

CITY OF WILLIAMSPORT, PENNSYLVANIA

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
&
INDEPENDENT AUDITORS' REPORT
&
ADDITIONAL INFORMATION
&
SINGLE AUDIT REPORTS**

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SINGLE AUDIT REPORTS:

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INDEPENDENT AUDITORS' REPORT

To the Honorable Members of City Council,
City of Williamsport, Pennsylvania:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Williamsport, Pennsylvania (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Municipal Authority of the City of Williamsport (the "Municipal Authority"), which represent 100% of the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Municipal Authority, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Williamsport, Pennsylvania as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 16, Schedule of Funding Progress - Pension Trust Funds on page 63, Schedule of Employer Contributions - Pension Trust Funds on page 64 and Note to Required Supplementary Information - Pension Trust Funds on page 65 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The combining nonmajor and fiduciary fund financial statements are also presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor and fiduciary fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Garante Randolph, LLC". The signature is written in a cursive, flowing style.

Williamsport, Pennsylvania
April 17, 2006

CITY OF WILLIAMSPORT, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the City of Williamsport, Pennsylvania (the "City") for the year ended December 31, 2005. The City's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by \$4,670,000. Net assets related to governmental activities increased by \$3,953,000, whereas net assets of the City's business-type activities increased by \$717,000.
- As of December 31, 2005, unrestricted, undesignated net assets of the City's governmental activities were \$84,000.
- The unreserved, undesignated fund balance of the General Fund was \$1,274,000, or 8.0 percent of total General Fund expenditures and transfers out.
- The excess of revenues and other financing sources over expenditures and other financing uses was \$763,000 within the City's General Fund for the year ended December 31, 2005. This is higher than the \$196,000 deficit spending that was anticipated in the City's 2005 General Fund budget, and is primarily attributable to a \$290,000 positive budget variance within the taxes revenue line item, a \$124,000 positive budget variance within the licenses and permits revenue line item, and \$117,000 and \$185,000 positive budget variances within the public works – highways and streets and public safety functional expense line items, among less significant favorable budget variances.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

CITY OF WILLIAMSPORT, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public works - highways and streets, other public works enterprises, public safety, culture and recreation, and blight elimination. The sole business-type activity of the City is a mass-transit bus system, River Valley Transit (formerly the Williamsport Bureau of Transportation).

The government-wide financial statements include not only the City itself (known as the *primary government*) but also a legally separate public finance authority (the Municipal Authority of the City of Williamsport) (the "Municipal Authority") and a redevelopment authority (the Redevelopment Authority of the City of Williamsport) (the "Redevelopment Authority") for which the City is financially accountable. Financial information for the Municipal Authority is reported separately from the financial information presented for the primary government itself, as the Municipal Authority transacts business with other local governments and non-profit organizations. The financial information for the Redevelopment Authority is blended with the primary government (i.e., not presented separately), as the Redevelopment Authority primarily transacts business with the primary government only.

The government-wide financial statements can be found on pages 17-18 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Community Development Block Grant ("CDBG"), Community Development HOME ("HOME"), Capital Project and Non-Revenue Escrow Funds, each of which is considered to be a "major" fund. Data from the other five governmental funds are combined into a single, aggregated presentation captioned "other Governmental Funds". Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* located on pages 69-70 of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget, and is presented on page 23.

The basic governmental fund financial statements can be found on pages 19-22 of this report.

Proprietary funds. The City maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for the operations of its mass-transit system, the Williamsport Bureau of Transportation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its City Hall Operating Fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 27-28 of this report. Individual fund data for each of the individual funds that comprise the City's various fiduciary fund types is provided in the form of *combining statements* located on pages 71-75 in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-62 of this report.

Other information. The combining statements referred to earlier in connection with governmental and fiduciary fund types is presented on pages 69-75.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at December 31, 2005 and 2004 by approximately \$31,206,000 and \$26,536,000, respectively.

The City's net assets reflected an investment in capital assets (e.g. land, buildings and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The City's investment in its capital assets reported net of related debt as related to its governmental activities was \$11,600,000 and \$6,394,000 at December 31, 2005 and 2004, respectively. The City's investment in its capital assets reported net of related debt as related to its business-type activities was \$17,290,000 and \$16,316,000 December 31, 2005 and 2004, respectively.

