

**CITY OF TITUSVILLE, PENNSYLVANIA**

**AUDIT REPORT**

**DECEMBER 31, 2012**

# CITY OF TITUSVILLE, PENNSYLVANIA

## Table of Contents

For the Year Ended December 31, 2012

	<u>Page</u>
<b>Independent Auditors' Report</b>	3-5
<b>Management's Discussion and Analysis</b>	6-13
<b>Basic Financial Statements</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	15
Statement of Activities	16-17
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds	18
Reconciliation of the Balance Sheet to the	
Statement of Net Position - Governmental Funds	19
Statement of Revenues, Expenditures and Changes in	
Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures,	
and Changes in Fund Balance of Governmental Funds to	
the Statement of Activities	21
Statement of Net Position - Proprietary Funds	22
Statement of Revenues, Expenses and Changes in	
Net Position - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24-25
Statement of Fiduciary Net Position - Fiduciary Funds -	
Trust and Agency	26
Statement of Changes in Fiduciary Net Position -	
Fiduciary Funds - Trust and Agency	27
<b>Notes to Financial Statements</b>	28-49
Combining Statement of Fiduciary Net Position - Fiduciary Funds -	
Trust and Agency	50
Combining Statement of Changes in Fiduciary Net Position -	
Fiduciary Funds - Trust and Agency	51
Schedule of Revenues, Expenditures and Changes in Fund Balance -	
Budget and Actual - General Fund	52
Independent Auditors' Report on Internal Control Over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54

## **Independent Auditors' Report**

Honorable Mayor and Members of Council  
City of Titusville, Pennsylvania

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

**Independent Auditors' Report**  
**(Continued)**

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Independent Auditors' Report**  
**(Continued)**

*Other Information*

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2013 on our consideration of the City of Titusville, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Titusville, Pennsylvania's internal control over financial reporting and compliance.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

April 5, 2013  
Erie, Pennsylvania

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2012**

This discussion and analysis of the City of Titusville's financial performance provides an overview of the City's financial activities for the year ended December 31, 2012 and is intended to serve as an introduction to the City's basic financial statements. Readers are encouraged to consider this information in conjunction with the City's financial statements and the accompanying notes to those financial statements.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased as a result of operations in 2012. In governmental and business-type activities the assets of the City exceeded liabilities resulting in total net position at the close of the fiscal year of \$5,126,042. This represents an increase of 19% over last fiscal year's net position of \$4,309,708.
- As of the end of the year, the City's governmental funds reported combined ending fund balances of \$977,673 or an 11% increase when compared to 2011.
- In the City's business-type activities, operating revenues decreased by \$28,444 (less than 1%) while operating expenses increased by \$128,496 (or 7%)

**THE FINANCIAL STATEMENTS**

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

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

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

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **Government-Wide Financial Statements**

The Statement of Net Position and the Statement of Activities provide information about City government-wide and business-type activities and present a longer-term view of the City's finances. These two statements report the City's net position and changes in them. Net position is the difference between assets and 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 position are one indicator of whether its financial health is improving or deteriorating.

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

*Government 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 grants finance these activities.

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

### **Fund Financial Statements**

The fund financial statements provide detailed information about all the funds – not the City as a whole. Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the City. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. The City's fund financial statements 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 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 15-21.*

### Proprietary Funds

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

*Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and refuse.

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

*The proprietary fund financial statements can be found on pages 22-25 of the report.*

### Fiduciary Funds

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

*The fiduciary fund financial statements can be found on pages 26-27 of the report.*

### **Notes to the Financial Statements**

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements. (See pages 28-49)

## Basis of Accounting

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

## THE CITY AS A WHOLE - Government-Wide Financial Analysis

### City of Titusville, Pennsylvania Summary of Net Position at December 31, 2012

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>		<i>Total % Change 11-12</i>
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	
<b>Assets</b>							
Current and other assets	\$ 1,024,308	\$ 1,128,979	\$ 2,969,177	\$ 3,742,043	\$ 3,993,485	\$ 4,871,022	
Capital assets, (net of depreciation)	\$ 2,105,751	\$ 1,974,193	\$ 4,345,360	\$ 4,248,708	\$ 6,451,111	\$ 6,222,901	
<b>Total Assets</b>	<b>\$ 3,130,059</b>	<b>\$ 3,103,172</b>	<b>\$ 7,314,537</b>	<b>\$ 7,990,751</b>	<b>\$ 10,444,596</b>	<b>\$ 11,093,923</b>	<b>6.2%</b>
<b>Liabilities</b>							
Current and other liabilities	\$ 52,391	\$ 50,616	\$ 349,234	\$ 347,494	\$ 401,625	\$ 398,110	
Long-term debt outstanding	\$ 1,234,067	\$ 1,356,449	\$ 4,499,196	\$ 4,198,322	\$ 5,733,263	\$ 5,554,771	
<b>Total Liabilities</b>	<b>\$ 1,286,458</b>	<b>\$ 1,407,065</b>	<b>\$ 4,848,430</b>	<b>\$ 4,545,816</b>	<b>\$ 6,134,888</b>	<b>\$ 5,952,881</b>	<b>-3.0%</b>
Deferred Inflows of Resources	\$ -	\$ -	\$ -	\$ 15,000	\$ -	\$ 15,000	
<b>Net Position</b>							
Investment in capital assets (net of related debt)	\$ 2,045,888	\$ 1,934,597	\$ (404,423)	\$ (213,054)	\$ 1,641,465	\$ 1,721,543	
Restricted	\$ -	\$ 47,064	\$ -	\$ -	\$ -	\$ 47,064	
Unrestricted	\$ (202,287)	\$ (285,554)	\$ 2,870,530	\$ 3,642,989	\$ 2,668,243	\$ 3,357,435	
<b>Total Net Position</b>	<b>\$ 1,843,601</b>	<b>\$ 1,696,107 *</b>	<b>\$ 2,466,107</b>	<b>\$ 3,429,935</b>	<b>\$ 4,309,708</b>	<b>\$ 5,126,042</b>	<b>19.3%</b>
Total Liabilities, Deferred Inflows of Resources, & Net Position	\$ 3,130,059	\$ 3,103,172	\$ 7,314,537	\$ 7,990,751	\$ 10,444,596	\$ 11,093,923	6.2%

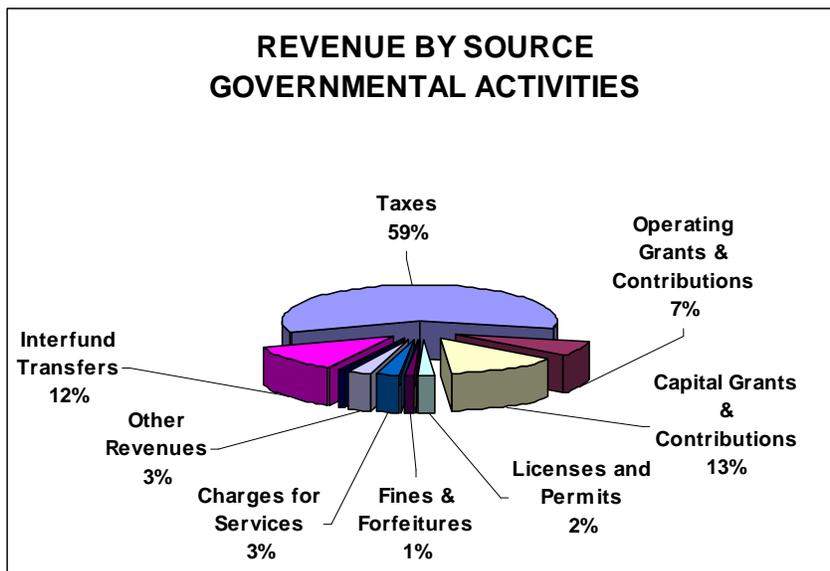
Net position may serve over time as a useful indicator of financial position. In the case of the City, assets exceeded liabilities by \$5,126,042, an increase of 19% from 2011. Net position of the City's governmental activities decreased 8% to \$1,696,107 while Business-Type Activities Net Position increased \$963,828.

