

CITY OF TITUSVILLE, PENNSYLVANIA

AUDIT REPORT

DECEMBER 31, 2013

CITY OF TITUSVILLE, PENNSYLVANIA

Table of Contents

For the Year Ended December 31, 2013

	<u>Page</u>
Independent Auditors' Report	3-5
Management's Discussion and Analysis	6-12
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet to the	
Statement of Net Position - Governmental Funds	17
Statement of Revenues, Expenditures and Changes in	
Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures,	
and Changes in Fund Balance of Governmental Funds to	
the Statement of Activities	19
Statement of Net Position - Proprietary Funds	20
Statement of Revenues, Expenses and Changes in	
Net Position - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22-23
Statement of Fiduciary Net Position - Fiduciary Funds -	
Trust and Agency	24
Statement of Changes in Fiduciary Net Position -	
Fiduciary Funds - Trust and Agency	25
Notes to Financial Statements	26-46
Combining Statement of Fiduciary Net Position - Fiduciary Funds -	
Trust and Agency	47
Combining Statement of Changes in Fiduciary Net Position -	
Fiduciary Funds - Trust and Agency	48
Schedule of Revenues, Expenditures and Changes in Fund Balance -	
Budget and Actual - General Fund	49
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>	50-51



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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Independent Auditors' Report
(Continued)

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

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

Opinions

In our opinion, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 49 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.

Independent Auditors' Report
(Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Titusville, Pennsylvania's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Titusville, Pennsylvania's internal control over financial reporting and compliance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

April 3, 2014
Erie, Pennsylvania

CITY OF TITUSVILLE, PENNSYLVANIA
Management's Discussion & Analysis
For the Year Ended December 31, 2013

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, 2013 and is intended to serve as an introduction to the City's basic financial statements. Readers are encouraged to consider this information in conjunction with the City's financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The City's net position increased as a result of operations in 2013. In governmental and business-type activities the assets of the City exceeded liabilities resulting in total net position at the close of the fiscal year of \$6,284,556. This represents an increase of 23% over last fiscal year's net position of \$5,126,042.
- As of the end of the year, the City's governmental funds reported combined ending fund balances of \$1,370,499 or a 40% increase when compared to 2012. This increase is mostly attributed to Capital project planning.
- In the City's business-type activities, operating revenues decreased by 1%, while operating expenses increased by 12% compared to 2012.

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 Position and the Statement of Activities provide information about 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 position and changes in them. Net position is the difference between assets and deferred outflows and liabilities and deferred inflows, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Position (Balance Sheet) and the Statement of Activities (Operating/Income Statement), the City's activities are separated as follows:

- | | |
|---------------------------------|--|
| <i>Governmental 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 balance sheet, 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 position presented in the governmental activities column on the statement of net position. 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 position as reported in the governmental activities column in that statement of activities.

Proprietary Funds

Proprietary fund financial statements consist of a statement of net position, statement of revenues, expenses and change in net position and statement of cash flows. These statements are prepared on an accounting basis that is similar to the basis used to prepare the government-wide financial statements.

Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses proprietary 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.

Fiduciary Funds

Fiduciary fund financial statements consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. 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 expenses are reported in the fiduciary funds. The City is the trustee, or fiduciary, for three retirement funds of its various employee units.

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.

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.

THE CITY AS A WHOLE - Government-Wide Financial Analysis

City of Titusville, Pennsylvania Summary of Net Position at December 31, 2013

	Governmental Activities			Business-type Activities			Total			Total %	Total %
	2011	2012	2013	2011	2012	2013	2011	2012	2013	Change	Change
Assets											
Current and other assets	1,024,308	1,128,979	1,504,414	2,969,177	3,742,043	3,992,059	3,993,485	4,871,022	5,496,473		
Capital assets, (net of depreciation)	2,105,751	1,974,193	2,055,061	4,345,360	4,248,708	4,208,084	6,451,111	6,222,901	6,263,145		
Total Assets	3,130,059	3,103,172	3,559,475	7,314,537	7,990,751	8,200,143	10,444,596	11,093,923	11,759,618	5.9%	5.7%
Liabilities											
Current and other liabilities	52,391	50,616	42,369	349,234	347,494	318,175	401,625	398,110	360,544		
Long-term debt outstanding	1,234,067	1,356,449	1,333,251	4,499,196	4,198,322	3,766,267	5,733,263	5,554,771	5,099,518		
Total Liabilities	1,286,458	1,407,065	1,375,620	4,848,430	4,545,816	4,084,442	6,134,888	5,952,881	5,460,062	-3.1%	-9.0%
Net Position											
Unearned Revenue (net of related debt)											
Deferred Inflows of Resources	0	0	0	0	15,000	15,000	0	15,000	15,000		
Net Investment in capital assets	2,045,888	1,934,597	2,055,061	(404,423)	(213,054)	195,137	1,641,465	1,721,543	2,250,198		
Restricted	0	47,064	17,444	0	0	0	0	47,064	17,444		
Unrestricted	(202,287)	(285,554)	111,350	2,870,530	3,642,989	3,905,564	2,668,243	3,357,435	4,016,914		
Total Net Position	1,843,601	1,696,107	2,183,855	2,466,107	3,429,935	4,100,701	4,309,708	5,126,042	6,284,556	15.9%	18.4%
Total Liabilities, Deferred Inflows of Resources, & Net Position	3,130,059	3,103,172	3,559,475	7,314,537	7,990,751	8,200,143	10,444,596	11,078,923	11,759,618	5.7%	5.8%

The City's net position 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.

