

CITY OF TITUSVILLE, PENNSYLVANIA

AUDIT REPORT

DECEMBER 31, 2009

CITY OF TITUSVILLE, PENNSYLVANIA

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FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania (a third-class city) as of and for the year ended December 31, 2009, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Titusville, Pennsylvania, as of December 31, 2009 and the respective changes in financial position and cash flows, where applicable, thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2010 on our consideration of the City of Titusville, Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditors' Report
(Continued)

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Titusville, Pennsylvania's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

May 18, 2010, except the last paragraph
which is dated May 10, 2011
Erie, Pennsylvania

CITY OF TITUSVILLE, PENNSYLVANIA

Management's Discussion and Analysis

For the Year Ended December 31, 2009

This discussion and analysis of the City of Titusville's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2009. Please read it in conjunction with the City's financial statements and the accompanying notes to those financial statements that begin on page

FINANCIAL HIGHLIGHTS

The governmental activities assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2,629,885 (*net assets*). Of this amount, \$334,656 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

At the close of the current fiscal year, the City reported combined ending net assets of \$2,733,347 for both governmental and business-type activities. Of this balance, \$1,840,434 is available for spending at the City's discretion.

The City's General Fund reported a positive fund balance of \$271,544 as of December 31, 2009, compared to a positive fund balance of \$280,973 as of December 31, 2008.

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. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements.

The *government-wide financial statements* present the financial picture of the City from the economic resources measurement focus. They present governmental activities and business-type activities separately. These statements include all assets (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 interfund 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 are provided to explain the differences created by the integrated approach prescribed by GASB No. 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

The City's governmental fund financial statements are presented on pages 16-19.

Proprietary Funds

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

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

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

The proprietary fund financial statements can be found on pages 20-22 of the report.

Fiduciary Funds

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

The fiduciary fund financial statements can be found on pages 23-24 of the report.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements. (See pages 25-49)

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages 5-11 and 52, respectively represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements and notes (referred to as "the basic financial statements").

Basis of Accounting

The City has elected to present its government-wide financial statements on the accrual basis of accounting and its fund financial statements on the modified accrual basis of accounting. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of the related cash flows.

Government-Wide Financial Analysis

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

City of Titusville, Pennsylvania Net Assets at December 31, 2009

	Governmental Activities		Business-Type Activities		Total		Total % Change 08-09
	2008	2009	2008	2009	2008	2009	
Assets							
Current and other assets	\$ 1,364,726	\$ 822,947	\$ 1,116,052	\$ 1,605,010	\$ 2,480,778	\$ 2,427,957	2.1%
Capital assets, (net of depreciation)	2,115,704	2,438,705	4,912,269	4,680,364	7,027,973	7,119,069	1.3%
Total Assets	\$ 3,480,430	\$ 3,261,652	\$ 6,028,321	\$ 6,285,374	\$ 9,508,751	\$ 9,547,026	4%
Liabilities							
Current and other liabilities	\$ 77,540	\$ 91,302	\$ 1,045,765	\$ 894,655	\$ 1,123,305	\$ 985,957	(12.2%)
Noncurrent liabilities	438,189	540,465	5,969,785	5,287,257	6,407,974	5,827,722	(9.1%)
Total Liabilities	515,729	631,767	7,015,550	6,181,912	7,531,279	6,813,679	(9.5%)
Net Assets							
Investment in capital assets (net of debt)	2,026,583	2,295,229	(1,796,915)	(1,402,316)	229,668	892,913	288.8%
Unrestricted	938,118	334,656	809,686	1,505,778	1,747,804	1,840,434	5.3%
Total Net Assets	\$ 2,964,701	\$ 2,629,885	\$ (987,229)	\$ 103,462	\$ 1,977,472	\$ 2,733,347	38.2%

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the City, assets exceeded liabilities by \$ 2,733,347, an increase of 38% from 2008. Net assets of the City's governmental activities decreased 11.3% to just under \$335,000. However, \$2,295,229 of those net assets is invested in capital assets. Consequently, unrestricted net assets showed \$334,656 at the end of this year.

The City's net assets reflect investment in capital assets (e.g., land, building, improvements, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are *not* available for future spending. Investment in capital assets, in the business-type activities, reflects the recent debt incurred due to the construction costs for two phases of the mandated sewer projects.

Typically, the unrestricted net assets, for both governmental and proprietary funds, \$1,840,434 may be used to meet the government's ongoing obligations to citizens and creditors.

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

City of Titusville, Pennsylvania
Changes in Net Assets for the Year Ended December 31, 2009

	Governmental Activities		Business-Type Activities		Total		Total % Change 08-09
	2008	2009	2008	2009	2008	2009	
Revenues							
Program Revenues							
Charges for services	\$ 93,977	\$ 108,868	\$ 4,036,291	\$ 3,136,023	\$ 4,130,268	\$ 3,244,891	(21.4%)
Operating grant and contributions	339,963	216,335	223,043	5,124	563,006	221,459	(60.7%)
Capital grants and contributions	108,645	952,247	4,785	-	113,430	952,247	739%
General Revenues							
Taxes	2,241,192	2,256,303	-	-	2,241,192	2,256,303	.7%
Licenses and permits	65,094	73,397	-	-	65,094	73,397	12.8%
Fines and forfeits	60,761	59,710	-	-	60,761	59,710	(1.7%)
Interest earnings	41,426	13,516	24,408	11,355	65,834	24,871	(62.2%)
Miscellaneous	91,320	23,001	63,613	62,461	154,933	85,462	(44.8%)
Transfers	31,676	315,600	(31,676)	(315,600)	-	-	-
Total Revenues	3,074,054	4,018,977	4,320,464	2,899,363	7,394,518	6,918,340	(6.4%)
Expenses							
General government	226,747	1,364,343	-	-	266,747	1,364,343	411%
Public safety	1,570,539	1,880,828	-	-	1,570,539	1,880,828	19.8%
Public works	691,390	864,552	-	-	691,390	864,552	25.0%
Human services	2,050	1,484	-	-	2,050	1,484	(27.6%)
Culture and recreation	255,389	203,153	-	-	255,389	203,153	(20.5%)
Depreciation	280,527	-	-	-	280,527	-	(100.0%)
Interest	38,963	39,433	-	-	38,963	39,433	1.2%
Miscellaneous	78,840	-	-	-	78,840	-	(100.0%)
Internal Service activities	-	-	1,267,335	-	1,267,335	-	(100.0%)
Water, sewer and refuse	-	-	2,032,246	1,548,669	2,032,246	1,548,669	(33.8%)
Facilities	-	-	261,008	260,003	261,008	260,003	-
Interest on long-term debt	-	-	-	-	-	-	-
Total Expenses	3,184,455	4,353,793	3,560,589	1,808,672	6,745,034	6,162,465	(8.6%)
Change in Net Assets	(110,391)	(334,816)	759,875	1,090,691	649,484	755,875	16.4%
Net Assets, Beginning of Year	3,075,092	2,964,701	(1,747,104)	(987,229)	1,327,988	1,977,472	49%
Net Assets, End of Year	\$ 2,964,701	\$ 2,629,885	\$ (987,229)	\$ 103,462	\$ 1,977,472	\$ 2,733,347	38%

The City's governmental activities rely heavily upon tax revenue (51.82%) to fund its operations. The cost of governmental activities totaled \$4,353,793 for the year ended December 31, 2009.