CITY OF WILLIAMSPORT, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

CONDENSED STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2004
(IN THOUSANDS)

	<u>TOTAL GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS</u>		<u>TOTAL</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 6,374	\$ 7,990	\$ 7,255	\$ 2,610	\$13,629	\$10,600
Capital assets	<u>13,158</u>	<u>8,637</u>	<u>14,080</u>	<u>16,565</u>	<u>27,238</u>	<u>25,202</u>
Total assets	<u>19,532</u>	<u>16,627</u>	<u>21,335</u>	<u>19,175</u>	<u>40,867</u>	<u>35,802</u>
Other liabilities	2,930	4,424	2,503	1,212	5,433	5,636
Long-term liabilities outstanding	<u>3,977</u>	<u>3,531</u>	<u>250</u>	<u>99</u>	<u>4,227</u>	<u>3,630</u>
Total liabilities	<u>6,907</u>	<u>7,955</u>	<u>2,753</u>	<u>1,311</u>	<u>9,660</u>	<u>9,266</u>
Invested in capital assets, net of related debt	11,600	6,394	17,290	16,316	28,890	22,710
Restricted	941	917	978	998	1,919	1,915
Unrestricted	<u>84</u>	<u>1,361</u>	<u>313</u>	<u>550</u>	<u>397</u>	<u>1,911</u>
Total net assets	<u>\$12,625</u>	<u>\$ 8,672</u>	<u>\$18,581</u>	<u>\$17,864</u>	<u>\$31,206</u>	<u>\$26,536</u>

The restricted portion of the City's net assets, \$941,000 and \$1,915,000 at December 31, 2005 and 2004, respectively, represents resources that are subject to external restrictions on how they may be used.

At the end of 2005 and 2004, the City is able to report positive balances in net assets, for the government as a whole, as well as for its business-type activity. The City's overall financial position improved in both 2005 and 2004 as reflected in the \$4,670,000 and \$3,009,000 increase in total net assets for the years ended December 31, 2005 and 2004, respectively.

CITY OF WILLIAMSPORT, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

**CONDENSED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(IN THOUSANDS)**

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2005	2004	2005	2004	2005	2004
REVENUES:						
Program:						
Charges for services	\$ 1,045	\$ 1,619	\$ 976	\$ 905	\$ 2,021	\$ 2,524
Operating grants and contributions	1,608	1,596	4,419	3,295	6,027	4,891
Capital grants and contributions	2,172	2,373			2,172	2,373
General:						
Taxes	13,082	11,491			13,082	11,491
Grants and charges - unrestricted	2,414	1,684			2,414	1,684
Unrestricted investment	182	106	56	18	238	124
Miscellaneous	<u>605</u>	<u>375</u>	<u>-</u>	<u>-</u>	<u>605</u>	<u>375</u>
Total revenues	<u>21,108</u>	<u>19,244</u>	<u>5,451</u>	<u>4,218</u>	<u>26,559</u>	<u>23,462</u>
EXPENSES:						
General government	2,226	2,609			2,226	2,609
Public works - highways and streets	2,447	1,877			2,447	1,877
Other public works enterprises	68	193			68	193
Public safety	10,692	10,076			10,692	10,076
Culture and recreation	579	370			579	370
Revolving loans and grants	450	316			450	316
Capital outlay (elimination of blight)	180	219			180	219
Interest on long-term debt	208	98			208	98
Williamsport Bureau of Transportation	<u>-</u>	<u>-</u>	<u>5,021</u>	<u>4,631</u>	<u>5,021</u>	<u>4,631</u>
Total expenses	<u>16,850</u>	<u>15,758</u>	<u>5,021</u>	<u>4,631</u>	<u>21,871</u>	<u>20,389</u>
INCREASE (DECREASE) IN NET ASSETS						
BEFORE TRANSFERS	4,258	3,486	430	(413)	4,688	3,073
TRANSFERS	<u>(305)</u>	<u>(370)</u>	<u>287</u>	<u>307</u>	<u>(18)</u>	<u>(63)</u>
CHANGE IN NET ASSETS	3,953	3,116	717	(106)	4,670	3,010
NET ASSETS, JANUARY 1	<u>8,672</u>	<u>5,556</u>	<u>17,864</u>	<u>17,970</u>	<u>26,536</u>	<u>23,526</u>
NET ASSETS, DECEMBER 31	<u>\$12,625</u>	<u>\$ 8,672</u>	<u>\$18,581</u>	<u>\$17,864</u>	<u>\$31,206</u>	<u>\$26,536</u>

Governmental Activities. Governmental activities increased the City's net assets by \$3,953,000 and \$3,116,000 for the years ended December 31, 2005 and 2004, respectively. The majority of this increase relates to the City's investment in its capital assets, including infrastructure, which was funded in large part by grants from other governments. While the grant revenue is recognized in the year spent, the related assets are "capitalized" and are being depreciated over their estimated useful lives. The total dollar value of assets capitalized relating to governmental activities amounted to \$5,260,000 in 2005 and \$3,565,000 in 2004, while the depreciation on all City capital assets used in governmental activities was \$703,000 and \$538,000 in 2005 and 2004, respectively.