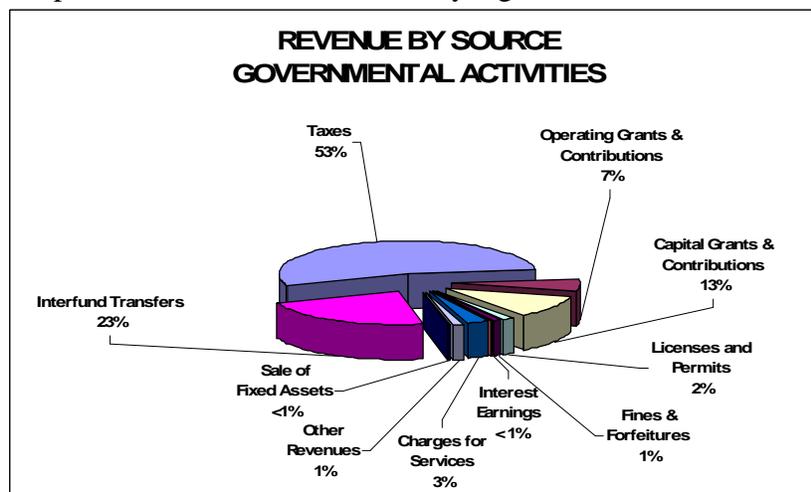
Typically, unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

City of Titusville, Pennsylvania

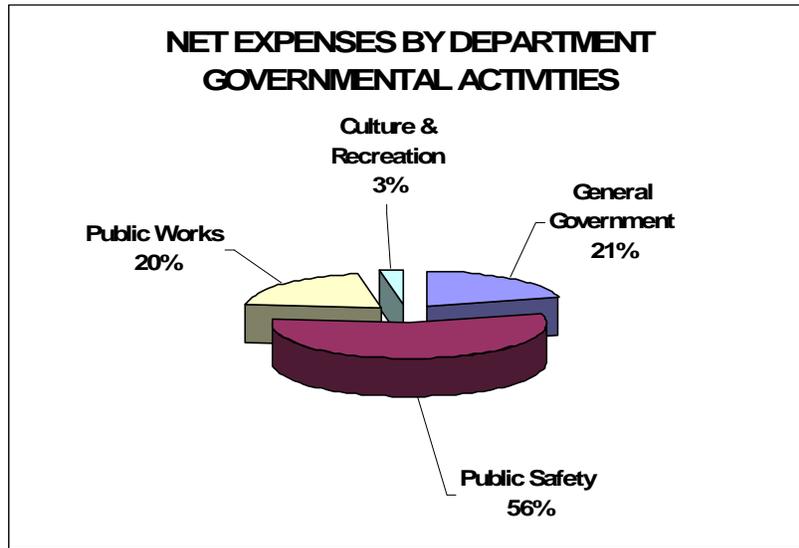
Statement of Activities

Revenues	Governmental Activities			Business-Type Activities			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
<i>Program Revenues</i>									
Charges for Services	\$126,964	\$112,352	\$112,885	\$3,128,947	\$3,170,406	\$3,189,604	\$3,255,911	\$3,282,758	\$3,302,489
Operating Grant and contributions	258,722	268,691	424,322	-	-	-	258,722	268,691	424,322
Capital Grants and contributions	472,287	506,374	514,787	-	-	-	472,287	506,374	514,787
<i>General Revenues</i>									
Taxes	2,366,358	2,350,117	2,344,848	-	-	-	2,366,358	2,350,117	2,344,848
Licenses and permits	75,394	81,887	76,945	-	-	-	75,394	81,887	76,945
Fines and forfeits	38,294	41,876	52,447	-	-	-	38,294	41,876	52,447
Interest earnings	4,451	2,988	16,193	5,737	6,989	13,749	10,188	9,977	29,942
Miscellaneous	56,060	104,666	34,325	120,583	57,737	66,983	176,643	162,403	101,308
Sale of Fixed Assets	14,563	18,360	13,336	-	-	-	14,563	18,360	13,336
Transfers	994,757	466,418	489,900	(994,757)	(466,418)	(489,900)	-	-	-
TOTAL REVENUES	\$4,407,850	\$3,953,729	\$4,079,988	\$2,260,510	\$2,768,714	\$2,780,436	\$6,668,360	\$6,722,443	\$6,860,424
Expenses									
General Government	\$1,035,143	\$1,220,739	\$1,113,406				\$1,035,143	\$1,220,739	\$1,113,406
Public Safety	1,758,163	1,957,454	2,069,538				1,758,163	1,957,454	2,069,538
Public Works	1,045,077	828,537	729,329				1,045,077	828,537	729,329
Human Services	-	-	2,078				-	-	2,078
Culture and Recreation	81,719	94,493	78,044				81,719	94,493	78,044
Water, Sewer, and Refuse Facilities				1,589,744	1,804,886	1,689,194	1,589,744	1,804,886	1,689,194
TOTAL EXPENSES	\$3,920,102	\$4,101,223	\$3,992,395	\$1,589,744	\$1,804,886	\$1,689,194	\$5,509,846	\$5,906,109	\$5,681,589
Change in Net Position	487,748	(147,494)	87,593	670,766	963,828	1,091,242	1,158,514	816,334	1,178,835
Net Position, Beg of Year	1,696,107	1,843,601	1,756,008	3,429,935	2,466,107	1,374,865	5,126,042	4,309,708	3,130,873
Net Position, End of Year	\$2,183,855	\$1,696,107	\$1,843,601	\$4,100,701	\$3,429,935	\$2,466,107	\$6,284,556	\$5,126,042	\$4,309,708

The City's governmental activities rely heavily upon tax revenue 53% in 2013 to fund operation. Primary government activities totaled \$3,062,129 for the year ended December 31, 2013. The following chart illustrates the composition of revenues for the City's governmental activities:

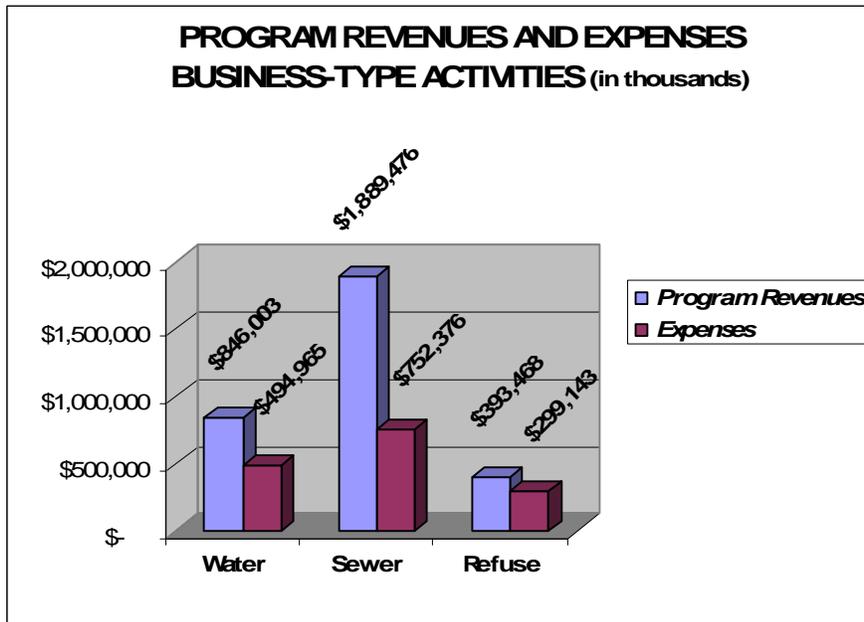


The following chart presents net governmental expenses by department:



Business-Type Activities

Business-Type activities (Water, Sewer, Refuse) increased the City’s net position by \$670,766, accounting for the majority of growth in the City’s total net position. The following chart compares program revenues and expenses for the City’s business-type activities.



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, 2013, amounts to \$6,263,145 (net of depreciation). This investment in capital assets includes land, buildings and building improvements, equipment and systems, and construction in progress.

	Governmental Activities			Proprietary Funds			Total		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Land	\$170,813	\$170,813	\$170,813	\$32,245	\$32,245	\$32,245	\$203,058	\$203,058	\$203,058
Construction in Progress	\$0	\$0	\$0	\$42,688	\$139,264	\$288,827	\$42,688	\$139,264	\$288,827
	\$170,813	\$170,813	\$170,813	\$74,933	\$171,509	\$321,072	\$245,746	\$342,322	\$491,885
Buildings/Improvements	\$4,968,670	\$4,968,670	\$4,968,670	\$6,882,079	\$6,882,079	\$6,882,079	\$11,850,749	\$11,850,749	\$11,850,749
Equipment and Systems	\$2,753,311	\$2,762,269	\$2,941,999	\$6,035,404	\$6,061,814	\$6,088,712	\$8,788,715	\$8,824,083	\$9,030,711
	\$7,721,981	\$7,730,939	\$7,910,669	\$12,917,483	\$12,943,893	\$12,970,791	\$20,639,464	\$20,674,832	\$20,881,460
Less Accum. Depreciation	(\$5,787,043)	(\$5,927,539)	(\$6,026,421)	(\$8,647,056)	(\$8,866,694)	(\$9,083,779)	(\$14,434,099)	(\$14,794,253)	(\$15,110,200)
Total Depreciated Capital Assets	\$1,934,938	\$1,803,380	\$1,884,248	\$4,270,427	\$4,077,199	\$3,887,012	\$6,205,365	\$5,880,579	\$5,771,260

ECONOMIC FACTORS AND FUTURE YEAR BUDGETS

The 2013 annual operating budget and Capital Plan spending strategies reflected management's commitment to provide essential services to our residents while preserving our City's long-term financial viability. The General Fund property tax millage was not increased for 2014. The FY 2014 Budgets looks at Phase IIIB, major Capital Improvements for the Wastewater Treatment Plant.

The City of Titusville will enter another tough budget year in 2014. Fire and Police Pension Minimum Municipal Obligation (MMO) costs will see a significant increase. Increases to insurance costs due to Firefighter Cancer Presumption laws will again be evident.

We are fortunate that drastic cuts and employee layoffs were not necessary for FY 2014 but we look forward with caution that cuts or a tax increase may be necessary in FY 2015. We will continue to spend conservatively, aware that the retirement system, health insurance, and general operating costs will continue to rise.

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 adminservices@cityoftitusvillepa.gov or by phone at 814-827-5300 Extension 303.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Net Position

December 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,236,886	\$ 3,857,625	\$ 5,094,511
Accounts receivable			
Taxes, net of allowance for doubtful accounts	198,029	-	198,029
City services	-	130,963	130,963
Other	63,189	9,781	72,970
Internal balances	6,310	(6,310)	-
Total Current Assets	1,504,414	3,992,059	5,496,473
Noncurrent Assets			
Land	170,813	32,245	203,058
Construction in progress	-	288,827	288,827
Capital assets, net	1,884,248	3,887,012	5,771,260
Total Non-Current Assets	2,055,061	4,208,084	6,263,145
Total Assets	\$ 3,559,475	\$ 8,200,143	\$ 11,759,618
Liabilities			
Current Liabilities			
Vouchers payable and other current liabilities	\$ 27,588	\$ 46,720	\$ 74,308
Accrued compensated absences	14,781	7,046	21,827
Notes payable	-	264,409	264,409
Total Current Liabilities	42,369	318,175	360,544
Non-Current Liabilities			
Accrued compensated absences	280,851	17,729	298,580
OPEB obligation	1,052,400	-	1,052,400
Notes payable	-	3,748,538	3,748,538
Total Non-Current Liabilities	1,333,251	3,766,267	5,099,518
Total Liabilities	1,375,620	4,084,442	5,460,062
Deferred Inflows of Resources			
Unearned revenue	-	15,000	15,000
Total Deferred Inflows of Resources	-	15,000	15,000
Net Position			
Net investment in capital assets	2,055,061	195,137	2,250,198
Restricted for:			
Liquid Fuels	17,444	-	17,444
Unrestricted	111,350	3,905,564	4,016,914
Total Net Position	2,183,855	4,100,701	6,284,556
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 3,559,475	\$ 8,200,143	\$ 11,759,618