The City's net assets reflect investment in capital assets (e.g. land, buildings, improvements, infrastructure and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are *not* available for future spending. Typically, unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

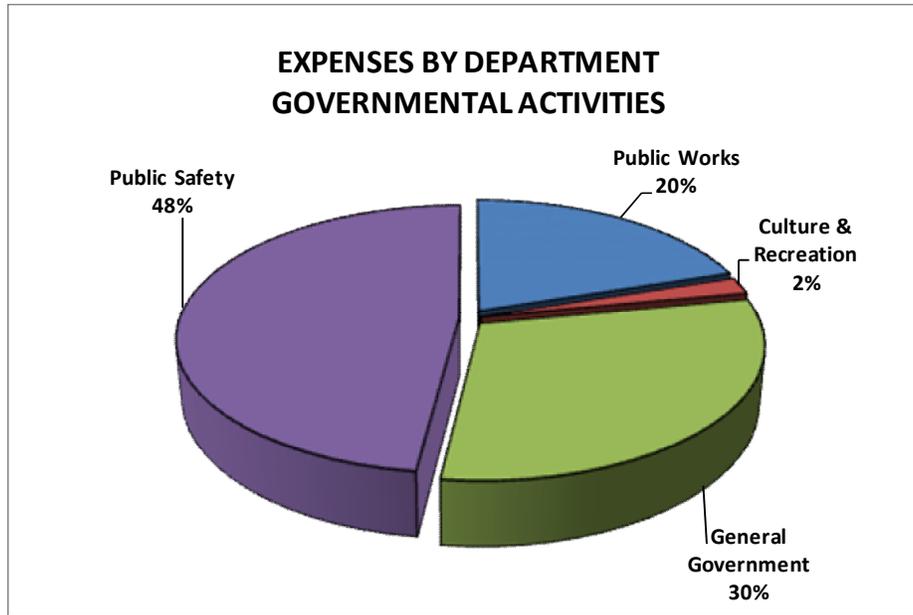
**City of Titusville, Pennsylvania**  
**Changes in Net Position for the Year Ended December 31, 2012**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program Revenues						
Charges for services	\$ 112,352	\$ 112,885	\$ 3,170,406	\$ 3,189,604	\$ 3,282,758	\$ 3,302,489
Operating grant and contributions	268,691	424,322	-	-	268,691	424,322
Capital grants and contributions	506,374	514,787	-	-	506,374	514,787
General Revenues						
Taxes	2,350,117	2,344,848	-	-	2,350,117	2,344,848
Licenses and permits	81,887	76,945	-	-	81,887	76,945
Fines and forfeits	41,876	52,447	-	-	41,876	52,447
Interest earnings	2,988	16,193	6,989	13,749	9,977	29,942
Miscellaneous	104,666	34,325	57,737	66,983	162,403	101,308
Sale of fixed assets	18,360	13,336	-	-	18,360	13,336
Transfers	466,418	489,900	(466,418)	(489,900)	-	-
<b>Total Revenues</b>	<b>3,953,729</b>	<b>4,079,988</b>	<b>2,768,714</b>	<b>2,780,436</b>	<b>6,722,443</b>	<b>6,860,424</b>
<b>Expenses</b>						
General government	1,220,739	1,113,406	-	-	1,220,739	1,113,406
Public safety	1,957,454	2,069,538	-	-	1,957,454	2,069,538
Public works	828,537	729,329	-	-	828,537	729,329
Human services	-	2,078	-	-	-	2,078
Culture and recreation	94,493	78,044	-	-	94,493	78,044
Interest	-	-	-	-	-	-
Water, sewer and refuse Facilities	-	-	1,804,886	1,689,194	1,804,886	1,689,194
<b>Total Expenses</b>	<b>4,101,223</b>	<b>3,992,395</b>	<b>1,804,886</b>	<b>1,689,194</b>	<b>5,906,109</b>	<b>5,681,589</b>
Change in Net Position	(147,494)	87,593	963,828	1,091,242	816,334	1,178,835
Net Position, Beginning of Year	1,843,601	1,756,008	2,466,107	1,374,865	4,309,708	3,130,873
Net Position, End of Year	\$ 1,696,107	\$ 1,843,601	\$ 3,429,935	\$ 2,466,107	\$ 5,126,042	\$ 4,309,708

The City's governmental activities rely heavily upon tax revenue (59%) to fund its operations. The cost of governmental activities totaled \$4,101,223 for the year ended December 31, 2012.

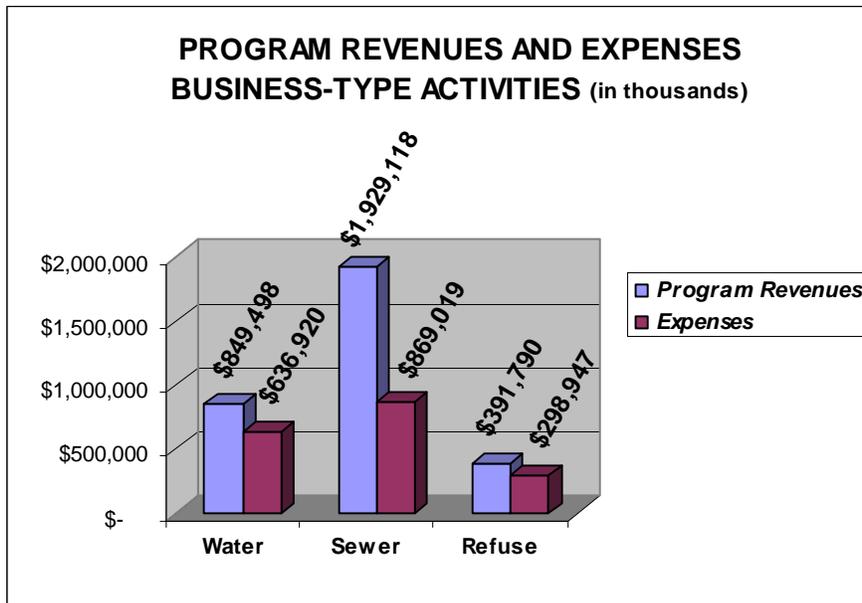


The following chart presents governmental expenses by department:



### Business-Type Activities

Business-Type activities (Water, Sewer, Refuse) increased the City’s net position by \$963,828, accounting for the majority of growth in the City’s total net position. The following chart compares program revenues and expenses for the City’s business-type activities.



## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Fund

The City's investment in capital assets for its governmental and business type activities as of December 31, 2012, amounts to \$5,880,579 (net of depreciation). This investment in capital assets includes land, buildings and building improvements, equipment and systems, and construction in progress.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2011	2012	2011	2012	2011	2012
Land	\$170,813	\$170,813	\$32,245	\$32,245	\$203,058	\$203,058
Construction in Progress	\$0	\$0	\$42,688	\$139,264	\$42,688	\$139,264
	<u>\$170,813</u>	<u>\$170,813</u>	<u>\$74,933</u>	<u>\$171,509</u>	<u>\$245,746</u>	<u>\$342,322</u>
Buildings/Improvements	\$4,968,670	\$4,968,670	\$6,882,079	\$6,882,079	\$11,850,749	\$11,850,749
Equipment and Systems	\$2,753,311	\$2,762,269	\$6,035,404	\$6,061,814	\$8,788,715	\$8,824,083
	<u>\$7,721,981</u>	<u>\$7,730,939</u>	<u>\$12,917,483</u>	<u>\$12,943,893</u>	<u>\$20,639,464</u>	<u>\$20,674,832</u>
Less Accumulated Depreciation	(\$5,787,043)	(\$5,927,559)	(\$8,647,056)	(\$8,866,694)	(\$14,434,099)	(\$14,794,253)
Total Depreciated Capital Assets	<u>\$1,934,938</u>	<u>\$1,803,380</u>	<u>\$4,270,427</u>	<u>\$4,077,199</u>	<u>\$6,205,365</u>	<u>\$5,880,579</u>

### *Long-Term Debt*

At the end of the current fiscal year, the City had total debt of \$4,461,762. Total debt is down by 7% from 2011.

Additional information on the City's long-term debt and related accrued interest can be found in the Notes to Financial Statements, on pages 43-45 of this report.

## ECONOMIC FACTORS AND FUTURE YEAR BUDGETS

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

The City of Titusville will enter another tough budget year in 2014. Fire and Police Pension Minimum Municipal Obligation (MMO) costs will see a significant increase with 2013 as the last year the City was able to opt in to Act 44 reductions. Major increases to insurance costs due to Firefighter Cancer Presumption laws covered by credits exhausted in 2013 will have to be financed another way.

We are fortunate that drastic cuts and employee layoffs were not necessary for FY 2013 but look to 2014 with caution that some cuts or a tax increase may be necessary in FY 2014. We will continue to spend conservatively, aware that the retirement system, health insurance, and general operating costs will continue to rise.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Titusville Finance Director, 107 N. Franklin Street, Titusville, Pennsylvania 16354, via email at [adminserves@cityoftitusvillepa.gov](mailto:adminserves@cityoftitusvillepa.gov) or by phone at 814-827-5300 Extension 303.

**This Page Intentionally Left Blank**

# CITY OF TITUSVILLE, PENNSYLVANIA

## Statement of Net Position

December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 860,908	\$ 3,596,970	\$ 4,457,878
Accounts receivable			
Taxes, net of allowance for doubtful accounts	215,365	-	215,365
City services	-	138,876	138,876
Other	49,122	9,781	58,903
Internal balances	3,584	(3,584)	-
<b>Total Current Assets</b>	<b>1,128,979</b>	<b>3,742,043</b>	<b>4,871,022</b>
<b>Noncurrent Assets</b>			
Land	170,813	32,245	203,058
Construction in progress	-	139,264	139,264
Capital assets, net	1,803,380	4,077,199	5,880,579
<b>Total Non-Current Assets</b>	<b>1,974,193</b>	<b>4,248,708</b>	<b>6,222,901</b>
<b>Total Assets</b>	<b>\$ 3,103,172</b>	<b>\$ 7,990,751</b>	<b>\$ 11,093,923</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Vouchers payable and other current liabilities	\$ 16,903	\$ 47,700	\$ 64,603
Accrued compensated absences	13,348	9,014	22,362
Notes payable	-	290,780	290,780
Capital lease obligations	20,365	-	20,365
<b>Total Current Liabilities</b>	<b>50,616</b>	<b>347,494</b>	<b>398,110</b>
<b>Non-Current Liabilities</b>			
Accrued compensated absences	253,618	27,340	280,958
OPEB obligation	1,083,600	-	1,083,600
Notes payable	-	4,170,982	4,170,982
Capital lease obligations	19,231	-	19,231
<b>Total Non-Current liabilities</b>	<b>1,356,449</b>	<b>4,198,322</b>	<b>5,554,771</b>
<b>Total Liabilities</b>	<b>1,407,065</b>	<b>4,545,816</b>	<b>5,952,881</b>
<b>Deferred Inflows of Resources</b>			
Unearned revenue	-	15,000	15,000
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>15,000</b>	<b>15,000</b>
<b>Net Position</b>			
Net investment in capital assets	1,934,597	(213,054)	1,721,543
Restricted for:			
Liquid Fuels	47,064	-	47,064
Unrestricted (deficit)	(285,554)	3,642,989	3,357,435
<b>Total Net Position</b>	<b>1,696,107</b>	<b>3,429,935</b>	<b>5,126,042</b>
<b>Total Liabilities, Deferred Inflows of Resources,     and Net Position</b>	<b>\$ 3,103,172</b>	<b>\$ 7,990,751</b>	<b>\$ 11,093,923</b>

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**

**Statement of Activities**

**For the Year Ended December 31, 2012**

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,220,739	\$ 68,515	\$ 268,691	\$ 304,575
Public safety	1,957,454	22,854	-	40,122
Public works	828,537	20,683	-	141,427
Culture and recreation	94,493	300	-	20,250
Total Governmental Activities	<u>4,101,223</u>	<u>112,352</u>	<u>268,691</u>	<u>506,374</u>
Business-type activities				
Water fund	636,920	849,498	-	-
Sewer fund	869,019	1,929,118	-	-
Refuse fund	298,947	391,790	-	-
Total Business-Type Activities	<u>1,804,886</u>	<u>3,170,406</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 5,906,109</u>	<u>\$ 3,282,758</u>	<u>\$ 268,691</u>	<u>\$ 506,374</u>
General revenues				
Taxes				
Licenses and permits				
Fines and forfeitures				
Interest earnings				
Other revenues				
Sale of Fixed Assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Position				
Net position				
Beginning of Year				
End of Year				