General Fund Budgetary Highlights

The General Fund is the chief operating fund of the City. At the end of the current fiscal, unreserved fund balance of the General Fund was \$271,544, while the total governmental fund balance was \$605,148. As a measure of the General Fund's liquidity, it may be useful to note that the total fund balance is unrestricted.

Fund balance in the City's General Fund decreased by \$9,429 during the current fiscal year. Key factors for this decrease include:

- Annual revenues were under budget by \$293,553. The main revenue stream continues to come from taxes which were under budget by \$113,336 and interest revenue was under budget by \$20,443. Intergovernmental was over budget by \$214,060 and other was under budget by \$400,634. The main reason for these fluctuations was due to classification differences between the years.
- Expenditures were under budget by \$200,698. Public Works expenditures were under budget by \$104,718, General Government and other were under budget by \$48,311 and \$39,801, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2009 amounts to \$7,119,069 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, equipment and systems, and construction in progress.

City of Titusville, Pennsylvania Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Land	\$ 170,813	\$ 170,813	\$ 32,245	\$ 32,245	\$ 203,058	\$ 203,058
Construction in progress	-	448,709	-	-	-	488,709
Buildings/improvements	4,510,461	4,510,461	6,882,079	6,882,079	11,392,540	11,392,540
Equipment and systems	2,703,204	2,864,658	5,957,803	5,957,803	8,661,007	8,822,461
Total	7,384,478	7,994,641	12,872,127	12,872,127	20,256,605	20,866,768
Less accumulated depreciation	(5,268,774)	(5,555,936)	(7,959,858)	(8,191,763)	(13,228,632)	(13,747,699)
Total Capital Assets	\$ 2,115,704	\$ 2,438,705	\$ 4,912,269	\$ 4,680,364	\$ 7,027,973	\$ 7,119,069

Long-Term Debt

At the end of the current fiscal year, the City had total debt and accrued interest of \$6,226,156. 86% of the total indebtedness is attributed to notes payable. Total debt and accrued interest is down by 11% from 2008.

Additional information on the City's long-term debt and related accrued interest can be found in the Notes to Financial Statements on pages 25-49 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For the upcoming fiscal year 2010, the City's general fund budget was decreased by 10% to \$3,244,368 to bring general operating expenses more in line with the actual general fund revenues received in a year. As the City ages, population numbers, tax assessments and revenue sources in general have declined. Throughout the 2010 year, the City will be evaluating numerous initiatives and opportunities to better match services provided with the available funding sources.

The General Fund property tax millage will not be increased for 2010. In 2009, tax millage was increased by 3 mills and before that the City had experienced relatively flat-tax revenue over several years. The City continues to ask tax-exempt entities to consider making voluntary contributions of 10% to 20% of their City real estate tax amount.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Titusville's City Manager, 107 N. Franklin Street, Titusville, Pennsylvania 16354 or telephone at (814) 827-5300, Extension 303.

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CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Net Assets

December 31, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 526,387	\$ 1,481,377	\$ 2,007,764
Accounts receivable			
Taxes, net of allowance for doubtful accounts	268,913	-	268,913
City services	-	122,254	122,254
Other	27,647	1,379	29,026
Total current assets	<u>822,947</u>	<u>1,605,010</u>	<u>2,427,957</u>
Noncurrent assets			
Land	170,813	32,245	203,058
Construction in progress	448,709	-	448,709
Capital assets, net	1,819,183	4,648,119	6,467,302
Total noncurrent assets	<u>2,438,705</u>	<u>4,680,364</u>	<u>7,119,069</u>
Total assets	<u>\$ 3,261,652</u>	<u>\$ 6,285,374</u>	<u>\$ 9,547,026</u>
Liabilities and net assets			
Current liabilities			
Vouchers payable and other current liabilities	\$ 13,097	\$ 39,228	\$ 52,325
Due to other funds	10,255	(10,255)	-
Accrued compensated absences	13,882	16,098	29,980
Accrued interest	-	170,821	170,821
Notes payable	38,213	321,467	359,680
Capital lease obligations	15,855	-	15,855
General obligation bonds payable	-	357,296	357,296
Total current liabilities	<u>91,302</u>	<u>894,655</u>	<u>985,957</u>
Noncurrent liabilities			
Accrued compensated absences	263,761	54,161	317,922
OPEB obligation	187,296	-	187,296
Notes payable	13,808	4,962,220	4,976,028
Capital lease obligations	75,600	-	75,600
General obligation bonds payable	-	181,694	181,694
Accrued long-term bond interest	-	89,182	89,182
Total noncurrent liabilities	<u>540,465</u>	<u>5,287,257</u>	<u>5,827,722</u>
Total liabilities	<u>631,767</u>	<u>6,181,912</u>	<u>6,813,679</u>
Net assets			
Invested in capital assets, net of related debt	2,295,229	(1,142,313)	1,152,916
Unrestricted	334,656	1,245,775	1,580,431
Total net assets	<u>2,629,885</u>	<u>103,462</u>	<u>2,733,347</u>
Total liabilities and net assets	<u>\$ 3,261,652</u>	<u>\$ 6,285,374</u>	<u>\$ 9,547,026</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Statement of Activities

For the Year Ended December 31, 2009

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,364,343	\$ 59,822	\$ 216,335	\$ 489,239
Public safety	1,880,828	45,947	-	-
Public works	864,552	-	-	148,769
Human services	1,484	-	-	-
Culture and recreation	203,153	3,099	-	314,239
Interest expense	39,433	-	-	-
Total governmental activities	4,353,793	108,868	216,335	952,247
Business-type activities				
Water fund	554,530	843,722	-	-
Sewer fund	902,579	1,912,241	-	-
Refuse fund	351,563	380,060	5,124	-
Total business-type activities	1,808,672	3,136,023	5,124	-
Total primary government	\$ 6,162,465	\$ 3,244,891	\$ 221,459	\$ 952,247
General revenues				
Taxes				
Licenses and permits				
Fines and forfeitures				
Interest earnings				
Other revenues				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets				
Beginning of year, as restated				
End of year				

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (598,947)	\$ -	\$ (598,947)
(1,834,881)	-	(1,834,881)
(715,783)	-	(715,783)
(1,484)	-	(1,484)
114,185	-	114,185
(39,433)	-	(39,433)
<u>(3,076,343)</u>	<u>-</u>	<u>(3,076,343)</u>
-	289,192	289,192
-	1,009,662	1,009,662
-	33,621	33,621
-	<u>1,332,475</u>	<u>1,332,475</u>
<u>(3,076,343)</u>	<u>1,332,475</u>	<u>(1,743,868)</u>
2,256,303	-	2,256,303
73,397	-	73,397
59,710	-	59,710
13,516	11,355	24,871
23,001	62,461	85,462
315,600	(315,600)	-
<u>2,741,527</u>	<u>(241,784)</u>	<u>2,499,743</u>
(334,816)	1,090,691	755,875
<u>2,964,701</u>	<u>(987,229)</u>	<u>1,977,472</u>
<u>\$ 2,629,885</u>	<u>\$ 103,462</u>	<u>\$ 2,733,347</u>