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Activities

For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,035,143	\$ 71,990	\$ 258,722	\$ 300,000
Public safety	1,758,163	26,271	-	1,363
Public works	1,045,077	23,178	-	139,174
Culture and recreation	81,719	5,525	-	31,750
Total Governmental Activities	<u>3,920,102</u>	<u>126,964</u>	<u>258,722</u>	<u>472,287</u>
Business-type activities				
Water fund	494,965	846,003	-	-
Sewer fund	795,636	1,889,476	-	-
Refuse fund	299,143	393,468	-	-
Total Business-Type Activities	<u>1,589,744</u>	<u>3,128,947</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 5,509,846</u>	<u>\$ 3,255,911</u>	<u>\$ 258,722</u>	<u>\$ 472,287</u>
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 Position				
Net position				
Beginning of Year				
End of Year				

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (404,431)	\$ -	\$ (404,431)
(1,730,529)	-	(1,730,529)
(882,725)	-	(882,725)
(44,444)	-	(44,444)
<u>(3,062,129)</u>	<u>-</u>	<u>(3,062,129)</u>
-	351,038	351,038
-	1,093,840	1,093,840
-	94,325	94,325
-	<u>1,539,203</u>	<u>1,539,203</u>
<u>(3,062,129)</u>	<u>1,539,203</u>	<u>(1,522,926)</u>
2,366,358	-	2,366,358
75,394	-	75,394
38,294	-	38,294
4,451	5,737	10,188
56,060	120,583	176,643
14,563	-	14,563
994,757	(994,757)	-
<u>3,549,877</u>	<u>(868,437)</u>	<u>2,681,440</u>
487,748	670,766	1,158,514
<u>1,696,107</u>	<u>3,429,935</u>	<u>5,126,042</u>
<u>\$ 2,183,855</u>	<u>\$ 4,100,701</u>	<u>\$ 6,284,556</u>

CITY OF TITUSVILLE, PENNSYLVANIA

**Balance Sheet
Governmental Funds
December 31, 2013**

	General	Special Revenue	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 602,822	\$ 17,444	\$ 616,620	\$ 1,236,886
Taxes receivable, net	198,029	-	-	198,029
Interfund receivable	6,310	-	-	6,310
Accounts receivable	63,189	-	-	63,189
Total Assets	\$ 870,350	\$ 17,444	\$ 616,620	\$ 1,504,414
Liabilities				
Vouchers payable and other current liabilities	\$ 27,588	\$ -	\$ -	\$ 27,588
Total Liabilities	27,588	-	-	27,588
Deferred Inflows of Resources				
Unavailable revenue - property taxes	106,327	-	-	106,327
Total Deferred Inflows of Resources	106,327	-	-	106,327
Fund Balance				
Restricted				
Liquid fuels	-	17,444	-	17,444
Assigned				
Capital projects	-	-	616,620	616,620
Unassigned	736,435	-	-	736,435
Total Fund Balance	736,435	17,444	616,620	1,370,499
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 870,350	\$ 17,444	\$ 616,620	\$ 1,504,414

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
December 31, 2013

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

Fund balances - total governmental funds	\$ 1,370,499
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds	2,055,061
Certain long-term assets are not available to pay current period expenditures and, therefore, are unearned in the funds unavailable revenues	106,327
Other post-employment benefits are reflected on the Statement of Net Position, but are not considered a current expenditure for the fund statements	(1,052,400)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds	
Compensated absences	<u>(295,632)</u>
Net position of governmental activities	<u><u>\$ 2,183,855</u></u>

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, 2013

	General	Special Revenue	Capital Projects	Total Governmental Funds
Revenues				
Taxes	\$ 2,394,434	\$ -	\$ -	\$ 2,394,434
Interest, rents and royalties	4,227	195	29	4,451
Intergovernmental	558,722	139,174	33,113	731,009
Charges for services	126,964	-	-	126,964
Licenses and permits	75,394	-	-	75,394
Fines and forfeitures	38,294	-	-	38,294
Contributions and donations	4,310	-	-	4,310
Other	11,816	12,994	26,940	51,750
Total Revenues	3,214,161	152,363	60,082	3,426,606
Expenditures				
General government	727,646	-	52,439	780,085
Public safety	1,993,878	-	18,080	2,011,958
Public works	783,838	181,983	83,756	1,049,577
Culture and recreation	81,719	-	-	81,719
Debt service	24,035	-	-	24,035
Other	95,726	-	-	95,726
Total Expenditures	3,706,842	181,983	154,275	4,043,100
Excess (deficiency) of revenues over expenditures	(492,681)	(29,620)	(94,193)	(616,494)
Other financing sources (uses)				
Sale of fixed assets	14,563	-	-	14,563
Operating transfers in	609,800	-	470,000	1,079,800
Operating transfers out	(40,000)	-	(45,043)	(85,043)
Total Other Financing Sources (Uses)	584,363	-	424,957	1,009,320
Excess of revenues and other financing sources over (under) expenditures and other financing uses	91,682	(29,620)	330,764	392,826
Fund balance				
Beginning of Year	644,753	47,064	285,856	977,673
End of Year	\$ 736,435	\$ 17,444	\$ 616,620	\$ 1,370,499