Business-type activities. The Williamsport Bureau of Transportation, functioning as a business-type activity of the City of Williamsport, experienced an increase in net assets of \$717,000 and a decrease in net assets of \$107,000 for the years ended December 31, 2005 and 2004, respectively. These gains and losses are due to the fact that user charges (i.e., bus fares) and operating grants sufficiently covered, or were insufficient to cover the cost of operations.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On December 31, 2005 and 2004, the City's governmental funds reported combined ending fund balances of \$2,314,000 and \$2,682,000, respectively. The \$368,000 decrease is primarily attributable to the partial repayment of a \$1,000,000 lease rental borrowing through the Municipal Authority, which was utilized to finance approved projects, offset by an increase in the General Fund balance of approximately \$763,000 (see related General Fund budgetary analysis within this Management's Discussion and Analysis).

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the City's Enterprise funds at December 31, 2005 and 2004 amounted to \$313,000 and \$550,000, respectively, and those for the Internal Service funds amounted to \$179,000 and \$151,000, respectively. The total change in net assets for the Enterprise Fund and Internal Service Fund were \$741,000 and \$28,000, respectively. Other factors concerning the finances of the Enterprise Funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund expenditure budget for fiscal year 2005 was approximately \$15.1 million; this represents an increase of \$700,000 (5%) over 2004. The General Fund expenditure budget for fiscal year 2004 was approximately \$14.4 million.

The General Fund Budget complied with financial policies required by the Third Class City Code of the Commonwealth of Pennsylvania.

FINANCIAL ANALYSIS OF THE MAJOR FUNDS

General Fund

The General Fund is the primary operating fund of the City. On December 31, 2005, *unreserved fund balance* of the General Fund was \$1,274,000. The fund balance of the City's General Fund increased by \$763,000 during 2005. As a measure of the General Fund's liquidity, the *unreserved fund balance* represents 8.0 percent of the total General Fund expenditures (including transfers out), or 31.4 days. Industry guidelines recommend maintaining a fund balance reserve of five (5%) to fifteen (15%) percent of the general operating fund's annual budget; as such, the City's General Fund balance at December 31, 2005 was in line with the recommended limits.

Revenues of the General Fund totaled \$15,420,000 and \$13,439,000 for the years ended December 31, 2005 and 2004, respectively, representing a year-to-year increase of \$1,981,000 (14.7%). The following represents a summary of General Fund revenue by source.

REVENUES (in thousands)	<u>2005</u>	<u>2004</u>
Taxes	\$12,928	\$11,236
Licenses and permits	444	329
Fines and forfeits	273	288
Interest, rents and royalties	114	36
Intergovernmental	1,032	968
Charges for services	187	189
Miscellaneous	<u>442</u>	<u>393</u>
Total revenues	<u>\$15,420</u>	<u>\$13,439</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (UNAUDITED)

The General Fund's operations were also supported by operating transfers in which totaled \$120,000 during the years ended December 31, 2005 and 2004. Additional details relating to interfund transfers can be found in Note 7 on page 48.

General Fund expenditures totaled \$14,283,000 and \$13,360,000 for the years ended December 31, 2005 and 2004, respectively, which represents an increase of \$922,000 (6.9%). The following represents a summary of General Fund expenditures for the years ended December 31, 2005 and 2004, by source:

EXPENDITURES (in thousands):	<u>2005</u>	<u>2004</u>
General government	\$ 1,501	\$ 1,513
Public works - highways and streets	1,311	1,230
Other public works enterprises	200	182
Public safety	10,654	9,967
Culture and recreation	524	370
Debt service	<u>93</u>	<u>98</u>
Total expenditures	<u>\$14,283</u>	<u>\$13,360</u>

In addition, the General Fund made operating transfers out to other governmental, proprietary and fiduciary funds in the amount of \$495,000 and \$771,000 during the years ended December 31, 2005 and 2004.

Community Development Block Grant Fund ("CDBG")

The Community Development Block Grant ("CDBG") Fund's revenues are derived from specific sources and are designated for specific uses. Such funds, primarily federal grants, are restricted by law or other formal action to expenditures for specific purposes.

The CDBG Fund had a combined excess of revenues and other financing sources over expenditures and other financing uses of \$89,000 and \$86,000 for the years ended December 31, 2005 and 2004. The CDBG Fund's surplus fund balance of \$83,000 at December 31, 2005 represents grant draw-downs received in connection with the CDBG program that will be liquidated through future expenditures. The deficit fund balance of \$(6,000) at December 31, 2004 represents expenditures incurred in connection with the CDBG program that the City liquidated through future grant drawdowns. This fund's financial statements are included with the statements on pages 19-22 of this report.

Community Development HOME Fund ("HOME")

The Community Development HOME ("HOME") Fund's revenues are derived from specific sources and are designated for specific uses. Such funds, primarily federal grants, are restricted by law or other formal action to expenditures for specific purposes.