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Assets, Liabilities and Fund Balance
Governmental Funds
December 31, 2009

	General	Special Revenue	Capital Projects	Total Governmental Funds
Assets				
Cash	\$ 192,783	\$ 70,823	\$ 262,781	\$ 526,387
Taxes receivable, net	268,913	-	-	268,913
Accounts receivable	27,647	-	-	27,647
Total assets	\$ 489,343	\$ 70,823	\$ 262,781	\$ 822,947
Liabilities and fund balance				
Vouchers payable and other current liabilities	13,097	-	-	13,097
Due to other funds	10,255	-	-	10,255
Deferred taxes	194,447	-	-	194,447
Total liabilities	217,799	-	-	217,799
Fund balance				
Reserved	-	70,823	262,781	333,604
Unreserved	271,544	-	-	271,544
Total fund balance	271,544	70,823	262,781	605,148
Total liabilities and fund balance	\$ 489,343	\$ 70,823	\$ 262,781	\$ 822,947

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Statement of Assets, Liabilities and Fund Balance,
and Reconciliation to the Statement of Net Assets
Governmental Funds
December 31, 2009

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

Fund balances - total governmental funds	\$	605,148
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		2,438,705
Certain long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds		194,447
Other post-employment benefits are reflected on the Statement of Net Assets, but are not considered a current expenditure for the fund statements		(187,296)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Compensated absences	\$	(277,643)
Long-term debt		(143,476)
		(421,119)
Net assets of governmental activities		\$ 2,629,885

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, 2009

	General	Special Revenue	Capital Project	Total Governmental Funds
Revenues				
Taxes	\$ 2,305,164	\$ -	\$ -	\$ 2,305,164
Interest, rents and royalties	9,557	388	3,396	13,341
Intergovernmental	705,574	148,769	167,970	1,022,313
Charges for services	108,868	-	-	108,868
Licenses and permits	73,397	-	-	73,397
Fines and forfeitures	59,710	-	-	59,710
Contributions and donations	-	-	146,269	146,269
Other	23,001	-	-	23,001
Total revenues	3,285,271	149,157	317,635	3,752,063
Expenditures				
General government	915,082	-	-	915,082
Public safety	1,840,859	-	39,969	1,880,828
Public works	790,074	63,503	10,975	864,552
Human services	1,484	-	-	1,484
Culture and recreation	185,378	-	466,484	651,862
Debt service	39,868	27,076	27,134	94,078
Capital outlay	-	-	109,000	109,000
Other	74,943	-	81,969	156,912
Total expenditures	3,847,688	90,579	735,531	4,673,798
Excess (deficiency) of revenues over expenditures	(562,417)	58,578	(417,896)	(921,735)
Other financing sources (uses)				
Lease proceeds	-	-	109,000	109,000
Operating transfers in	598,888	-	45,900	644,788
Operating transfers (out)	(45,900)	-	(100,000)	(145,900)
Total other financing sources (uses)	552,988	-	54,900	607,888
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(9,429)	58,578	(362,996)	(313,847)
Fund balance				
Beginning of year, as restated	280,973	12,245	625,777	918,995
End of year	\$ 271,544	\$ 70,823	\$ 262,781	\$ 605,148

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, 2009

Net change in fund balances - total governmental funds	\$	(313,847)
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Assets		610,163
Depreciation expenses on governmental capital assets included in the governmental activities in the Statement of Activities		(287,162)
Lease proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets		(109,000)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
Deferred real estate tax		(48,861)
Internal service funds are used by management to charge the costs to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities		(183,113)
Repayment of long-term debt is reported as expenditures in governmental funds, but as a reduction of long-term liabilities in the Statement of Net Assets. In the current year, these amounts are:		
Note payable	\$	37,100
Capital lease obligation		17,545
Change in compensated absences		(57,641)
		(2,996)
Change in net assets of governmental activities	\$	(334,816)

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Combining Statement of Net Assets

Proprietary Fund Types

December 31, 2009

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	Fringe Benefits
Assets					
Current assets					
Cash and cash equivalents	\$ 133,433	\$ 1,331,631	\$ 16,313	\$ 1,481,377	\$ -
Accounts receivable					
City services	41,197	74,485	6,572	122,254	-
Other	-	1,379	-	1,379	-
Due from other funds	5,741	4,514	-	10,255	-
Total current assets	<u>180,371</u>	<u>1,412,009</u>	<u>22,885</u>	<u>1,615,265</u>	<u>-</u>
Noncurrent assets					
Land	6,003	26,242	-	32,245	-
Buildings and building improvements	667,230	6,214,849	-	6,882,079	-
Equipment and systems	590,387	5,367,416	-	5,957,803	-
	<u>1,263,620</u>	<u>11,608,507</u>	<u>-</u>	<u>12,872,127</u>	<u>-</u>
Accumulated depreciation	(1,139,827)	(7,051,936)	-	(8,191,763)	-
Total capital assets, net	<u>123,793</u>	<u>4,556,571</u>	<u>-</u>	<u>4,680,364</u>	<u>-</u>
Total assets	<u>\$ 304,164</u>	<u>\$ 5,968,580</u>	<u>\$ 22,885</u>	<u>\$ 6,295,629</u>	<u>\$ -</u>
Liabilities and net assets					
Current liabilities					
Vouchers payable and other current liabilities	\$ 12,133	\$ 535	\$ 26,560	\$ 39,228	\$ -
Accrued compensated absences	7,920	8,178	-	16,098	-
Accrued interest	-	170,821	-	170,821	-
Notes payable	51,025	270,442	-	321,467	-
General obligation bonds payable	-	357,296	-	357,296	-
Total current liabilities	<u>71,078</u>	<u>807,272</u>	<u>26,560</u>	<u>904,910</u>	<u>-</u>
Noncurrent liabilities					
Accrued compensated absences	37,778	16,383	-	54,161	-
Notes payable	-	4,962,220	-	4,962,220	-
General obligation bonds payable	-	181,694	-	181,694	-
Accrued long-term bond interest	-	89,182	-	89,182	-
Total noncurrent liabilities	<u>37,778</u>	<u>5,249,479</u>	<u>-</u>	<u>5,287,257</u>	<u>-</u>
Total liabilities	<u>108,856</u>	<u>6,056,751</u>	<u>26,560</u>	<u>6,192,167</u>	<u>-</u>
Net assets					
Invested in capital assets, net of related debt	72,768	(1,215,081)	-	(1,142,313)	-
Unrestricted	122,540	1,126,910	(3,675)	1,245,775	-
Total net assets	<u>195,308</u>	<u>(88,171)</u>	<u>(3,675)</u>	<u>103,462</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 304,164</u>	<u>\$ 5,968,580</u>	<u>\$ 22,885</u>	<u>\$ 6,295,629</u>	<u>\$ -</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund Types
For the Year Ended December 31, 2009