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, 2013

Net change in fund balances - total governmental funds	\$	392,826
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Position		287,755
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(206,887)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
Unavailable revenue - property taxes		(28,076)
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 Position. In the current year, these amounts are:		
Capital lease obligation	\$	39,596
Change in OPEB		31,200
Change in compensated absences		(28,666)
		42,130
Change in net position of governmental activities	\$	487,748

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Net Position

Proprietary Funds

December 31, 2013

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 388,902	\$ 3,343,112	\$ 125,611	\$ 3,857,625
Accounts receivable, net				
City services	38,258	86,133	6,572	130,963
Interfund receivable	6,250	-	-	6,250
Other	8,402	1,379	-	9,781
Total Current Assets	441,812	3,430,624	132,183	4,004,619
Non-Current Assets				
Land	6,003	26,242	-	32,245
Construction in progress	-	288,827	-	288,827
Capital assets, net	136,699	3,750,313	-	3,887,012
Total Non-Current Assets	142,702	4,065,382	-	4,208,084
Total Assets	\$ 584,514	\$ 7,496,006	\$ 132,183	\$ 8,212,703
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities				
Vouchers payable and other current liabilities	\$ 15,876	\$ 4,284	\$ 26,560	\$ 46,720
Interfund payable	-	12,560	-	12,560
Accrued compensated absences	1,201	5,845	-	7,046
Notes payable	-	264,409	-	264,409
Total Current Liabilities	17,077	287,098	26,560	330,735
Non-Current Liabilities				
Accrued compensated absences	5,862	11,867	-	17,729
Notes payable	-	3,748,538	-	3,748,538
Total Non-Current Liabilities	5,862	3,760,405	-	3,766,267
Total Liabilities	22,939	4,047,503	26,560	4,097,002
Deferred Inflows of Resources				
Unearned Revenue	15,000	-	-	15,000
Total Deferred Inflows of Resources	15,000	-	-	15,000
Net Position				
Net investment in capital assets	142,702	52,435	-	195,137
Unrestricted	403,873	3,396,068	105,623	3,905,564
Total Net Position	546,575	3,448,503	105,623	4,100,701
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 584,514	\$ 7,496,006	\$ 132,183	\$ 8,212,703

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Operating Revenues				
Charges for services	\$ 846,003	\$ 1,889,476	\$ 393,468	\$ 3,128,947
Other revenues	24,257	90,243	6,083	120,583
Total Operating Revenues	870,260	1,979,719	399,551	3,249,530
Operating Expenses				
Salaries and wages	104,266	166,456	-	270,722
Employee benefits	63,359	87,699	-	151,058
Utilities	133,190	86,677	-	219,867
Materials and supplies	84,345	29,544	-	113,889
Contracted services	37,014	108,821	291,290	437,125
Equipment	13,699	24,559	-	38,258
Depreciation	20,154	196,931	-	217,085
Insurance	23,646	23,644	-	47,290
Administrative	15,292	28,045	7,853	51,190
Total Operating Expenses	494,965	752,376	299,143	1,546,484
Operating Income (Loss)	375,295	1,227,343	100,408	1,703,046
Non-Operating Revenues (Expenses)				
Interest income	575	4,986	176	5,737
Interest expense	-	(43,260)	-	(43,260)
Total Non-Operating Revenues (Expenses)	575	(38,274)	176	(37,523)
Income (Loss) Before Transfers	375,870	1,189,069	100,584	1,665,523
Other Financing Sources				
Transfers in	45,043	-	-	45,043
Transfers (out)	(470,000)	(500,500)	(69,300)	(1,039,800)
Change in Net Position	(49,087)	688,569	31,284	670,766
Net Position				
Beginning of Year	595,662	2,759,934	74,339	3,429,935
End of Year	\$ 546,575	\$ 3,448,503	\$ 105,623	\$ 4,100,701

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2013

	Enterprise Funds			Total
	Water	Sewer	Refuse	
Cash flows from operating activities:				
Receipts from users	\$ 870,260	\$ 1,987,632	\$ 399,551	\$ 3,257,443
Payments to suppliers	(129,411)	(128,567)	(291,290)	(549,268)
Payments for personnel services	(179,204)	(254,155)	-	(433,359)
Payments for operating expenses	(185,827)	(162,925)	(7,853)	(356,605)
Net cash provided by operating activities	<u>375,818</u>	<u>1,441,985</u>	<u>100,408</u>	<u>1,918,211</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	45,043	-	-	45,043
Transfers to other funds	(470,000)	(500,500)	(69,300)	(1,039,800)
Net cash used by noncapital and related activities	<u>(424,957)</u>	<u>(500,500)</u>	<u>(69,300)</u>	<u>(994,757)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(26,898)	(149,563)	-	(176,461)
Repayment on general obligation bonds payable	(48,565)	-	-	(48,565)
Repayment on notes payable	-	(400,250)	-	(400,250)
Interest paid on capital debt	-	(43,260)	-	(43,260)
Net cash used by financing activities	<u>(75,463)</u>	<u>(593,073)</u>	<u>-</u>	<u>(668,536)</u>
Cash flows from investing activities:				
Interest income	575	4,986	176	5,737
Net cash provided by investing activities	<u>575</u>	<u>4,986</u>	<u>176</u>	<u>5,737</u>
Net increase (decrease) in cash	(124,027)	353,398	31,284	260,655
Cash balance, January 1, 2013	<u>512,929</u>	<u>2,989,714</u>	<u>94,327</u>	<u>3,596,970</u>
Cash balance, December 31, 2013	<u>\$ 388,902</u>	<u>\$ 3,343,112</u>	<u>\$ 125,611</u>	<u>\$ 3,857,625</u>

See accompanying notes to financial statements.