Capital Projects Fund

The City's Capital Project fund accounts for financial resources expended to acquire or construct property and capital assets. During the year ended December 31, 2005, the City expended \$4,048,000 for such projects. Major projects during 2005 included completion of Phase I of the City's Streetscape project, construction of the Peter Herdic Transportation Museum and the Highland Terrace bridge replacement. The fund balance of the Capital Projects Fund at December 31, 2005 totaled \$16,000.

Other Governmental – Special Revenue Funds

The City maintains seven Special Revenue funds. Four of these funds have been designated as *nonmajor funds*, which contain the following activities:

<u>Fund</u>	<u>Activities</u>
Community Development Home Rehab	Housing
Liquid Fuels	Maintenance of streets
Capital Reserve Fund	Ongoing capital purchases
Redevelopment Authority	Housing

Operating revenues over expenditures totaled \$(146,000) and \$43,000 for 2005 and 2004, respectively, after operating transfers. The nonmajor financial statements can be found on pages 69-70.

PENSION TRUST FUNDS

The City maintains three single employer defined benefit pension trust funds (Police, Fire and Officers & Employees). These funds are used to account for the Employee Retirement Plan contributions of the City and its employees, related benefit payments and other plan costs. The net assets held for pension benefits were \$52,822,000 and \$49,270,000 at December 31, 2005 and 2004, respectively, representing a year-to-year increase of \$3,552,000 or 7.2 percent. The City transferred from the General Fund the Annual Required Contribution of \$2,281,000 to the Pension Trust Fund. Additional information on the employee pension funds can be found in Note 9 on page 51 of this report.

CITY OF WILLIAMSPORT, PENNSYLVANIA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (UNAUDITED)

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2005 and 2004 were \$29,182,000 and \$23,633,000, respectively (net of accumulated depreciation).

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITY			
	2005	2004	2005	2004	2005	2004
Land & improvements	\$1,168,424	\$ 896,342	\$1,298,363	\$ 869,191	\$2,466,787	\$ 1,765,533
Infrastructure	8,035,933	4,636,274	-	-	8,035,933	4,636,274
Buildings	2,184,731	1,280,989	9,491,895	9,451,707	11,676,626	10,732,696
Construction in process	-	-	45,706	409,930	45,706	409,930
Furniture & equipment	466,244	485,971	-	-	466,244	485,971
Vehicles	<u>1,302,341</u>	<u>1,337,535</u>	<u>5,185,618</u>	<u>4,264,800</u>	<u>6,487,959</u>	<u>5,602,335</u>
Totals	<u>\$13,157,673</u>	<u>\$8,637,111</u>	<u>\$16,021,582</u>	<u>\$14,995,628</u>	<u>\$29,179,255</u>	<u>\$23,632,739</u>

LONG-TERM DEBT

Changes in the City's long-term debt for the years ended December 31, 2005 and 2004 were as follows (in thousands):

	GOVERNMENTAL	BUSINESS-TYPE	TOTAL
Notes/lease rentals payable at January 1, 2004	\$ 309,129	\$ 399,043	\$ 708,172
Additions	2,000,000	-	2,000,000
Payments	<u>(249,429)</u>	<u>(150,000)</u>	<u>(399,429)</u>
Notes/lease rentals payable at December 31, 2004	2,059,700	249,043	2,308,743
Additions	1,440,898	250,000	1,690,898
Payments	<u>(921,633)</u>	<u>(249,043)</u>	<u>(1,170,676)</u>
Notes/lease rentals payable at December 31, 2005	<u>\$2,578,965</u>	<u>\$ 250,000</u>	<u>\$2,828,965</u>

Additional information on the City's long-term debt can be found at Note 8 on page 48 of this report.

ECONOMIC CONDITION

The local economy remains relatively insulated from periods of national recession. Unemployment (as per the U.S. Department of Labor, Bureau of Labor Statistics) in the greater Williamsport area (unemployment statistics for the City itself are unavailable) was 5.2 percent at the end of 2005, which is an improvement compared with 6.1 percent at the end of 2004. The 2005 rate is slightly higher than Pennsylvania's overall unemployment rate of 4.3 percent. The City is in a period of economic uncertainty; however, the general economic outlook is positive with slower than average growth.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information as related to the primary government and its component units should be addressed to the Director of Administration, City of Williamsport, City Hall, 245 West Fourth Street, Williamsport, PA 17701.