	Enterprise Funds			Total	Internal
	Water	Sewer	Refuse		Service Fund
					Fringe Benefits
Operating revenues					
Charges for services	\$ 843,722	\$ 1,912,241	\$ 380,060	\$ 3,136,023	\$ -
Operating grant	-	-	5,124	5,124	-
Other revenues	24,142	37,911	408	62,461	-
Total operating revenues	867,864	1,950,152	385,592	3,203,608	-
Operating expenses					
Salaries and wages	201,364	161,864	-	363,228	-
Employee benefits	100,727	76,242	-	176,969	-
Utilities	113,399	-	-	113,399	-
Materials and supplies	28,357	163,485	-	191,842	-
Contractual services	19,573	73,542	346,881	439,996	-
Equipment	6,439	43,298	-	49,737	-
Depreciation	24,651	207,254	-	231,905	-
Insurance	34,139	34,165	-	68,304	-
Administrative	22,252	32,119	4,682	59,053	-
Total operating expenses	550,901	791,969	351,563	1,694,433	-
Operating income (loss)	316,963	1,158,183	34,029	1,509,175	-
Non-operating revenues (expenses)					
Interest income	1,398	9,754	203	11,355	175
Interest expense	(3,629)	(110,610)	-	(114,239)	-
Total non-operating revenues (expenses)	(2,231)	(100,856)	203	(102,884)	175
Income (loss) before transfers	314,732	1,057,327	34,232	1,406,291	175
Other financing sources					
Transfers in	41,275	41,275	-	82,550	-
Transfers (out)	(176,450)	(176,450)	(45,250)	(398,150)	(183,288)
Change in net assets	179,557	922,152	(11,018)	1,090,691	(183,113)
Net assets					
Beginning of year, as restated	15,751	(1,010,323)	7,343	(987,229)	183,113
End of year	\$ 195,308	\$ (88,171)	\$ (3,675)	\$ 103,462	\$ -

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Combining Statement of Cash Flows

Proprietary Fund Types

For the Year Ended December 31, 2009

	Enterprise Funds			Total	Internal
	Water	Sewer	Refuse		Service Fund Fringe Benefits
Cash flows from operating activities:					
Receipts from users	\$ 872,328	\$ 1,967,197	\$ 385,592	\$ 3,225,117	\$ -
Payments to suppliers	(48,300)	(281,016)	(320,321)	(649,637)	(2,877)
Payments for personnel services	(299,422)	(235,515)	-	(534,937)	(10,382)
Payments for operating expenses	(169,790)	(66,284)	(4,682)	(240,756)	-
Net cash provided by operating activities	<u>354,816</u>	<u>1,384,382</u>	<u>60,589</u>	<u>1,799,787</u>	<u>(13,259)</u>
Cash flows from noncapital financing activities:					
Transfers from other funds	41,275	41,275	-	82,550	-
Transfers to other funds	(176,450)	(176,450)	(45,250)	(398,150)	(183,288)
Net cash provided (used) by noncapital and related activities	<u>(135,175)</u>	<u>(135,175)</u>	<u>(45,250)</u>	<u>(315,600)</u>	<u>(183,288)</u>
Cash flows from capital and related financing activities:					
Repayment on general obligation bonds payable	-	(520,000)	-	(520,000)	-
Repayment on notes payable	(99,450)	(267,057)	-	(366,507)	-
Change in accreted value	-	44,584	-	44,584	-
Interest paid on capital debt	(3,629)	(110,610)	-	(114,239)	-
Net cash provided (used) by financing activities	<u>(103,079)</u>	<u>(853,083)</u>	<u>-</u>	<u>(956,162)</u>	<u>-</u>
Cash flows from investing activities:					
Interest income	1,398	9,754	203	11,355	175
Net cash from investing activities	<u>1,398</u>	<u>9,754</u>	<u>203</u>	<u>11,355</u>	<u>175</u>
Net increase (decrease) in cash	117,960	405,878	15,542	539,380	(196,372)
Cash balance, January 1, 2009	15,473	925,753	771	941,997	196,372
Cash balance, December 31, 2009	<u>\$ 133,433</u>	<u>\$ 1,331,631</u>	<u>\$ 16,313</u>	<u>\$ 1,481,377</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income	\$ 316,963	\$ 1,158,183	\$ 34,029	\$ 1,509,175	\$ -
Adjustments to reconcile operating income (loss) to net cash (used for) operating activities:					
Depreciation	24,651	207,254	-	231,905	-
Changes in assets and liabilities					
(Increase) decrease in receivables	4,464	17,045	-	21,509	-
(Increase) decrease in due from other funds	2,669	2,591	-	5,260	139
Increase (decrease) in due to other funds	-	-	-	-	(10,521)
Increase (decrease) in payables	6,069	(691)	26,560	31,938	(2,877)
Net cash provided (used) by operations	<u>\$ 354,816</u>	<u>\$ 1,384,382</u>	<u>\$ 60,589</u>	<u>\$ 1,799,787</u>	<u>\$ (13,259)</u>
Supplemental disclosures of cash flows information:					
Cash paid during the year ended for:					
Interest	\$ 3,629	\$ 110,610	\$ -	\$ 114,239	\$ -

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA

Combining Statement of Fiduciary Net Assets

Fiduciary Funds - Trust and Agency

December 31, 2009

	<u>Police Pension Trust</u>	<u>Fire Pension Trust</u>	<u>General Pension Trust</u>	<u>Trust Fund Totals</u>
Assets				
Cash and cash equivalents	\$ 136,957	\$ 101,496	\$ -	\$ 238,453
Investments	3,908,643	2,193,571	1,881,754	7,983,968
Total assets	<u>\$ 4,045,600</u>	<u>\$ 2,295,067</u>	<u>\$ 1,881,754</u>	<u>\$ 8,222,421</u>
Net assets				
Held in trust for pension benefits and other purposes	<u>\$ 4,045,600</u>	<u>\$ 2,295,067</u>	<u>\$ 1,881,754</u>	<u>\$ 8,222,421</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Trust
For the Year Ended December 31, 2009

	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
Additions				
Contributions				
Contributions - employees	\$ 27,544	\$ 19,977	\$ 29,548	\$ 77,069
Contributions - state and city	250,584	166,383	54,191	471,158
Total contributions	<u>278,128</u>	<u>186,360</u>	<u>83,739</u>	<u>548,227</u>
Investment income				
Net change in fair value of investments	765,215	422,606	133,978	1,321,799
Interest and dividends	95,504	53,634	-	149,138
Net investment income	<u>860,719</u>	<u>476,240</u>	<u>133,978</u>	<u>1,470,937</u>
Total additions	<u>1,138,847</u>	<u>662,600</u>	<u>217,717</u>	<u>2,019,164</u>
Deductions				
Benefits	483,341	293,507	142,397	919,245
Administrative expenses	17,222	11,441	7,848	36,511
Total deductions	<u>500,563</u>	<u>304,948</u>	<u>150,245</u>	<u>955,756</u>
Net increase	638,284	357,652	67,472	1,063,408
Net assets				
Beginning of year	<u>3,407,316</u>	<u>1,937,415</u>	<u>1,814,282</u>	<u>7,159,013</u>
End of year	<u>\$ 4,045,600</u>	<u>\$ 2,295,067</u>	<u>\$ 1,881,754</u>	<u>\$ 8,222,421</u>

See accompanying notes to financial statements.

