CITY OF TITUSVILLE, PENNSYLVANIA
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	\$ 2,272,119	\$ 2,272,119	\$ 2,381,938	\$ 109,819
Interest, rents and royalties	3,100	3,100	15,658	12,558
Intergovernmental	319,842	319,842	792,509	472,667
Charges for services	71,300	71,300	112,885	41,585
Licenses and permits	94,425	94,425	76,945	(17,480)
Fines and forfeits	57,050	57,050	52,447	(4,603)
Contributions and donations	1,000	1,000	7,225	6,225
Other	17,000	17,000	20,976	3,976
Total revenues	<u>2,835,836</u>	<u>2,835,836</u>	<u>3,460,583</u>	<u>624,747</u>
Expenditures				
General government	387,323	387,323	817,956	(430,633)
Public safety	1,876,441	1,876,441	2,057,134	(180,693)
Public works	787,326	787,326	607,049	180,277
Human services	-	-	2,078	(2,078)
Culture and recreation	124,546	124,546	78,044	46,502
Debt service	34,673	34,673	28,175	6,498
Other	100,427	100,427	71,806	28,621
Total expenditures	<u>3,310,736</u>	<u>3,310,736</u>	<u>3,662,242</u>	<u>(351,506)</u>
Excess (deficiency) of revenues over expenditures	<u>(474,900)</u>	<u>(474,900)</u>	<u>(201,659)</u>	<u>273,241</u>
Other financing sources (uses)				
Sale of fixed assets	-	-	13,336	13,336
Operating transfers in	489,900	489,900	489,900	-
Operating transfers (out)	(15,000)	(15,000)	(28,000)	(13,000)
Total other financing sources (uses)	<u>474,900</u>	<u>474,900</u>	<u>475,236</u>	<u>336</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>273,577</u>	<u>273,577</u>
Fund balance				
Beginning of year	<u>200,424</u>	<u>200,424</u>	<u>200,424</u>	<u>-</u>
End of year	<u>\$ 200,424</u>	<u>\$ 200,424</u>	<u>\$ 474,001</u>	<u>\$ 273,577</u>



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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

Honorable 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, 2011, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements and have issued our report thereon dated March 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Titusville, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedure 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City of Titusville's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the City of Titusville, Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 the City of Titusville, Pennsylvania in a separate letter dated March 26, 2012.

This report is intended solely for the information and use of the audit committee, management, City Council, 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.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

March 26, 2012
Erie, Pennsylvania