CITY OF WILLIAMSPORT, PENNSYLVANIA

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS:				
Cash and cash equivalents	\$ 2,256,956	\$ 1,839,718	\$ 4,096,674	\$ 20,313
Receivables (net of allowance for uncollectibles):				
Taxes	1,330,226	-	1,330,226	-
Loans	1,996,402	-	1,996,402	2,762,000
Other	193,806	13,640	207,446	3,690
Internal balances	(94,654)	94,654	-	-
Due from Agency Fund	101,309	-	101,309	-
Due from other governments	494,465	1,489,903	1,984,368	-
Inventories, at cost	47,690	296,827	344,517	-
Prepaid expenses	1,198	60,000	61,198	-
Capital Assets, net of accumulated depreciation:				
Land, land improvements and monuments	1,168,424	1,298,363	2,466,787	-
Infrastructure	8,035,933	-	8,035,933	-
Buildings and improvements	2,184,731	7,550,790	9,735,521	-
Vehicles and equipment	1,768,585	5,185,618	6,954,203	-
Construction in process	-	45,706	45,706	-
Property held under capital lease, net	-	1,941,105	1,941,105	-
Net Investment in direct financing leases	-	1,518,224	1,518,224	-
Deferred financing costs	47,015	-	47,015	-
Total Assets	19,532,086	21,334,548	40,866,634	2,786,003
LIABILITIES:				
Accounts payable and accrued expenses	368,706	1,610,416	1,979,122	-
Accrued liabilities	248,565	80,024	328,589	-
Compensated absences	65,152	198,807	263,959	-
Mature bonds payable	5,000	-	5,000	-
Due to private purpose trust fund	7,588	-	7,588	-
Deferred revenues	1,999,401	614,038	2,613,439	-
Noncurrent liabilities:				
Portion due or payable within one year:				
Capital leases payable	135,959	-	135,959	-
Notes payable	100,417	-	100,417	78,784
Portion due or payable after one year:				
Compensated absences payable	1,432,600	-	1,432,600	-
Capital leases payable	65,506	-	65,506	-
Notes payable	2,478,548	250,000	2,728,548	2,683,216
Total liabilities	6,907,442	2,753,285	9,660,727	2,762,000
NET ASSETS:				
Invested in capital assets, net of related debt	11,599,607	17,289,806	28,889,413	-
Restricted for:				
Liquid fuels tax purposes	53,667	-	53,667	-
HOME activities	2,462	-	2,462	-
Home rehabilitation purposes	45,866	-	45,866	-
Redevelopment activities	13,294	-	13,294	-
Workers' compensation	100	-	100	-
Reserved for grant purposes	825,625	977,943	1,803,568	-
Unrestricted, undesignated	84,023	313,514	397,537	24,003
Total net assets	\$ 12,624,644	\$ 18,581,263	\$ 31,205,907	\$ 24,003

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	GENERAL FUND	CDBG	HOME	CAPITAL PROJECTS	NON-REVENUE ESCROW	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:							
Cash and cash equivalents	\$ 708,081	\$ 143,922	\$ 38,051	\$ 113,481	\$ 904,642	\$ 198,257	\$ 2,106,434
Receivables:							
Taxes	1,330,226	-	-	-	-	-	1,330,226
Loans	-	443,723	721,176	-	731,909	99,594	1,996,402
Other	190,509	150	-	-	1,036	591	192,286
Due from other funds	771,998	35,588	-	-	116,165	8,958	932,709
Due from other governments	2,837	22,092	55,399	414,137	-	-	494,465
Inventories, at cost	47,690	-	-	-	-	-	47,690
Prepaid expenses	1,198	-	-	-	-	-	1,198
Total assets	\$ 3,052,539	\$ 645,475	\$ 814,626	\$ 527,618	\$ 1,753,752	\$ 307,400	\$ 7,101,410
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Vouchers payable	\$ 189,565	\$ 10,225	\$ 55,400	\$ 44,774	-	\$ 58,979	\$ 358,943
Accrued liabilities	238,803	9,110	-	-	-	-	247,913
Compensated absences	62,395	2,757	-	-	-	-	65,152
Matured bonds payable	5,000	-	-	-	-	-	5,000
Due to other funds	139,261	96,619	35,588	466,976	196,218	36,000	970,662
Deferred revenue	1,143,524	443,723	721,176	-	731,909	99,594	3,139,926
Total liabilities	1,778,548	562,434	812,164	511,750	928,127	194,573	4,787,596
Fund balances:							
Reserved for:							
Liquid fuels tax purposes	-	-	-	-	-	53,667	53,667
HOME activities	-	-	2,462	-	-	-	2,462
Home rehabilitation	-	-	-	-	-	45,866	45,866
Redevelopment activities	-	-	-	-	-	13,294	13,294
Workers' compensation	100	-	-	-	-	-	100
Encumbrances	-	-	-	-	-	-	-
Other reserves	-	-	-	-	825,625	-	825,625
Unreserved, designated for:							
Capital projects	-	-	-	15,868	-	-	15,868
Undesignated	1,273,891	83,041	-	-	-	-	1,356,932
Total fund balances	1,273,991	83,041	2,462	15,868	825,625	112,827	2,313,814
Total liabilities and fund balances	\$ 3,052,539	\$ 645,475	\$ 814,626	\$ 527,618	\$ 1,753,752	\$ 307,400	\$ 7,101,410