CITY OF TITUSVILLE, PENNSYLVANIA
Notes to Financial Statements
December 31, 2009

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.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Types

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

Internal Service Fund - Account for and finance services and commodities furnished exclusively to user offices, departments and other funds of the City on a cost reimbursement basis. The principal service provided includes a self-insurance program for health and dental coverage. Operating revenues are from employer and employee premiums and operating expenses included benefit claims expense. All other revenues and expenses are recorded as non-operating. The Internal Service Fund (after elimination) is included in governmental activities for government-wide reporting purposes. The internal service fund was closed into the general fund in 2009.

Fiduciary Fund Types

Pension trust funds are used to account for resources held in trust and the receipt, investment and distribution of retirement contributions. The City's trust funds include the non-uniform employees' pension of the City and the police and fire departments' pensions. The Pension Trust is accounted for in a manner similar to a proprietary fund.

Budgets and Budgetary Accounting

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

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Capital Assets

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

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Building and improvements	25-40 years	25-40 years
Equipment and systems	5-20 years	5-10 years
Vehicles	5 years	5-10 years
Infrastructure	25-50 years	25-50 years

Compensated Absences

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

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.

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.

Encumbrances

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

Long-Term Obligations

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit Risk

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

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

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, 2009, \$2,274,954 of the City's bank balance of \$2,923,739 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the City's name	<u>\$ 2,274,954</u>
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Reconciliation to Financial Statements

Insured amount	\$ 648,785
Uninsured amount	2,274,954
Less: outstanding checks	<u>(916,475)</u>
Carrying amount of bank balances	2,007,264
Plus: petty cash	<u>500</u>

Total cash and cash equivalents per financial statements	<u>\$ 2,007,764</u>
--	---------------------

Investments

The investments of the City of Titusville at December 31, 2009 consist of:

<u>Fiduciary Fund Type - Pension Trust</u>	<u>Carrying Amount</u>
Police Pension	\$ 3,908,643
Firemen's Pension	2,193,571
General Pension	<u>1,881,754</u>
	<u>\$ 7,983,968</u>

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

	<u>Carrying Amount</u>
Police Pension Mutual Funds	<u>\$ 3,908,643</u>
Firemen's Pension Mutual Funds	<u>\$ 2,193,571</u>
General Pension Trust	
Fixed Funds	\$ 343,845
Index Funds	<u>1,537,909</u>
	<u>\$ 1,881,754</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 2009 were 71.25 mills and 20.71 mills for land and buildings, respectively.

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

Taxes Receivable

Taxes receivable consisted of the following at December 31, 2009:

Real estate taxes - current year	\$ 17,370
Delinquent real estate taxes	194,447
Per capita tax	6,119
Earned income tax receivable	<u>53,410</u>
Allowance for doubtful accounts	<u>(2,433)</u>
	<u>\$ 268,913</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At December 31, 2009, the amount of delinquent property taxes receivable reported as deferred revenue is \$194,447.

NOTE 6 - ACCOUNTS RECEIVABLE - OTHER

Accounts receivable - other consisted of the following at December 31, 2009:

Governmental Funds	
General Funds	<u>\$ 27,647</u>
Proprietary Funds	
Sewer Fund	<u>\$ 1,379</u>

NOTE 7 - ACCOUNTS RECEIVABLE - CITY SERVICES

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

Accounts receivable - city services at December 31, 2009 consisted of:

Water charges	\$ 41,197
Sewer charges	74,485
Refuse charges	6,572
	<u> </u>
	\$ 122,254

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

Proprietary Fund Types

The following is a summary of the proprietary fund types' capital assets at December 31, 2009:

	<u>Balance at 12/31/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/09</u>
Capital assets not being depreciated:				
Land	\$ 32,245	\$ -	\$ -	\$ 32,245
Capital assets being depreciated:				
Buildings and building improvements	\$ 6,882,079	\$ -	\$ -	\$ 6,882,079
Equipment and systems	5,957,803	-	-	5,957,803
	<u>12,839,882</u>	<u>-</u>	<u>-</u>	<u>12,839,882</u>
Accumulated depreciation	<u>(7,959,858)</u>	<u>(231,905)</u>	<u>-</u>	<u>(8,191,763)</u>
Total capital assets being depreciated, net	<u>\$ 4,880,024</u>	<u>\$ (231,905)</u>	<u>\$ -</u>	<u>\$ 4,648,119</u>
Depreciation expense for the year ended December 31, 2009				
Water fund	\$ 24,651			
Sewer fund	207,254			
	<u>\$ 231,905</u>			

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Government Fund Type

The following is a summary of the changes in capital assets during the year ended December 31, 2009:

	Balance at 12/31/08	Additions	Deletions	Balance at 12/31/09
Capital assets not being depreciated:				
Land	\$ 170,813	\$ -	\$ -	\$ 170,813
Construction in progress	-	448,709	-	448,709
	<u>\$ 170,813</u>	<u>\$ 448,709</u>	<u>\$ -</u>	<u>\$ 619,522</u>
Capital assets being depreciated:				
Buildings and building improvements	\$ 4,510,461	\$ -	\$ -	\$ 4,510,461
Equipment and systems	2,703,204	161,454	-	2,864,658
	<u>7,213,665</u>	<u>161,454</u>	<u>-</u>	<u>7,375,119</u>
Accumulated depreciation	<u>(5,268,774)</u>	<u>(287,162)</u>	<u>-</u>	<u>(5,555,936)</u>
Total capital assets being depreciated, net	<u>\$ 1,944,891</u>	<u>\$ (125,708)</u>	<u>\$ -</u>	<u>\$ 1,819,183</u>
Depreciation expense for the year ended December 31, 2009				
General government	<u>\$ 287,162</u>			

NOTE 9 - PENSION PLANS

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

General Employees Pension Plan (Defined Contribution Plan)

The City of Titusville has a single-employer defined contribution plan to provide retirement benefits to the non-uniformed employees of the City under the provisions of a group annuity contract. For 2009, 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.

NOTE 9 - PENSION PLANS (CONTINUED)

Summary of Significant Accounting Policies

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

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

1. Plan Description

The City of Titusville’s firemen and police participate in single-employer defined benefit pension plans. Each plan includes provisions for retirement, disability and death benefits for its members and their beneficiaries. City Ordinance No. 141 (Police) and 143 (Fire) assigns the Authority to establish and amend benefit provisions to City Council. A separate financial report is not issued for the City of Titusville Police and Fire Pension Plans. The financial statements of the Plan are included in the financial statements of the City of Titusville.

Plan Membership

Membership information for each plan consisted of the following at January 1, 2009, 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	18	19
Terminated Members with Vested Benefits	0	2
Active Plan Members	11	10

2. Summary of Significant Accounting Policies

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

Valuation of Investments - Investments are stated at market value.