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (578,958)	\$ -	\$ (578,958)
(1,894,478)	-	(1,894,478)
(666,427)	-	(666,427)
(73,943)	-	(73,943)
<u>(3,213,806)</u>	<u>-</u>	<u>(3,213,806)</u>
-	212,578	212,578
-	1,060,099	1,060,099
-	92,843	92,843
-	<u>1,365,520</u>	<u>1,365,520</u>
<u>(3,213,806)</u>	<u>1,365,520</u>	<u>(1,848,286)</u>
2,350,117	-	2,350,117
81,887	-	81,887
41,876	-	41,876
2,988	6,989	9,977
104,666	57,737	162,403
18,360	-	18,360
466,418	(466,418)	-
<u>3,066,312</u>	<u>(401,692)</u>	<u>2,664,620</u>
(147,494)	963,828	816,334
<u>1,843,601</u>	<u>2,466,107</u>	<u>4,309,708</u>
<u>\$ 1,696,107</u>	<u>\$ 3,429,935</u>	<u>\$ 5,126,042</u>

**CITY OF TITUSVILLE, PENNSYLVANIA**

**Balance Sheet  
Governmental Funds  
December 31, 2012**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 527,988	\$ 47,064	\$ 285,856	\$ 860,908
Taxes receivable, net	215,365	-	-	215,365
Interfund receivable	3,584	-	-	3,584
Accounts receivable	49,122	-	-	49,122
<b>Total Assets</b>	<b>\$ 796,059</b>	<b>\$ 47,064</b>	<b>\$ 285,856</b>	<b>\$ 1,128,979</b>
<b>Liabilities</b>				
Vouchers payable and other current liabilities	\$ 16,903	\$ -	\$ -	\$ 16,903
<b>Total Liabilities</b>	<b>16,903</b>	<b>-</b>	<b>-</b>	<b>16,903</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	134,403	-	-	134,403
<b>Total Deferred Inflows of Resources</b>	<b>134,403</b>	<b>-</b>	<b>-</b>	<b>134,403</b>
<b>Fund Balance</b>				
Restricted				
Liquid fuels	-	47,064	-	47,064
Assigned				
Capital projects	-	-	285,856	285,856
Unassigned	644,753	-	-	644,753
<b>Total Fund Balance</b>	<b>644,753</b>	<b>47,064</b>	<b>285,856</b>	<b>977,673</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 796,059</b>	<b>\$ 47,064</b>	<b>\$ 285,856</b>	<b>\$ 1,128,979</b>

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**December 31, 2012**

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

Fund balances - total governmental funds	\$	977,673
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the governmental funds		1,974,193
Certain long-term assets are not available to pay current period expenditures and, therefore, are unearned in the funds unavailable revenues		134,403
Other post-employment benefits are reflected on the Statement of Net Position, but are not considered a current expenditure for the fund statements		(1,083,600)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Compensated absences	\$	(266,966)
Long-term debt		(39,596)
		(306,562)
Net position of governmental activities	\$	1,696,107

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, 2012**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 2,345,621	\$ -	\$ -	\$ 2,345,621
Interest, rents and royalties	2,709	71	208	2,988
Intergovernmental	598,266	141,427	35,372	775,065
Charges for services	112,352	-	-	112,352
Licenses and permits	81,887	-	-	81,887
Fines and forfeitures	41,876	-	-	41,876
Contributions and donations	5,850	-	-	5,850
Other	21,355	1,584	75,877	98,816
<b>Total Revenues</b>	<b>3,209,916</b>	<b>143,082</b>	<b>111,457</b>	<b>3,464,455</b>
<b>Expenditures</b>				
General government	711,334	-	94,334	805,668
Public safety	1,958,439	-	56,142	2,014,581
Public works	699,127	130,882	5,992	836,001
Culture and recreation	94,493	-	-	94,493
Debt service	25,563	-	-	25,563
Other	74,068	-	-	74,068
<b>Total Expenditures</b>	<b>3,563,024</b>	<b>130,882</b>	<b>156,468</b>	<b>3,850,374</b>
Excess (deficiency) of revenues over expenditures	(353,108)	12,200	(45,011)	(385,919)
<b>Other financing sources (uses)</b>				
Sale of fixed assets	18,360	-	-	18,360
Operating transfers in	505,500	-	-	505,500
Operating transfers out	-	-	(39,082)	(39,082)
<b>Total Other Financing Sources (Uses)</b>	<b>523,860</b>	<b>-</b>	<b>(39,082)</b>	<b>484,778</b>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	170,752	12,200	(84,093)	98,859
<b>Fund balance</b>				
Beginning of Year	474,001	34,864	369,949	878,814
End of Year	<u>\$ 644,753</u>	<u>\$ 47,064</u>	<u>\$ 285,856</u>	<u>\$ 977,673</u>

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, 2012**

Net change in fund balances - total governmental funds	\$	98,859
Capital outlay, reported as expenditures in the governmental funds, are shown as capital assets in Statement of Net Position		66,583
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities		(198,141)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
Unavailable revenue - property taxes		4,496
Repayment of long-term debt is reported as expenditures in governmental funds, but as a reduction of long-term liabilities in the Statement of Net Position. In the current year, these amounts are:		
Note payable	\$	1,520
Capital lease obligation		18,747
Change in OPEB		(153,600)
Change in compensated absences		14,042
		(119,291)
Change in net position of governmental activities	\$	(147,494)

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2012**

	Enterprise Funds			
	Water	Sewer	Refuse	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 512,929	\$ 2,989,714	\$ 94,327	\$ 3,596,970
Accounts receivable, net				
City services	38,258	94,046	6,572	138,876
Other	8,402	1,379	-	9,781
<b>Total Current Assets</b>	<b>559,589</b>	<b>3,085,139</b>	<b>100,899</b>	<b>3,745,627</b>
<b>Non-Current Assets</b>				
Land	6,003	26,242	-	32,245
Construction in progress	-	139,264	-	139,264
Capital assets, net	129,955	3,947,244	-	4,077,199
<b>Total Non-Current Assets</b>	<b>135,958</b>	<b>4,112,750</b>	<b>-</b>	<b>4,248,708</b>
<b>Total Assets</b>	<b>\$ 695,547</b>	<b>\$ 7,197,889</b>	<b>\$ 100,899</b>	<b>\$ 7,994,335</b>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
<b>Current Liabilities</b>				
Vouchers payable and other current liabilities	\$ 14,447	\$ 6,693	\$ 26,560	\$ 47,700
Interfund payable	3,231	353	-	3,584
Accrued compensated absences	3,169	5,845	-	9,014
Notes payable	12,141	278,639	-	290,780
<b>Total Current Liabilities</b>	<b>32,988</b>	<b>291,530</b>	<b>26,560</b>	<b>351,078</b>
<b>Non-Current Liabilities</b>				
Accrued compensated absences	15,473	11,867	-	27,340
Notes payable	36,424	4,134,558	-	4,170,982
<b>Total Non-Current Liabilities</b>	<b>51,897</b>	<b>4,146,425</b>	<b>-</b>	<b>4,198,322</b>
<b>Total Liabilities</b>	<b>84,885</b>	<b>4,437,955</b>	<b>26,560</b>	<b>4,549,400</b>
<b>Deferred Inflows of Resources</b>				
Unearned Revenue	15,000	-	-	15,000
<b>Total Deferred Inflows of Resources</b>	<b>15,000</b>	<b>-</b>	<b>-</b>	<b>15,000</b>
<b>Net Position</b>				
Net investment in capital assets	87,393	(300,447)	-	(213,054)
Unrestricted	508,269	3,060,381	74,339	3,642,989
<b>Total Net Position</b>	<b>595,662</b>	<b>2,759,934</b>	<b>74,339</b>	<b>3,429,935</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 695,547</b>	<b>\$ 7,197,889</b>	<b>\$ 100,899</b>	<b>\$ 7,994,335</b>