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2005

TOTAL FUND BALANCE, GOVERNMENTAL FUNDS	\$ 2,313,814
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of assets is \$18,164,277, and the accumulated depreciation is (\$5,006,604).	13,157,673
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Notes payable	\$ (2,578,965)
Capital lease payable	(201,465)
Compensated absences (long-term)	<u>(1,432,600)</u>
	(4,213,030)
Deferred financing cost related to issuance of debt are deferred and amortized over life of the debt in statement of activities. The cost of deferred financing cost is \$50,700, and the accumulated amortization is (\$3,685).	47,015
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.	1,140,525
Internal service funds are used by management to charge the operating costs of City Hall to individual funds. The assets and liabilities of the internal service fund ("City Hall Operating Fund") are included in the statement of net assets.	<u>178,647</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS	<u>\$ 12,624,644</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND	CDBG	HOME	CAPITAL PROJECTS	NON-REVENUE ESCROW	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:							
Taxes	\$ 12,928,200	-	\$ -	\$ -	-	\$ -	\$ 12,928,200
Licenses and permits	443,959	-	-	-	-	-	443,959
Fines and forfeits	273,034	-	-	-	-	-	273,034
Interest, rents and royalties	113,901	-	316	-	58,800	8,100	181,117
Intergovernmental:							
Federal	-	1,631,480	442,579	1,272,279	68,726	-	3,415,064
State	873,333	-	-	900,286	7,113	550,976	2,331,708
Local	159,097	-	-	-	-	117,380	276,477
Charges for services	187,075	-	-	-	35,249	-	222,324
Collection on loans	-	114,007	39,564	-	75,639	39,284	268,494
Miscellaneous	441,764	-	-	157,768	20,868	11,337	631,737
Total revenues	15,420,363	1,745,487	482,459	2,330,333	266,395	727,077	20,972,114
EXPENDITURES:							
Current:							
General government	1,500,843	437,914	129,296	1,408,183	237,154	1,345	3,714,735
Public works	1,311,364	954,019	-	1,406,046	-	606,412	4,277,841
Other public works enterprises	199,735	-	-	-	-	-	199,735
Public safety	10,653,753	3,066	-	-	-	80,155	10,736,974
Culture and recreation	523,967	-	-	1,234,203	-	-	1,758,170
Revolving loans and grants	-	-	352,092	-	-	97,570	449,662
Bond issuance costs	-	180,446	-	-	-	-	180,446
Capital outlay	-	-	-	-	-	-	-
Debt service	92,606	-	-	-	-	-	92,606
Total expenditures	14,282,268	1,575,445	481,388	4,048,432	237,154	785,482	21,410,169
Excess (deficiency) of revenues over expenditures	1,138,095	170,042	1,071	(1,718,099)	29,241	(58,405)	(438,055)
OTHER FINANCING SOURCES (USES):							
Proceeds from the issuance of long-term debt	-	-	-	-	-	1,412,000	1,412,000
Debt service	-	-	-	-	-	(1,037,449)	(1,037,449)
Transfers in	120,000	39,300	-	1,496,903	16,000	1,074,407	2,746,610
Transfers out	(495,223)	(120,000)	-	(900,000)	-	(1,536,203)	(3,051,426)
Total other financing sources (uses)	(375,223)	(80,700)	-	596,903	16,000	(87,245)	69,735
NET CHANGE IN FUND BALANCES	762,872	89,342	1,071	(1,121,196)	45,241	(145,650)	(368,320)
FUND BALANCES - BEGINNING	511,119	(6,301)	1,391	1,137,064	780,384	258,477	2,682,134
FUND BALANCES - ENDING	\$ 1,273,991	\$ 83,041	\$ 2,462	\$ 15,868	\$ 825,625	\$ 112,827	\$ 2,313,814

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS: \$ (368,320)