3. Contributions

Contributions to the Firemen’s Pension Fund by the employees are based on 5.85% of annual pay. 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.

NOTE 9 - PENSION PLANS (CONTINUED)

4. Investments

The Plan's investments at December 31, 2009 are as follows:

	Fair Value	
	Police Pension	Fire Pension
Equities	\$ 181,082	\$ 121,014
Mutual Funds	3,727,561	2,072,557
	<u>\$ 3,908,643</u>	<u>\$ 2,193,571</u>

5. Reserves

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

6. Trend Information

A. Schedule of Employer Contribution	Year Ended December 31,	Annual Pension Cost	Percentage Contributed
Police Pension	2004	\$ 202,899	100%
	2005	\$ 208,921	100%
	2006	\$ 243,227	100%
	2007	\$ 241,556	100%
	2008	\$ 254,183	100%
	2009	\$ 250,384	100%
Fire Pension	2004	\$ 176,520	100%
	2005	\$ 178,522	100%
	2006	\$ 182,717	100%
	2007	\$ 184,115	100%
	2008	\$ 161,496	100%
	2009	\$ 166,383	100%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Police Pension						
1/1/2001	\$ 4,280,461	\$ 4,672,936	\$ 392,475	91.60%	\$ 546,749	71.78%
1/1/2003	\$ 3,986,545	\$ 5,249,416	\$ 1,262,871	75.94%	\$ 594,211	212.53%
1/1/2005	\$ 4,495,885	\$ 5,779,582	\$ 1,283,697	77.80%	\$ 604,734	212.30%
1/1/2007	\$ 5,321,375	\$ 6,282,698	\$ 961,424	84.70%	\$ 608,686	158.00%
1/1/2009	\$ 4,097,309	\$ 6,777,467	\$ 2,680,158	60.50%	\$ 536,350	499.70%
Firemen's Pension						
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%

NOTE 9 - PENSION PLANS (CONTINUED)

7. Supplemental Information

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation Date	1/1/2009	1/1/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	16 Years	18 Years
Asset valuation method	5 year smoothing	5 year smoothing
Actuarial assumptions:		
Investment rate of return*	8.0%	8.0%
Projected salary increases*	5.0%	5.0%
* Includes inflation at	0.0%	0.0%
Cost of living adjustments	None	None

NOTE 10 - LONG-TERM DEBT

Series 2001

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

The Bonds are issued for the refunding of the Series 1995 bonds. The purpose of this refunding is a reduction in total debt service over the life of the 1995 Bonds.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Capital Appreciation Bonds</u>	<u>Interest</u>	<u>Payments</u>
2010	4.50%	\$ 357,296	\$ 182,704	\$ 540,000
2011	4.50%	181,694	108,306	290,000
		<u>\$ 538,990</u>	<u>\$ 291,010</u>	<u>\$ 830,000</u>

Interest expense for the year ended December 31, 2009 was \$44,584.

1992 Titusville Municipal Water Authority Note

As of October 29, 1992, an agreement between the Titusville Municipal Water Authority and the Pennsylvania Infrastructure Investment Authority (Pennvest) calls for repayment of a total balance of \$1,736,792 with such payments commencing December 1, 1992 and continuing until October 2010. The City makes lease payments to the Authority for this note. A pledge of all gross revenue and gross receipts of the Water Authority and the irrevocable and unconditional guarantee of the City of Titusville secure the note. At December 31, 2009, the outstanding balance on this amount was \$51,025.

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>
2010	3.45%	\$ 51,025	\$ 514	\$ 51,539
		<u>\$ 51,025</u>	<u>\$ 514</u>	<u>\$ 51,539</u>

Interest expense for the year ended December 31, 2009 was \$3,629.

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, 2009, the principal balance due to Pennvest was \$188,002.

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>
2010	1.00%	\$ 16,350	\$ 1,326	\$ 17,676
2011	1.00%	16,514	1,162	17,676
2012	1.00%	16,680	996	17,676
2013	1.00%	16,847	829	17,676
2014	1.00%	17,017	659	17,676
2015-2019	1.00%	82,499	4,643	87,142
2020-2021	1.00%	22,095	1,038	23,133
		<u>\$ 188,002</u>	<u>\$ 10,653</u>	<u>\$ 198,655</u>

Interest expense for the year ended December 31, 2009 was \$1,965.

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, 2009, the principal balance due was \$1,345,124.

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>
2010	1.00%	\$ 110,141	\$ 12,889	\$ 123,030
2011	1.00%	111,243	11,787	123,030
2012	1.00%	112,355	10,675	123,030
2013	1.00%	113,479	9,551	123,030
2014	1.00%	114,613	8,417	123,030
2015-2019	1.00%	590,489	24,657	615,146
2020-2021	1.00%	192,804	1,600	194,404
		<u>\$1,345,124</u>	<u>\$ 79,576</u>	<u>\$ 1,424,700</u>

Interest expense for the year ended December 31, 2009 was \$14,044.

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, 2009, the principal balance due was \$3,699,540.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Scheduled maturities as of this debt are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2010	1.00%	\$ 143,951	\$ 36,172	\$ 180,123
2011	1.00%	145,391	34,732	180,123
2012	1.00%	146,845	33,278	180,123
2013	1.00%	148,313	31,810	180,123
2014	1.00%	149,796	30,327	180,123
2015-2019	1.00%	771,752	128,859	900,615
2020-2024	1.00%	811,120	89,494	900,615
2025-2029	1.00%	852,495	48,118	900,615
2030-2032	1.00%	529,877	8,138	540,357
		<u>\$3,699,540</u>	<u>\$ 440,928</u>	<u>\$ 4,142,817</u>

Interest expense for the year ended December 31, 2009 was \$37,768.

2005 Commonwealth of Pennsylvania Infrastructure Loan

During 2005, the City entered into an agreement with the Commonwealth of Pennsylvania for an infrastructure loan for a paving project. The agreement requires annual payments of \$27,076, including interest at 3%, commencing September 2006 and maturing September 2010. As of December 31, 2009, the principal balance due was \$26,287.

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>
2010	3.00%	\$ 26,287	\$ 789	\$ 27,076
		<u>\$ 26,287</u>	<u>\$ 789</u>	<u>\$ 27,076</u>

Interest expense for the year ended December 31, 2009 was \$1,554.

2006 Commonwealth of Pennsylvania Loan Agreement

During 2006, the City entered into an agreement with the Commonwealth of Pennsylvania, acting through the Department of Community and Economic Development, for a Local Government Capital Projects Loan to assist with the acquisition of a vehicle. The agreement requires quarterly payments of \$1,530, including interest at 2%, commencing May, 2007 and maturing February, 2012. As of December 31, 2009, the principal balance was \$13,428.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Scheduled maturities as of this debt are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2010	2.00%	\$ 5,894	\$ 225	\$ 6,119
2011	2.00%	6,013	106	6,119
2012	2.00%	1,521	7	1,528
		<u>\$ 13,428</u>	<u>\$ 338</u>	<u>\$ 13,766</u>

Interest expense for the year ended December 31, 2009 was \$341.