Schedule continued on next page.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2013

(Continued)

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income	\$ 375,295	\$ 1,227,343	\$ 100,408	\$ 1,703,046
Adjustments to reconcile operating income (loss) to net cash (used for) operating activities:				
Depreciation	20,154	196,931	-	217,085
Changes in assets, liabilities, and deferred inflows				
(Increase) decrease in receivables	-	7,913	-	7,913
(Increase) decrease in interfund receivables	(6,250)	-	-	(6,250)
Increase (decrease) in due to other funds	(3,231)	12,207	-	8,976
Increase (decrease) in payables	1,429	(2,409)	-	(980)
Increase (decrease) in compensated absences	(11,579)	-	-	(11,579)
Net cash provided (used) by operations	<u>\$ 375,818</u>	<u>\$ 1,441,985</u>	<u>\$ 100,408</u>	<u>\$ 1,918,211</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Fiduciary Net Position

Fiduciary Funds - Trust and Agency

December 31, 2013

Assets	
Cash and cash equivalents	\$ 269,814
Due from fire pension trust	59,000
Investments	<u>10,108,991</u>
Total Assets	<u><u>\$ 10,437,805</u></u>
Liabilities	
Due to police pension trust	<u>\$ 59,000</u>
Total Liabilities	<u>59,000</u>
Net Position	
Held in trust for pension benefits and other purposes	<u>10,378,805</u>
Total Liabilities and Net Position	<u><u>\$ 10,437,805</u></u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Trust and Agency
For the Year Ended December 31, 2013

Additions	
Contributions	
Contributions - employees	\$ 89,982
Contributions - state and city	<u>529,834</u>
Total Contributions	<u>619,816</u>
Investment income	
Net change in fair value of investments	1,454,895
Interest and dividends	<u>258,375</u>
Net Investment Income	<u>1,713,270</u>
Total Additions	<u>2,333,086</u>
Deductions	
Benefits	967,546
Administrative expenses	<u>36,926</u>
Total Deductions	<u>1,004,472</u>
Change in Net Position	1,328,614
Net Position	
Beginning of Year	<u>9,050,191</u>
End of Year	<u><u>\$ 10,378,805</u></u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Notes to Financial Statements
December 31, 2013

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 position 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 Funds

These funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods 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.

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.

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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Information

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 adopted budget when unexpected modifications are required.

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

Excess of Expenditures over Appropriations

General fund expenditures exceeded the budget by \$163,681. This is mainly related to CDBG funds received and passed through to the Redevelopment Authority. These revenues and expenditures are not budgeted.

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

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 position. 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 position, 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 position 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).

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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 recognize 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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the items, *unavailable revenue and unearned revenue*, is reported in the governmental funds and proprietary funds Balance Sheet and Statement of Net Position, respectively. The governmental funds report unavailable revenues from property taxes. The Proprietary Funds report unearned revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements, a flow consumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, assigned fund balance is depleted first. Unassigned fund balance is applied last.

Fund Balance Policies

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the manager to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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.

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.

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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

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, 2013, \$4,674,196 of the City's bank balance of \$5,174,196 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the City's name	<u>\$ 4,674,196</u>
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Reconciliation to Financial Statements

Insured amount	\$ 500,000
Uninsured amount	4,674,196
Add: deposits in transit	7,240
Less: outstanding checks	<u>(87,425)</u>
Carrying amount of bank balances	5,094,011
Plus: petty cash	<u>500</u>
Total cash and cash equivalents per financial statements	<u>\$ 5,094,511</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 2013 were 71.25 mills and 20.713 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, 2013:

Delinquent real estate taxes	\$ 121,436
Per capita tax	6,119
Earned income tax receivable	72,907
Allowance for doubtful accounts	<u>(2,433)</u>
	<u>\$ 198,029</u>

NOTE 5 - PROPERTY TAX REVENUES AND RECEIVABLES (CONTINUED)

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At December 31, 2013, the amount of unavailable revenue - property taxes reported as deferred inflows of resources is \$106,327.

NOTE 6 - ACCOUNTS RECEIVABLE - OTHER

Accounts receivable - other consisted of the following at December 31, 2013:

Governmental Funds	
General Funds	<u>\$ 63,189</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, 2013 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	\$ 101,133	\$ 6,572	\$ 157,963
Less allowance for uncollectibles	<u>(12,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>(27,000)</u>
	<u>\$ 38,258</u>	<u>\$ 86,133</u>	<u>\$ 6,572</u>	<u>\$ 130,963</u>

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

Governmental Activities

The following is a summary of the changes in capital assets during the year ended December 31, 2013:

	Balance at 12/31/12	Additions	Deletions	Balance at 12/31/13
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	2,762,269	287,755	(108,025)	2,941,999
	7,730,939	287,755	(108,025)	7,910,669
Accumulated depreciation	(5,927,559)	(206,887)	108,025	(6,026,421)
Total capital assets being depreciated, net	<u>\$ 1,803,380</u>	<u>\$ 80,868</u>	<u>\$ -</u>	<u>\$ 1,884,248</u>
Depreciation expense for the year ended December 31, 2013				
General government	<u>\$ 206,887</u>			

Proprietary Funds

The following is a summary of the proprietary funds capital assets at December 31, 2013:

	Balance at 12/31/12	Additions	Deletions	Balance at 12/31/13
Capital assets not being depreciated:				
Land	\$ 32,245	\$ -	\$ -	\$ 32,245
Construction in progress	139,264	149,563	-	288,827
	<u>\$ 171,509</u>	<u>\$ 149,563</u>	<u>\$ -</u>	<u>\$ 321,072</u>
Capital assets being depreciated:				
Buildings and building improvements	\$ 6,882,079	\$ -	\$ -	\$ 6,882,079
Equipment and systems	6,061,814	26,898	-	6,088,712
	12,943,893	26,898	-	12,970,791
Accumulated depreciation	(8,866,694)	(217,085)	-	(9,083,779)
Total capital assets being depreciated, net	<u>\$ 4,077,199</u>	<u>\$ (190,187)</u>	<u>\$ -</u>	<u>\$ 3,887,012</u>
Depreciation expense for the year ended December 31, 2013				
Water fund	\$ 20,154			
Sewer fund	196,931			
	<u>\$ 217,085</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 Northwest Savings. ING, 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 2013, plan participants are required to contribute \$.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.