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Operating Revenues				
Charges for services	\$ 849,498	\$ 1,929,118	\$ 391,790	\$ 3,170,406
Other revenues	30,327	24,003	3,407	57,737
Total Operating Revenues	879,825	1,953,121	395,197	3,228,143
Operating Expenses				
Salaries and wages	170,528	185,579	-	356,107
Employee benefits	114,096	90,320	-	204,416
Utilities	139,686	75,419	-	215,105
Materials and supplies	64,105	28,009	-	92,114
Contractual services	74,330	157,920	293,783	526,033
Equipment	20,456	41,030	-	61,486
Depreciation	17,385	202,253	-	219,638
Insurance	26,836	26,840	-	53,676
Administrative	9,498	16,701	5,164	31,363
Total Operating Expenses	636,920	824,071	298,947	1,759,938
Operating Income (Loss)	242,905	1,129,050	96,250	1,468,205
Non-Operating Revenues (Expenses)				
Interest income	797	5,997	195	6,989
Interest expense	-	(44,948)	-	(44,948)
Total Non-Operating Revenues (Expenses)	797	(38,951)	195	(37,959)
Income (Loss) Before Transfers	243,702	1,090,099	96,445	1,430,246
Other Financing Sources				
Transfers in	12,672	26,410	-	39,082
Transfers (out)	(217,000)	(218,500)	(70,000)	(505,500)
Change in Net Position	39,374	898,009	26,445	963,828
Net Position				
Beginning of Year	556,288	1,861,925	47,894	2,466,107
End of Year	\$ 595,662	\$ 2,759,934	\$ 74,339	\$ 3,429,935

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**

**Statement of Cash Flows**

**Proprietary Funds**

**For the Year Ended December 31, 2012**

	Enterprise Funds			
	Water	Sewer	Refuse	Total
Cash flows from operating activities:				
Receipts from users	\$ 894,825	\$ 1,970,656	\$ 395,197	\$ 3,260,678
Payments to suppliers	(140,203)	(185,780)	(293,783)	(619,766)
Payments for personnel services	(298,002)	(275,899)	-	(573,901)
Payments for operating expenses	(196,476)	(159,990)	(5,164)	(361,630)
Net cash provided by operating activities	<u>260,144</u>	<u>1,348,987</u>	<u>96,250</u>	<u>1,705,381</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	12,672	26,410	-	39,082
Transfers to other funds	(217,000)	(218,500)	(70,000)	(505,500)
Net cash provided (used) by noncapital and related activities	<u>(204,328)</u>	<u>(192,090)</u>	<u>(70,000)</u>	<u>(466,418)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(122,986)	-	(122,986)
Repayment on general obligation bonds payable	(12,141)	-	-	(12,141)
Repayment on notes payable	-	(275,880)	-	(275,880)
Interest paid on capital debt	-	(44,948)	-	(44,948)
Net cash provided (used) by financing activities	<u>(12,141)</u>	<u>(443,814)</u>	<u>-</u>	<u>(455,955)</u>
Cash flows from investing activities:				
Interest income	797	5,997	195	6,989
Net cash from investing activities	<u>797</u>	<u>5,997</u>	<u>195</u>	<u>6,989</u>
Net increase (decrease) in cash	44,472	719,080	26,445	789,997
Cash balance, January 1, 2012	<u>468,457</u>	<u>2,270,634</u>	<u>67,882</u>	<u>2,806,973</u>
Cash balance, December 31, 2012	<u>\$ 512,929</u>	<u>\$ 2,989,714</u>	<u>\$ 94,327</u>	<u>\$ 3,596,970</u>

See accompanying notes to financial statements.

Schedule continued on next page.

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**  
**(Continued)**

	Enterprise Funds			Total
	Water	Sewer	Refuse	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income	\$ 242,905	\$ 1,129,050	\$ 96,250	\$ 1,468,205
Adjustments to reconcile operating income (loss) to net cash (used for) operating activities:				
Depreciation	17,385	202,253	-	219,638
Changes in compensated absences	(13,378)	-	-	(13,378)
Changes in assets, liabilities, and deferred inflows				
(Increase) decrease in receivables	-	17,535	-	17,535
Increase (decrease) in due to other funds	(392)	(12)	-	(404)
Increase (decrease) in payables	(1,376)	161	-	(1,215)
Increase (decrease) in unearned revenue	15,000	-	-	15,000
Net cash provided (used) by operations	<u>\$ 260,144</u>	<u>\$ 1,348,987</u>	<u>\$ 96,250</u>	<u>\$ 1,705,381</u>
Supplemental disclosures of cash flows information:				
Cash paid during the year ended for:				
Interest	<u>\$ -</u>	<u>\$ 44,948</u>	<u>\$ -</u>	<u>\$ 44,948</u>

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**

**Statement of Fiduciary Net Position**

**Fiduciary Funds - Trust and Agency**

**December 31, 2012**

Assets	
Cash and cash equivalents	\$ 174,515
Investments	<u>8,875,676</u>
Total Assets	<u><u>\$ 9,050,191</u></u>
Net Position	
Held in trust for pension benefits and other purposes	<u><u>\$ 9,050,191</u></u>

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds - Trust and Agency**  
**For the Year Ended December 31, 2012**

Additions	
Contributions	
Contributions - employees	\$ 79,960
Contributions - state and city	<u>531,331</u>
Total Contributions	<u>611,291</u>
Investment income	
Net change in fair value of investments	848,128
Interest and dividends	<u>234,431</u>
Net Investment Income	<u>1,082,559</u>
Total Additions	<u>1,693,850</u>
Deductions	
Benefits	962,098
Administrative expenses	<u>43,962</u>
Total Deductions	<u>1,006,060</u>
Change in Net Position	687,790
Net Position	
Beginning of Year	<u>8,362,401</u>
End of Year	<u><u>\$ 9,050,191</u></u>

See accompanying notes to financial statements.

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Notes to Financial Statements**  
**December 31, 2012**

**NOTE 1 - ENTITY**

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

**NOTE 2 - REPORTING ENTITY**

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

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Government-wide Financial Statements

Government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole, excluding fiduciary funds such as employee pension plans. For the most part, the effect of interfund activity has been removed from these statements except for interfund charges, see Note 13. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or part with fees charged to external customers.

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

### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

#### Fund Financial Statements

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

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fund Types and Major Funds

#### Governmental Fund Types

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

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

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted (by the Council or otherwise) to expenditures for specified purposes. The City of Titusville, Pennsylvania's special revenue fund is the liquid fuels fund, which monies awarded are used for public works expenditures including street improvements and lighting.