2006 Commonwealth of Pennsylvania Infrastructure Loan

During 2006, the City entered into an agreement with the Commonwealth of Pennsylvania, acting through the Department of Transportation, for a loan to assist with the acquisition of a vehicle. The agreement requires annual payments of \$6,524, including interest at 4%, commencing August, 2007 and maturing August, 2011. As of December 31, 2009, the principal balance due was \$12,306.

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>
2010	4.00%	\$ 6,032	\$ 492	\$ 6,524
2011	4.00%	6,274	250	6,524
		<u>\$ 12,306</u>	<u>\$ 742</u>	<u>\$ 13,048</u>

Interest expense for the year ended December 31, 2009 was \$724.

2009 Tax Anticipation Note

In January 2009, the City entered into an agreement with a local banking institution for a 3.94% tax anticipation note in the amount of \$900,000. Interest in the amount of \$27,225 was paid along with the principal in December of 2009.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt for the year ended December 31, 2009:

	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09	Due Within One Year
<u>Governmental Activities</u>					
2005 Commonwealth of Pennsylvania Note	\$ 51,809	\$ -	\$ 25,522	\$ 26,287	\$ 26,287
2006 Commonwealth of Pennsylvania Note	19,206	-	5,778	13,428	5,894
2006 Commonwealth of Pennsylvania Note	18,106	-	5,800	12,306	6,032
2009 Tax Anticipation Note	-	900,000	900,000	-	-
	<u>89,121</u>	<u>900,000</u>	<u>937,100</u>	<u>52,021</u>	<u>38,213</u>
Compensated absences	<u>220,002</u>	<u>92,396</u>	<u>34,755</u>	<u>277,643</u>	<u>13,882</u>
<u>Business-Type Activities</u>					
1992 Titusville Municipal Water Authority Note	150,475	-	99,450	51,025	51,025
2000 Pennvest Sanitary Sewer Note	203,713	-	15,711	188,002	16,350
2001 Pennvest Stormwater Note	1,454,110	-	108,986	1,345,124	110,141
2003 Pennvest Stormwater Note	3,841,896	-	142,360	3,699,536	143,951
	<u>5,650,194</u>	<u>-</u>	<u>366,507</u>	<u>5,283,687</u>	<u>321,467</u>
Series of 2001					
Current Interest Bonds	\$ 520,000	\$ -	\$ 520,000	\$ -	\$ -
4.50% Capital Appreciation Bonds	357,296	-	-	357,296	357,296
4.60% Capital Appreciation Bonds	181,694	-	-	181,694	-
	<u>\$ 1,058,990</u>	<u>\$ -</u>	<u>\$ 520,000</u>	<u>\$ 538,990</u>	<u>\$ 357,296</u>

The following is a summary of changes in accrued bond interest for the year ended December 31, 2009:

	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09	Due Within One Year
Series B of 1989					
7.10% Capital Appreciation Bonds	\$ 122,476	\$ -	\$ 122,476	\$ -	\$ -
Series of 2001					
4.50% Capital Appreciation Bonds	141,563	29,258	-	170,821	170,821
4.60% Capital Appreciation Bonds	73,856	15,326	-	89,182	-
	<u>\$ 337,895</u>	<u>\$ 44,584</u>	<u>\$ 122,476</u>	<u>\$ 260,003</u>	<u>\$ 170,821</u>
Compensated absences	<u>70,259</u>	<u>38,751</u>	<u>38,751</u>	<u>70,259</u>	<u>16,098</u>

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

NOTE 11 - CAPITAL LEASES

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

<u>Asset</u>	<u>Governmental Activities</u>
Street sweeper	\$ 109,000
Less: accumulated depreciation	-
	<u>\$ 109,000</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2009 are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>
2010	\$ 24,034
2011	24,034
2012	24,034
2013	24,034
2014	24,034
Total minimum lease payments	120,170
Less amount representing interest	<u>(28,715)</u>
Present value of minimum lease payments	<u>\$ 91,455</u>

The \$9,589 in governmental activity interest expense for 2009 has been reported as unallocated interest in the statement of activities.

NOTE 12 - LEASES

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

Future minimum lease expense is as follows:

Year ending December 31, 2010	\$ 6,930
Year ending December 31, 2011	6,930
Year ending December 31, 2012	<u>1,155</u>
	<u>\$ 15,015</u>

The City also leases equipment on a month-to-month basis. The total lease expense for the year ended December 31, 2009 was \$6,930.

NOTE 13 - INTERFUND DUE TO/DUE FROM

The composition of interfund balances as of December 31, 2009 is as follows:

Due To	Due From	Amount
Water Fund	General Fund	\$ 5,741
Sewer Fund	General Fund	4,514
		<u>\$ 10,255</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.

Transfer In:	Transfer Out						Total
	General Fund	Capital Projects Fund	Water Fund	Sewer Fund	Refuse Fund	Fringe Benefits Fund	
General Fund	\$ -	\$ 100,000	\$ 176,450	\$ 176,450	\$ 45,250	\$ 100,738	\$ 598,888
Capital Projects Fund	45,900	-	-	-	-	-	45,900
Water Fund	-	-	-	-	-	41,275	41,275
Sewer Fund	-	-	-	-	-	41,275	41,275
	<u>\$ 45,900</u>	<u>\$ 100,000</u>	<u>\$ 176,450</u>	<u>\$ 176,450</u>	<u>\$ 45,250</u>	<u>\$ 183,288</u>	<u>\$ 727,338</u>

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

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

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

Hospitalization coverage as a retiree will be equivalent (single or dependent coverage) to that held by the individual at the time of retirement. As of December 31, 2009, 10 retired employees are covered by health insurance.

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

Funding Policy

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

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

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

Annual required contribution	\$ 187,296
Interest on net OPEB obligation	-
Annual OPEB cost	<u>187,296</u>
Contribution made	-
Increase in net OPEB obligation/(asset)	<u>187,296</u>
Net OPEB obligation/(asset) - beginning of year	-
 Net OPEB obligation/(asset) - end of year	 <u>\$ 187,296</u>

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

Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
December 31, 2009	\$ 187,296	100%	\$ 187,296
December 31, 2008	N/A	N/A	N/A
December 31, 2007	N/A	N/A	N/A

N/A - not applicable, 2009 is the implementation year for GASB Statement No. 45.

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

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

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

NOTE 15 - RISK MANAGEMENT

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

NOTE 16 - RELATED ORGANIZATIONS

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

Titusville Municipal Water Authority	Provides repayment of loan from Pennvest with monthly lease payments made to the Authority by the City. The City has no significant influence over the Authority. The Titusville Municipal Water Authority reports separately.
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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.
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NOTE 16 - RELATED ORGANIZATIONS (CONTINUED)

Titusville Airport Authority	Administers federal funding for airport improvements and maintenance approved by the Federal Aviation Administration. The City has no significant influence over the budget, management, or policies of the Authority. The Titusville Airport Authority reports separately.
Leisure Services Board	Organized for the establishment and maintenance of recreational activities and services. The City has no significant influences over the Board. The Leisure Services Board reports separately.