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, 2013 are as follows:

	<u>Fair Value</u>
Fixed Income	\$ 1,157,823
Equities	<u>1,014,546</u>
	<u>\$ 2,172,369</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

NOTE 9 - PENSION PLANS (CONTINUED)

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, 2013, 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	23	17
Terminated Members with Vested Benefits	-	1
Active Plan Members	10	8

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 8.00% 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, 2013 are as follows:

	<u>Fair Value</u>	
	<u>Police Pension</u>	<u>Fire Pension</u>
Fixed Income	\$ 1,370,242	\$ 411,878
Equities	3,634,420	2,520,082
	<u>\$ 5,004,662</u>	<u>\$ 2,931,960</u>

NOTE 9 - PENSION PLANS (CONTINUED)

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 position 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%
	2012	\$ 317,492	100%
	2013	\$ 313,703	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%
	2012	\$ 162,191	100%
	2013	\$ 163,419	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%
1/1/2013	\$ 4,537,021	\$ 7,869,334	\$ 3,332,313	57.70%	\$ 539,748	617.40%
<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%
1/1/2013	\$ 2,489,655	\$ 4,499,667	\$ 2,010,012	55.30%	\$ 356,898	563.20%

NOTE 9 - PENSION PLANS (CONTINUED)

7. Supplemental Information

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation Date	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	25 Years	15 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	1.00% If retired after December 31, 1999 but before December 31, 2000.

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, 2013, the principal balance was paid off.

Interest expense for the year ended December 31, 2013 was \$1,899.

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, 2013, the principal balance due was \$897,906.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

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>
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	1.00%	118,086	4,944	123,030
2018	1.00%	119,267	3,763	123,030
2019-2021	1.00%	313,264	4,170	317,434
		<u>\$ 897,906</u>	<u>\$ 34,678</u>	<u>\$ 932,584</u>

Interest expense for the year ended December 31, 2013 was \$9,551.

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, 2013, the principal balance due was \$3,115,041.

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>
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	1.00%	154,335	25,788	180,123
2018	1.00%	155,879	24,244	180,123
2019-2023	1.00%	803,088	97,525	900,613
2024-2028	1.00%	844,054	56,559	900,613
2029-2032	1.00%	703,788	14,351	718,139
		<u>\$3,115,041</u>	<u>\$ 304,939</u>	<u>\$ 3,419,980</u>

Interest expense for the year ended December 31, 2013 was \$31,810.

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, 2013, the principal balance was paid off.

Interest expense for the year ended December 31, 2013 was \$1,920.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

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

	<u>Balance at 12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/13</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Compensated absences	\$ 266,966	\$ 105,443	\$ 76,777	\$ 295,632	\$ 14,781
<u>Business-Type Activities</u>					
2000 Pennvest Sanitary Sewer Note	\$ 138,458	\$ -	\$ 138,458	\$ -	\$ -
2001 Pennvest Stormwater Note	1,011,385	-	113,479	897,906	114,613
2003 Pennvest Stormwater Note	3,263,354	-	148,313	3,115,041	149,796
2011 Commonwealth of Pennsylvania Note	48,565	-	48,565	-	-
	<u>\$ 4,461,762</u>	<u>\$ -</u>	<u>\$ 448,815</u>	<u>\$ 4,012,947</u>	<u>\$ 264,409</u>
Compensated absences	<u>\$ 36,354</u>	<u>\$ 20,239</u>	<u>\$ (31,818)</u>	<u>\$ 24,775</u>	<u>\$ 7,046</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 - LEASES

The City leases equipment on a month-to-month basis. The total lease expense for the year ended December 31, 2013 was \$11,128.

NOTE 12 - INTERFUND DUE TO/DUE FROM

The composition of interfund balances as of December 31, 2013 is as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund	Sewer Fund	\$ 12,560
Water Fund	General Fund	<u>(6,250)</u>
		<u>\$ 6,310</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.

NOTE 12 - INTERFUND DUE TO/DUE FROM (CONTINUED)

Transfer In:	Transfer Out					
	General Fund	Capital Projects Fund	Water Fund	Sewer Fund	Refuse Fund	Total
General Fund	\$ -	\$ -	\$ 270,000	\$ 270,500	\$ 69,300	\$ 609,800
Sewer Fund	-	-	-	-	-	-
Water Fund	-	45,043	-	-	-	45,043
Capital Projects	40,000	-	200,000	230,000	-	470,000
	<u>40,000</u>	<u>\$ 45,043</u>	<u>\$ 470,000</u>	<u>\$ 500,500</u>	<u>\$ 69,300</u>	<u>\$ 1,124,843</u>

Transfers are used to move unrestricted Proprietary Fund revenues to finance expenses paid for by the General Fund and to fund certain capital projects.

NOTE 13 - 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, 2013, 7 retired employees are covered by health insurance.

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.