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

#### Proprietary Funds

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

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

#### Fiduciary Fund Types

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

### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### Budgetary Information

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

#### Excess of Expenditures over Appropriations

General fund expenditures exceeded the budget by \$234,221. This is mainly related to CDBG funds received and passed through to the Redevelopment Authority. These revenues and expenditures are not budgeted.

#### Assets, Liabilities, Deferred Inflows and Net position/Fund Balance

##### Cash and Cash Equivalents

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

##### Capital Assets

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

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

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

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Receivables and Payables**

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

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

Long-Term Obligations

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

In the fund financial statements, governmental fund types 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)

### Deferred Inflows of Resources

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

### Net Position Flow Assumptions

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

### Fund Balance Flow Assumptions

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

### Fund Balance Policies

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

### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

#### Fund Balance

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

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

#### Encumbrances

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

#### Compensated Absences

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

### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### Use of Estimates

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

#### Credit Risk

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

### **NOTE 4 - CASH AND INVESTMENTS**

Pennsylvania statutes provide for investment of Governmental Funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

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

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

Investments are reported at fair value, which is determined using selected basis. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value.

**NOTE 4 - CASH AND INVESTMENTS (CONTINUED)**

Cash and Cash Equivalents

Custodial credit risk is credit that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2012, \$4,048,140 of the City's bank balance of \$4,548,140 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the City's name	<u>\$ 4,048,140</u>
--	---------------------

Reconciliation to Financial Statements

Insured amount	\$ 500,000
Uninsured amount	4,048,140
Add: deposits in transit	-
Less: outstanding checks	<u>(90,762)</u>
Carrying amount of bank balances	4,457,378
Plus: petty cash	<u>500</u>
Total cash and cash equivalents per financial statements	<u>\$ 4,457,878</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 2012 were 71.25 mills and 20.713 mills for land and buildings, respectively.

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

Taxes Receivable

Taxes receivable consisted of the following at December 31, 2012:

Delinquent real estate taxes	\$ 134,403
Per capita tax	6,119
Earned income tax receivable	77,276
Allowance for doubtful accounts	<u>(2,433)</u>
	<u>\$ 215,365</u>

**NOTE 5 - PROPERTY TAX REVENUES AND RECEIVABLES (CONTINUED)**

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At December 31, 2012, the amount of unavailable revenue - property taxes reported as deferred inflows of resources is \$134,403.

**NOTE 6 - ACCOUNTS RECEIVABLE - OTHER**

Accounts receivable - other consisted of the following at December 31, 2012:

Governmental Funds	
General Funds	<u>\$ 49,122</u>
Proprietary Funds	
Sewer Fund	\$ 1,379
Water Fund	<u>8,402</u>
	<u>\$ 9,781</u>

**NOTE 7 - ACCOUNTS RECEIVABLE - CITY SERVICES**

Accounts receivable as of December 31, 2012 for city services, including the applicable allowance for uncollectible accounts, are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Accounts receivable	\$ 50,258	\$ 109,046	\$ 6,572	\$ 165,876
Less allowance for uncollectibles	<u>(12,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>(27,000)</u>
	<u>\$ 38,258</u>	<u>\$ 94,046</u>	<u>\$ 6,572</u>	<u>\$ 138,876</u>

## NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

### Proprietary Funds

The following is a summary of the proprietary funds capital assets at December 31, 2012:

	Balance at 12/31/11	Additions	Deletions	Balance at 12/31/12
Capital assets not being depreciated:				
Land	\$ 32,245	\$ -	\$ -	\$ 32,245
Construction in progress	42,688	96,576	-	139,264
	<u>\$ 74,933</u>	<u>\$ 96,576</u>	<u>\$ -</u>	<u>\$ 171,509</u>
Capital assets being depreciated:				
Buildings and building improvements	\$ 6,882,079	\$ -	\$ -	\$ 6,882,079
Equipment and systems	6,035,404	26,410	-	6,061,814
	12,917,483	26,410	-	12,943,893
Accumulated depreciation	(8,647,056)	(219,638)	-	(8,866,694)
Total capital assets being depreciated, net	<u>\$ 4,270,427</u>	<u>\$ (193,228)</u>	<u>\$ -</u>	<u>\$ 4,077,199</u>
Depreciation expense for the year ended December 31, 2012				
Water fund	\$ 17,385			
Sewer fund	202,253			
	<u>\$ 219,638</u>			

### Governmental Activities

The following is a summary of the changes in capital assets during the year ended December 31, 2012:

	Balance at 12/31/11	Additions	Deletions	Balance at 12/31/12
Capital assets not being depreciated:				
Land	\$ 170,813	\$ -	\$ -	\$ 170,813
	<u>\$ 170,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,813</u>
Capital assets being depreciated:				
Buildings and building improvements	\$ 4,968,670	\$ -	\$ -	\$ 4,968,670
Equipment and systems	2,753,311	66,583	(57,625)	2,762,269
	7,721,981	66,583	(57,625)	7,730,939
Accumulated depreciation	(5,787,043)	(198,141)	57,625	(5,927,559)
Total capital assets being depreciated, net	<u>\$ 1,934,938</u>	<u>\$ (131,558)</u>	<u>\$ -</u>	<u>\$ 1,803,380</u>
Depreciation expense for the year ended December 31, 2012				
General government	<u>\$ 198,141</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 2012, plan participants are required to contribute \$.50 per hour for each hour worked to the Plan. The City is required to contribute \$1.00 per hour for each hour worked to the Plan. Provisions and contribution rates for this plan are established and may be amended by City Council.

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

### **Summary of Significant Accounting Policies**

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

#### **Investments**

The Plan's investments at December 31, 2012 are as follows:

	<u>Fair Value</u>
Fixed Income	\$ 1,201,790
Equities	<u>822,099</u>
	<u>\$ 2,023,889</u>

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

#### **1. Plan Description**

The City of Titusville's firemen and police participate in single-employer defined benefit pension plans. Each plan includes provisions for retirement, disability and death benefits for its members and their beneficiaries. City Ordinance No. 141 (Police) and 143 (Fire) assigns the Authority to establish and amend benefit provisions to City Council. A separate financial report

## NOTE 9 - PENSION PLANS (CONTINUED)

is not issued for the City of Titusville Police and Fire Pension Plans. The financial statements of the Plan are included in the financial statements of the City of Titusville.

### Plan Membership

Membership information for each plan consisted of the following at January 1, 2011, which is the most recent actuarial evaluation. These biannual Actuarial Valuation Reports prepared by Conrad Siegel Actuaries reflect the following plan membership:

	<u>Police</u>	<u>Firemen</u>
Retirees, Beneficiaries & Disabled Receiving Benefits	22	18
Terminated Members with Vested Benefits	-	1
Active Plan Members	10	9

### 2. Summary of Significant Accounting Policies

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

Valuation of Investments - Investments are stated at market value.