NOTE 17 - CONTINGENT LIABILITES

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

NOTE 18 - DEFICIT BALANCE IN NET ASSETS

The following funds reflect a deficit balance in net assets at December 31, 2009:

Sewer Fund	<u>\$ 88,171</u>
Refuse Fund	<u>\$ 3,675</u>

The deficit balance is the responsibility of the local government.

NOTE 19 - RESTATEMENT OF FUND BALANCE/NET ASSETS

The beginning net assets of the business-type activities, water fund and sewer fund were restated as follows:

	<u>Business-Type Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Beginning balance	\$ (1,014,757)	\$ (8,863)	\$ (1,196,350)
Reflect Internal Service Funds on governmental activities	(183,113)	-	-
Understatement of accounts receivable/charges for services	88,165	24,614	63,551
Overstatement of accrued interest	<u>122,476</u>	<u>-</u>	<u>122,476</u>
Beginning balance, as restated	<u>\$ (987,229)</u>	<u>\$ 15,751</u>	<u>\$ (1,010,323)</u>

The beginning fund balance/net assets of the governmental activities and general fund were restated as follows:

	<u>Governmental Activities</u>	<u>General Fund</u>
Beginning balance	\$ 2,667,765	\$ 141,396
Reflect Internal Service Funds on governmental activities	183,113	-
Adjustment from cash to modified accrual basis	-	139,577
Understatement in accounts receivable/tax revenue	77,715	-
Overstatement of accounts payable/expenditures	<u>36,108</u>	<u>-</u>
Beginning balance, as restated	<u>\$ 2,964,701</u>	<u>\$ 280,973</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, 2009

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	\$ 2,418,500	\$ 2,418,500	\$ 2,305,164	\$ (113,336)
Interest, rents and royalties	30,000	30,000	9,557	(20,443)
Intergovernmental	2,275	2,275	705,574	703,299
Charges for services	56,250	56,250	108,868	52,618
Licenses and permits	85,625	85,625	73,397	(12,228)
Fines and forfeits	73,300	73,300	59,710	(13,590)
Other	423,635	423,635	23,001	(400,634)
Total revenues	3,089,585	3,089,585	3,285,271	195,686
Expenditures				
General government	474,154	474,154	915,082	(440,928)
Public safety	1,843,684	1,843,684	1,840,859	2,825
Public works	894,792	894,792	790,074	104,718
Human services	2,125	2,125	1,484	641
Culture and recreation	181,995	181,995	185,378	(3,383)
Debt service	47,653	47,653	39,868	7,785
Other	114,744	114,744	74,943	39,801
Total expenditures	3,559,147	3,559,147	3,847,688	(288,541)
Excess (deficiency) of revenues over expenditures	(469,562)	(469,562)	(562,417)	(92,855)
Other financing sources (uses)				
Operating transfers in	515,452	515,452	598,888	83,436
Operating transfers (out)	(45,900)	(45,900)	(45,900)	-
Total other financing sources (uses)	469,552	469,552	552,988	83,436
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(9,429)	(9,429)
Fund balance				
Beginning of year, as restated	280,973	280,973	280,973	-
End of year	\$ 280,973	\$ 280,973	\$ 271,544	\$ (9,429)



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania as of and for the year ended December 31, 2009, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements, and have issued our report thereon dated May 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Titusville, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Titusville, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Titusville, Pennsylvania's internal control over financial reporting.

A 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Titusville, Pennsylvania in a separate letter dated May 18, 2010.

This report is intended solely for the information and use of the Mayor, members of Council, management, federal awarding agencies, the Pennsylvania Department of Community and Economic Development and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

May 18, 2010
Erie, Pennsylvania



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive · Erie, Pennsylvania 16506

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Fund Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
City of Titusville, Pennsylvania
Titusville, Pennsylvania

Compliance

We have audited the compliance of the City of Titusville, Pennsylvania with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have direct and material effect on each of its major federal programs for the year ended December 31, 2009. The City of Titusville, Pennsylvania's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Titusville, Pennsylvania's management. Our responsibility is to express an opinion on the City of Titusville, Pennsylvania's compliance based on our audit.

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

In our opinion, the City of Titusville, Pennsylvania complied, in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as 2009-1.

**Independent Auditors' Report on Compliance With Requirements Applicable to Each
Major Fund Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133
(Continued)**

Internal Control Over Compliance

Management of City of Titusville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Titusville's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Titusville's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2009-1.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Titusville, Pennsylvania's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Titusville, Pennsylvania's responses and, accordingly, we express no opinion on the responses.

**Independent Auditors' Report on Compliance With Requirements Applicable to Each
Major Fund Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133
(Continued)**

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the Commonwealth of Pennsylvania, and federal awarding agencies and is not intended to be, and should not be used by anyone other than these specified parties.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

May 10, 2011
Erie, Pennsylvania

CITY OF TITUSVILLE, PENNSYLVANIA

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2009

1. Summary of auditors' results

- (i) Type of report issued on the financial statements:
Unqualified opinion.
- (ii) Significant deficiencies that were material weaknesses in internal control: N/A
- (iii) The audit disclosed no noncompliance which is material to the financial statements.
- (iv) Significant deficiencies that are material weaknesses in internal control over major programs: N/A
- (v) Type of report issued on compliance for major programs:
Unqualified opinion.
- (vi) Findings which are required to be reported: See finding 2009-1 below.
- (vii) Major programs:
Community Development Block Grant CFDA# 14.228
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- (ix) The City of Titusville did not qualify as a low-risk auditee.

2. Findings required to be reported in accordance with generally accepted government auditing standards

None

3. Findings and questioned costs for Federal awards

Finding 2009-1: Community Development Block Grant, CFDA # 14.228

- Criteria: The City must establish procedures to monitor subrecipients to ascertain whether program funds are used in accordance with program regulations.
- Condition: We noted that the City did not have adequate procedures in place to reconcile pass-through amounts to City records and to the subrecipient contract. There was also a lack of review of the subrecipient's audit reports for compliance and internal control findings.
- Results of Condition: The City does not have documented assurance that program funds were expended in accordance with applicable regulations.

CITY OF TITUSVILLE, PENNSYLVANIA

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2009

(Continued)

- **Recommendations:** The City should implement procedures to properly identify federal awards, review audit reports and follow up on subrecipient compliance issues.
- **Response:** See corrective action plan.

CITY OF TITUSVILLE, PENNSYLVANIA

Corrective Action Plan

For the Year Ended December 31, 2009

The City of Titusville, Pennsylvania respectfully submits the following corrective action plan for the year ended December 31, 2009.

Finding 2009 – 1 Community Development Block Grant CFDA No. 14.228.

Recommendation: The City of Titusville, Pennsylvania should follow the monitoring compliance requirements and perform review of subrecipients.

Action Taken: We concur with the recommendation and will ensure subrecipient monitoring is performed. The Business Manager will be responsible to ensure the corrective actions take place.

CITY OF TITUSVILLE, PENNSYLVANIA

List of Report Distribution

For the Year Ended December 31, 2009

The following is a listing of all agencies to which the audit reports are distributed:

1. United States Bureau of the Census
2. Pennsylvania Bureau of Audits

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