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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	\$ 98,400
Interest on net OPEB obligation	-
Adjustment to net OPEB obligation	(129,600)
Annual OPEB cost	<u>(31,200)</u>
Contribution made	<u>-</u>
Increase in net OPEB obligation/(asset)	(31,200)
Net OPEB obligation/(asset) - beginning of year	<u>1,083,600</u>
 Net OPEB obligation/(asset) - end of year	 <u><u>\$ 1,052,400</u></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, 2013	\$ 1,052,400	100%	\$ 1,052,400
December 31, 2012	\$ 1,083,600	100%	\$ 1,083,600
December 31, 2011	\$ 930,000	100%	\$ 930,000
December 31, 2010	\$ 960,000	100%	\$ 960,000

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.

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 14 - 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 15 - 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:

- | | |
|---|--|
| Redevelopment Authority of the City of Titusville | Administers federal funding for housing condition improvements and community development activities approved by the U.S. Department of Housing and Urban Development. The City has no significant influence over the budget, management, or policies of the Authority. The Redevelopment Authority of the City of Titusville reports separately. |
| Titusville Airport Authority | Administers federal funding for airport improvements and maintenance approved by the Federal Aviation Administration. The City has no significant influence over the budget, management, or policies of the Authority. The Titusville Airport Authority reports separately. |

NOTE 16 - 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 Schedule of Fiduciary Net Position
Fiduciary Funds - Trust and Agency
December 31, 2013

	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
Assets				
Cash and cash equivalents	\$ 154,517	\$ 115,297	\$ -	\$ 269,814
Due from fire pension trust	59,000	-	-	59,000
Investments	5,004,662	2,931,960	2,172,369	10,108,991
Total Assets	\$ 5,218,179	\$ 3,047,257	\$ 2,172,369	\$ 10,437,805
Liabilities				
Due to police pension trust	\$ -	\$ 59,000	\$ -	\$ 59,000
Total Liabilities	\$ -	\$ 59,000	\$ -	\$ 59,000
Net Position				
Held in trust for pension benefits and other purposes	\$ 5,218,179	\$ 2,988,257	\$ 2,172,369	\$ 10,378,805
Total Liabilites and net position	\$ 5,218,179	\$ 3,047,257	\$ 2,172,369	\$ 10,437,805

CITY OF TITUSVILLE, PENNSYLVANIA
Combining Schedule of Changes in Fiduciary Net Position
Fiduciary Funds - Trust and Agency
For the Year Ended December 31, 2013

	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
Additions				
Contributions				
Contributions - employees	\$ 32,020	\$ 27,767	\$ 30,195	\$ 89,982
Contributions - state and city	313,703	163,419	52,712	529,834
Total Contributions	<u>345,723</u>	<u>191,186</u>	<u>82,907</u>	<u>619,816</u>
Investment income				
Net change in fair value of investments	739,360	488,781	226,754	1,454,895
Interest and dividends	139,829	118,546	-	258,375
Net Investment Income	<u>879,189</u>	<u>607,327</u>	<u>226,754</u>	<u>1,713,270</u>
Total Additions	<u>1,224,912</u>	<u>798,513</u>	<u>309,661</u>	<u>2,333,086</u>
Deductions				
Benefits	522,604	284,286	160,656	967,546
Administrative expenses	20,776	15,625	525	36,926
Total Deductions	<u>543,380</u>	<u>299,911</u>	<u>161,181</u>	<u>1,004,472</u>
Change in Net Position	681,532	498,602	148,480	1,328,614
Net Position				
Beginning of Year	<u>4,536,647</u>	<u>2,489,655</u>	<u>2,023,889</u>	<u>9,050,191</u>
End of Year	<u>\$ 5,218,179</u>	<u>\$ 2,988,257</u>	<u>\$ 2,172,369</u>	<u>\$ 10,378,805</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, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	\$ 2,350,535	\$ 2,350,535	\$ 2,394,434	\$ 43,899
Interest, rents and royalties	2,000	2,000	4,227	2,227
Intergovernmental	287,800	287,800	558,722	270,922
Charges for services	87,703	87,703	126,964	39,261
Licenses and permits	100,625	100,625	75,394	(25,231)
Fines and forfeits	56,750	56,750	38,294	(18,456)
Contributions and donations	1,000	1,000	4,310	3,310
Other	28,000	38,332	11,816	(26,516)
Total Revenues	<u>2,914,413</u>	<u>2,924,745</u>	<u>3,214,161</u>	<u>289,416</u>
Expenditures				
General government	363,618	363,618	727,646	(364,028)
Public safety	2,065,702	2,076,034	1,993,878	82,156
Public works	909,038	909,038	783,838	125,200
Culture and recreation	109,198	109,198	81,719	27,479
Debt service	-	-	24,035	(24,035)
Other	85,273	85,273	95,726	(10,453)
Total Expenditures	<u>3,532,829</u>	<u>3,543,161</u>	<u>3,706,842</u>	<u>(163,681)</u>
Excess (deficiency) of revenues over expenditures	<u>(618,416)</u>	<u>(618,416)</u>	<u>(492,681)</u>	<u>125,735</u>
Other financing sources (uses)				
Sale of fixed assets	-	-	14,563	14,563
Operating transfers in	609,800	609,800	609,800	-
Operating transfers (out)	(40,000)	(40,000)	(40,000)	-
Budgetary reserve	48,616	48,616	-	(48,616)
Total Other Financing Sources (Uses)	<u>618,416</u>	<u>618,416</u>	<u>584,363</u>	<u>(34,053)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	91,682	91,682
Fund balance				
Beginning of Year	<u>644,753</u>	<u>644,753</u>	<u>644,753</u>	<u>-</u>
End of Year	<u>\$ 644,753</u>	<u>\$ 644,753</u>	<u>\$ 736,435</u>	<u>\$ 91,682</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements, and have issued our report thereon dated April 3, 2014.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

April 3, 2014
Erie, Pennsylvania