### 3. Contributions

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

### 4. Investments

The Plan’s investments at December 31, 2012 are as follows:

	<u>Fair Value</u>	
	<u>Police Pension</u>	<u>Fire Pension</u>
Fixed Income	\$ 1,424,563	\$ 397,465
Equities	2,958,500	2,071,259
	<u>\$ 4,383,063</u>	<u>\$ 2,468,724</u>

**NOTE 9 - PENSION PLANS (CONTINUED)**

**5. Reserves**

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

## NOTE 9 - PENSION PLANS (CONTINUED)

### 6. Trend Information

<u>A. Schedule of Employer Contribution</u>	<u>Year Ended December 31,</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
Police Pension	2005	\$ 208,921	100%
	2006	\$ 243,227	100%
	2007	\$ 241,556	100%
	2008	\$ 254,183	100%
	2009	\$ 250,384	100%
	2010	\$ 260,568	100%
	2011	\$ 326,108	100%
	2012	\$ 317,492	100%
Fire Pension	2005	\$ 178,522	100%
	2006	\$ 182,717	100%
	2007	\$ 184,115	100%
	2008	\$ 161,496	100%
	2009	\$ 166,383	100%
	2010	\$ 178,875	100%
	2011	\$ 200,927	100%
	2012	\$ 162,191	100%

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<u>Police Pension</u>						
1/1/2001	\$ 4,280,461	\$ 4,672,936	\$ 392,475	91.60%	\$ 546,749	71.78%
1/1/2003	\$ 3,986,545	\$ 5,249,416	\$ 1,262,871	75.94%	\$ 594,211	212.53%
1/1/2005	\$ 4,495,885	\$ 5,779,582	\$ 1,283,697	77.80%	\$ 604,734	212.30%
1/1/2007	\$ 5,321,375	\$ 6,282,698	\$ 961,323	84.70%	\$ 608,686	158.00%
1/1/2009	\$ 4,097,309	\$ 6,777,467	\$ 2,680,158	60.50%	\$ 536,350	499.70%
1/1/2011	\$ 4,714,421	\$ 7,343,375	\$ 2,628,954	64.20%	\$ 535,769	490.70%
<u>Firemen's Pension</u>						
1/1/2001	\$ 2,776,751	\$ 3,348,998	\$ 572,247	82.91%	\$ 173,637	329.57%
1/1/2003	\$ 2,134,605	\$ 3,610,563	\$ 1,475,958	59.12%	\$ 299,886	492.17%
1/1/2005	\$ 2,522,518	\$ 3,966,117	\$ 1,443,599	63.60%	\$ 294,194	490.70%
1/1/2007	\$ 3,000,164	\$ 4,170,056	\$ 1,169,892	71.90%	\$ 327,911	356.80%
1/1/2009	\$ 2,324,898	\$ 4,393,891	\$ 2,068,993	52.90%	\$ 341,699	605.50%
1/1/2011	\$ 2,697,860	\$ 4,440,261	\$ 1,742,401	60.80%	\$ 359,134	485.20%

## NOTE 9 - PENSION PLANS (CONTINUED)

### 7. Supplemental Information

#### Supplemental Information

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

## NOTE 10 - LONG-TERM DEBT

### 2000 Pennvest Sanitary Sewer Note

During 2000, the City entered into an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for the sewer project. This agreement requires monthly payments of \$1,473, including interest at 1%, maturing in March 2021. As of December 31, 2012, the principal balance due to Pennvest was \$138,458.

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>
2013	1.00%	\$ 16,847	\$ 829	\$ 17,676
2014	1.00%	17,017	659	17,676
2015	1.00%	17,187	489	17,676
2016	1.00%	17,360	316	17,676
2017	1.00%	17,535	141	17,676
2018-2021	1.00%	52,512	516	53,028
		<u>\$ 138,458</u>	<u>\$ 2,950</u>	<u>\$ 141,408</u>

Interest expense for the year ended December 31, 2012 was \$996.

## NOTE 10 - LONG-TERM DEBT (CONTINUED)

### 2001 Pennvest Stormwater Sewer Note

During 2001, the City entered into an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for the sewer project. The agreement requires monthly payments of \$10,252, including interest at 1%, maturing in July 2021. As of December 31, 2012, the principal balance due was \$1,011,385.

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>
2013	1.00%	\$ 113,479	\$ 9,551	\$ 123,030
2014	1.00%	114,613	8,417	123,030
2015	1.00%	115,759	7,271	123,030
2016	1.00%	116,917	6,113	123,030
2017	1.00%	118,086	4,944	123,030
2018-2021	1.00%	432,531	7,933	440,464
		<u>\$1,011,385</u>	<u>\$ 44,229</u>	<u>\$ 1,055,614</u>

Interest expense for the year ended December 31, 2012 was \$10,675.

### 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, 2012, the principal balance due was \$3,263,354.

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>
2013	1.00%	\$ 148,313	\$ 31,810	\$ 180,123
2014	1.00%	149,796	30,327	180,123
2015	1.00%	151,294	28,829	180,123
2016	1.00%	152,807	27,316	180,123
2017	1.00%	154,335	25,788	180,123
2018-2022	1.00%	795,137	105,476	900,613
2023-2027	1.00%	835,697	64,916	900,613
2028-2032	1.00%	875,975	22,287	898,262
		<u>\$3,263,354</u>	<u>\$ 336,749</u>	<u>\$ 3,600,103</u>

Interest expense for the year ended December 31, 2012 was \$33,277.

**NOTE 10 - LONG-TERM DEBT (CONTINUED)**

2011 General Obligation Note

During 2011, the City entered into a \$60,706 agreement with the Commonwealth of Pennsylvania for a capital expenditure loan to assist with the purchase of a backhoe for the water fund. The agreement requires annual principal payments of \$12,141 and additional interest at 3.5%, commencing in January of 2012. As of December 31, 2012, the principal balance was \$48,565.

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>
2013	3.5%	\$ 12,141	\$ 1,700	\$ 13,841
2014	3.5%	12,141	1,275	13,416
2015	3.5%	12,141	850	12,991
2016	3.5%	12,142	425	12,567
		<u>\$ 48,565</u>	<u>\$ 4,250</u>	<u>\$ 52,815</u>

Interest expense for the year ended December 31, 2012 was \$2,125.

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

	<u>Balance at 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/12</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
2006 Commonwealth of Pennsylvania Note	\$ 1,520	\$ -	\$ 1,520	\$ -	\$ -
	<u>\$ 1,520</u>	<u>\$ -</u>	<u>\$ 1,520</u>	<u>\$ -</u>	<u>\$ -</u>
Compensated absences	\$ 281,008	\$ 108,313	\$ 122,355	\$ 266,966	\$ 13,348
<u>Business-Type Activities</u>					
2000 Pennvest Sanitary Sewer Note	\$ 155,138	\$ -	\$ 16,680	\$ 138,458	\$ 16,847
2001 Pennvest Stormwater Note	1,123,740	-	112,355	1,011,385	113,479
2003 Pennvest Stormwater Note	3,410,199	-	146,845	3,263,354	148,313
2011 Commonwealth of Pennsylvania Note	60,706	-	12,141	48,565	12,141
	<u>\$4,749,783</u>	<u>\$ -</u>	<u>\$ 288,021</u>	<u>\$ 4,461,762</u>	<u>\$ 290,780</u>
Compensated absences	\$ 49,732	\$ 19,116	\$ 32,494	\$ 36,354	\$ 9,014

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

**NOTE 11 - CAPITAL LEASES**

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

<u>Asset</u>	<u>Governmental Activities</u>
Street sweeper	\$ 109,000
Less: accumulated depreciation	<u>(58,393)</u>
	<u>\$ 50,607</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2012 are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>
2013	\$ 24,034
2014	<u>24,034</u>
Total minimum lease payments	48,068
Less amount representing interest	<u>(8,472)</u>
Present value of minimum lease payments	<u>\$ 39,596</u>

**NOTE 12 - LEASES**

The City leases equipment on a month-to-month basis. The total lease expense for the year ended December 31, 2012 was \$6,404.

**NOTE 13 - INTERFUND DUE TO/DUE FROM**

The composition of interfund balances as of December 31, 2012 is as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund	Sewer Fund	\$ 353
General Fund	Water Fund	<u>3,231</u>
		<u>\$ 3,584</u>

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

**NOTE 13 - INTERFUND DUE TO/DUE FROM (CONTINUED)**

Transfer In:	Transfer Out				Total
	Capital Projects Fund	Water Fund	Sewer Fund	Refuse Fund	
General Fund	\$ -	\$ 217,000	\$ 218,500	\$ 70,000	\$ 505,500
Sewer Fund	26,410	-	-	-	26,410
Water Fund	12,672	-	-	-	12,672
	<u>\$ 39,082</u>	<u>\$ 217,000</u>	<u>\$ 218,500</u>	<u>\$ 70,000</u>	<u>\$ 544,582</u>

Transfers are used to move unrestricted Proprietary Fund revenues to finance expenses paid for by the General Fund.

**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, 2012, 7 retired employees are covered by health insurance.

Funding Policy

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

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

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):

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

Annual required contribution	\$ 98,400
Interest on net OPEB obligation	-
Adjustment to net OPEB obligation	55,200
Annual OPEB cost	<u>153,600</u>
Contribution made	-
Increase in net OPEB obligation/(asset)	<u>153,600</u>
Net OPEB obligation/(asset) - beginning of year	<u>930,000</u>
 Net OPEB obligation/(asset) - end of year	 <u>\$ 1,083,600</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
December 31, 2012	\$ 1,083,600	100%	\$ 1,083,600
December 31, 2011	\$ 930,000	100%	\$ 930,000
December 31, 2010	\$ 960,000	100%	\$ 960,000
December 31, 2009	\$ 1,047,600	100%	\$ 1,047,600

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

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:

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

## **NOTE 17 - CONTINGENT LIABILITES**

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

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds - Trust and Agency**  
**December 31, 2012**

	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
Assets				
Cash and cash equivalents	\$ 153,584	\$ 20,931	\$ -	\$ 174,515
Investments	4,383,063	2,468,724	2,023,889	8,875,676
Total Assets	<u>\$ 4,536,647</u>	<u>\$ 2,489,655</u>	<u>\$ 2,023,889</u>	<u>\$ 9,050,191</u>
Net Position				
Held in trust for pension benefits and other purposes	<u>\$ 4,536,647</u>	<u>\$ 2,489,655</u>	<u>\$ 2,023,889</u>	<u>\$ 9,050,191</u>

**CITY OF TITUSVILLE, PENNSYLVANIA**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds - Trust and Agency**  
**For the Year Ended December 31, 2012**

	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
<b>Additions</b>				
<b>Contributions</b>				
Contributions - employees	\$ 29,463	\$ 21,085	\$ 29,412	\$ 79,960
Contributions - state and city	317,492	162,191	51,648	531,331
Total Contributions	<u>346,955</u>	<u>183,276</u>	<u>81,060</u>	<u>611,291</u>
<b>Investment income</b>				
Net change in fair value of investments	398,336	299,265	150,527	848,128
Interest and dividends	161,480	72,951	-	234,431
Net Investment Income	<u>559,816</u>	<u>372,216</u>	<u>150,527</u>	<u>1,082,559</u>
Total Additions	<u>906,771</u>	<u>555,492</u>	<u>231,587</u>	<u>1,693,850</u>
<b>Deductions</b>				
Benefits	512,344	302,826	146,928	962,098
Administrative expenses	24,371	19,491	100	43,962
Total Deductions	<u>536,715</u>	<u>322,317</u>	<u>147,028</u>	<u>1,006,060</u>
Change in Net Position	370,056	233,175	84,559	687,790
<b>Net Position</b>				
Beginning of Year	<u>4,166,591</u>	<u>2,256,480</u>	<u>1,939,330</u>	<u>8,362,401</u>
End of Year	<u>\$ 4,536,647</u>	<u>\$ 2,489,655</u>	<u>\$ 2,023,889</u>	<u>\$ 9,050,191</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, 2012**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Taxes	\$ 2,279,505	\$ 2,279,505	\$ 2,345,621	\$ 66,116
Interest, rents and royalties	3,100	3,100	2,709	(391)
Intergovernmental	288,684	288,684	598,266	309,582
Charges for services	51,050	51,050	112,352	61,302
Licenses and permits	94,425	96,425	81,887	(14,538)
Fines and forfeits	57,050	57,050	41,876	(15,174)
Contributions and donations	32,489	34,489	5,850	(28,639)
Other	17,000	13,000	21,355	8,355
<b>Total Revenues</b>	<b>2,823,303</b>	<b>2,823,303</b>	<b>3,209,916</b>	<b>386,613</b>
<b>Expenditures</b>				
General government	366,798	366,798	711,334	(344,536)
Public safety	1,950,519	1,950,519	1,958,439	(7,920)
Public works	805,374	805,374	699,127	106,247
Culture and recreation	107,639	107,639	94,493	13,146
Debt service	1,529	1,529	25,563	(24,034)
Other	96,944	96,944	74,068	22,876
<b>Total Expenditures</b>	<b>3,328,803</b>	<b>3,328,803</b>	<b>3,563,024</b>	<b>(234,221)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(505,500)</b>	<b>(505,500)</b>	<b>(353,108)</b>	<b>152,392</b>
<b>Other financing sources (uses)</b>				
Sale of fixed assets	-	-	18,360	18,360
Operating transfers in	505,500	505,500	505,500	-
Operating transfers (out)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>505,500</b>	<b>505,500</b>	<b>523,860</b>	<b>18,360</b>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>-</b>	<b>-</b>	<b>170,752</b>	<b>170,752</b>
<b>Fund balance</b>				
Beginning of Year	474,001	474,001	474,001	-
End of Year	\$ 474,001	\$ 474,001	\$ 644,753	\$ 170,752

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

Honorable Mayor and Members of Council  
City of Titusville, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements, and have issued our report thereon dated April 5, 2013.

**Internal Control Over Financial Reporting**

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

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

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

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the City of Titusville, Pennsylvania in a separate letter dated April 5, 2013.

**Purpose of This Report**

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

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

April 5, 2013  
Erie, Pennsylvania