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

Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is for the amount by which capital outlays exceed depreciation in the current period.	4,609,711
The repayment of principal on capital leases is expended in the funds, however, such payments reduce the capital lease payable liability within the statement of net assets. This amount represents the dollar value of principal payments made on capital leases payable during 2005.	174,239
Certain compensated absences payable are considered long-term in nature, are not reported as liabilities within the funds. Such liabilities are, however, reported within the statement of net assets, and changes in these liabilities are reflected within the statement of activities. This amount represents the change in long-term compensated absences payable for the year ended December 31, 2005.	127,872
Internal service funds are used by management to charge the operating costs of City Hall to individual funds. The operating loss of the internal service fund (City Hall Operating Fund) is reported within the governmental activities.	(15,475)
The repayment of principal on notes payable is expensed in the funds, however, such payments reduce the notes payable liability within the statement of net assets. This amount represents the dollar value of principal payments made on notes payable during 2005.	921,633
Issuance of long-term debt provides current financial resources to governmental funds. Also, government funds report the effect of issuance costs when debt is first issued, where as these amounts are deferred and amortized in the statement of activities and are included here as a reconciling item.	(1,422,583)
Issuance of capital leases.	(163,310)
Revenues related to real estate taxes in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	135,106
Losses from the disposal of fixed assets.	<u>(46,036)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 3,952,837</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS, BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 12,638,033	\$ 12,638,033	\$ 12,928,200	\$ 290,167
Licenses and permits	320,000	320,000	443,959	123,959
Fines and forfeits	241,000	241,000	273,034	32,034
Interest, rents, royalties and investment gains	16,400	16,400	113,901	97,501
Intergovernmental:				
State	856,500	856,500	873,333	16,833
Local	105,000	105,000	159,097	54,097
Charges for services	237,000	237,000	187,075	(49,925)
Miscellaneous	351,700	351,700	441,764	90,064
Total revenues	14,765,633	14,765,633	15,420,363	654,730
EXPENDITURES:				
Current:				
General government	1,462,876	1,528,576	1,500,843	27,733
Public works - highways and streets	1,407,714	1,427,914	1,311,364	116,550
Other public works enterprises	187,908	187,908	199,735	(11,827)
Public safety	10,966,718	10,838,618	10,653,753	184,865
Culture and recreation	519,338	525,538	523,967	1,571
Debt service	123,582	159,582	92,606	66,976
Total Expenditures	14,668,136	14,668,136	14,282,268	385,868
EXCESS OF REVENUES OVER EXPENDITURES	97,497	97,497	1,138,095	1,040,598
OTHER FINANCING SOURCES (USES):				
Transfers in	120,000	120,000	120,000	-
Transfers out	(414,000)	(414,000)	(495,223)	(81,223)
Total other financing uses	(294,000)	(294,000)	(375,223)	(81,223)
NET CHANGE IN FUND BALANCES	(196,503)	(196,503)	762,872	959,375
FUND BALANCES, BEGINNING	271,440	271,440	511,119	239,679
FUND BALANCES, ENDING	\$ 74,937	\$ 74,937	\$ 1,273,991	\$ 1,199,054

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005**

	BUSINESS- TYPE ACTIVITY (RVT)	INTERNAL SERVICE FUND (CHO)
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,839,718	\$ 150,523
Other accounts receivable (net of allowance)	13,640	1,520
Due from other funds	94,654	40,227
Receivables from other governments	1,489,903	-
Inventories, at cost	296,827	-
Prepays	60,000	-
Total current assets	<u>3,794,742</u>	<u>192,270</u>
Capital assets:		
Land and improvements	1,298,363	1
Buildings and improvements	10,422,820	1,338,396
Equipment	11,808,070	104,194
Construction in Progress	45,706	-
Less accumulated depreciation	<u>(9,494,482)</u>	<u>(794,108)</u>
Net capital assets	14,080,477	648,483
Net investment in direct financing leases	1,518,224	-
Property held under capital lease, net	<u>1,941,105</u>	<u>-</u>
TOTAL	<u>\$ 21,334,548</u>	<u>\$ 840,753</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Vouchers payable	1,610,416	\$ 9,764
Accrued liabilities	80,024	652
Compensated absences	198,807	-
Due to other funds	-	3,207
Deferred revenue	614,038	-
Total current liabilities	<u>2,503,285</u>	<u>13,623</u>
Long-term liabilities,		
Lease rental payable-Municipal Authority	<u>250,000</u>	<u>-</u>
Net assets:		
Invested in capital assets, net of related debt	17,289,806	648,483
Restricted	977,943	-
Unrestricted	313,514	178,647
Total net assets	<u>18,581,263</u>	<u>827,130</u>
TOTAL	<u>\$ 21,334,548</u>	<u>\$ 840,753</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUSINESS- TYPE ACTIVITY (RVT)	INTERNAL SERVICE FUND (CHO)
OPERATING REVENUES,		
Charges for services	\$ 975,886	\$ 203,426
OPERATING EXPENSES:		
Wages and salaries	2,049,153	17,560
Depreciation	1,108,915	49,514
Employee benefits	616,757	18,488
Administrative expense	387,101	-
Materials and supplies	409,528	119,392
Maintenance	289,744	9,765
Insurance	159,836	-
Bad debt expense	-	4,182
Total operating expenses	<u>5,021,034</u>	<u>218,901</u>
OPERATING LOSS	<u>(4,045,148)</u>	<u>(15,475)</u>
NON-OPERATING REVENUES:		
Subsidies from other governments:		
State	2,116,245	-
Federal	2,036,092	-
Local	266,685	-
Interest income	<u>56,242</u>	<u>-</u>
Total non-operating revenue	<u>4,475,264</u>	<u>-</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>430,116</u>	<u>(15,475)</u>
OTHR FINANCING SOURCES (USES):		
Operating transfers in	293,664	-
Operating transfers out	<u>(6,357)</u>	<u>-</u>
Total other financing sources	<u>287,307</u>	<u>-</u>
NET INCOME (LOSS)	717,423	(15,475)
NET ASSETS, BEGINNING	<u>17,863,840</u>	<u>842,605</u>
NET ASSETS, ENDING	<u>\$ 18,581,263</u>	<u>\$ 827,130</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUSINESS-TYPE ACTIVITY (RVT)	INTERNAL SERVICE FUND (CHO)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from users	\$ 986,169	\$ 206,088
Cash payments to employees for services	(2,649,336)	(36,048)
Cash paid to suppliers for goods and services	<u>312,830</u>	<u>(167,476)</u>
Net cash (used in) provided by operating activities	<u>(1,350,337)</u>	<u>2,564</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES,		
Operating subsidies and transfers to other funds	<u>3,203,652</u>	<u>-</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES,		
Earnings on investments	<u>56,242</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Subsidies received from other governments	390,427	-
Payments for capital acquisitions	(2,134,869)	(6,401)
Additions to long-term debt	957	-
Payments received under direct financing leases	<u>51,066</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(1,692,419)</u>	<u>(6,401)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	217,138	(3,837)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,622,580</u>	<u>154,360</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,839,718</u>	<u>\$ 150,523</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (4,045,148)	\$ (15,475)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	1,108,915	49,514
Changes in assets and liabilities:		
Accounts receivable, other	10,283	2,662
Due from/to other governments and funds	6,258	(37,020)
Prepaid expenses	380	
Inventories	21,471	
Vouchers payable	1,530,930	2,883
Other operating liabilities	<u>16,574</u>	<u>-</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (1,350,337)</u>	<u>\$ 2,564</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

**STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2005**

	PENSION TRUST FUNDS	PRIVATE PURPOSE TRUSTS	AGENCY FUNDS
ASSETS:			
Cash and cash equivalents	\$ 201,833	\$ 26,982	\$ 446,817
Receivables, Other	<u>258,373</u>	<u>-</u>	<u>-</u>
Due from other funds	<u>-</u>	<u>7,588</u>	<u>-</u>
Investments, at fair value:			
U.S. Government securities	18,707,520	-	-
Domestic corporate bonds	5,228,485	-	-
Domestic equity securities	27,152,656	-	-
Mutual funds	<u>1,273,100</u>	<u>-</u>	<u>-</u>
Total investments	<u>52,361,761</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 52,821,967</u>	<u>\$ 34,570</u>	<u>\$ 446,817</u>
LIABILITIES:			
Vouchers payable		\$ 7,588	\$ 27,458
Due to other funds		-	101,309
Due to other taxing units		<u>-</u>	<u>318,050</u>
Total liabilities		<u>7,588</u>	<u>\$ 446,817</u>
NET ASSETS:			
Held in trust for pension benefits	\$ 52,821,967	-	
Reserved for unemployment compensation	-	3,789	
Reserved for workers' compensation	<u>-</u>	<u>23,193</u>	
Total net assets	<u>52,821,967</u>	<u>26,982</u>	
TOTAL	<u>\$ 52,821,967</u>	<u>\$ 34,570</u>	

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	PENSION TRUST FUNDS	PRIVATE PURPOSE TRUSTS
ADDITIONS:		
Contributions:		
Employer	\$ 1,448,234	\$ -
Transfers in	-	17,509
Commonwealth of Pennsylvania	837,060	-
Employees	<u>447,355</u>	<u>-</u>
Total contributions	<u>2,732,649</u>	<u>17,509</u>
Investment earnings:		
Interest and dividends	1,609,073	-
Net appreciation in fair value of investments	<u>2,364,489</u>	<u>-</u>
Total investment earnings	3,973,561	-
LESS INVESTMENT EXPENSE	<u>(152,553)</u>	<u>-</u>
NET INVESTMENT EARNINGS	<u>3,821,008</u>	<u>-</u>
Total additions	<u>6,553,657</u>	<u>17,509</u>
DEDUCTIONS:		
Benefits	2,961,424	30,058
Administrative	<u>39,783</u>	<u>5,901</u>
Total deductions	<u>3,001,207</u>	<u>35,959</u>
CHANGE IN NET ASSETS	3,552,450	(18,450)
NET ASSETS, BEGINNING	<u>49,269,517</u>	<u>45,432</u>
NET ASSETS, ENDING	<u>\$ 52,821,967</u>	<u>\$ 26,982</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the City of Williamsport, Pennsylvania (the "City") conform to accounting principles generally accepted in the United States of America as applied to state and local governmental entities. The following notes to the basic financial statements are an integral part of the City's financial statements.

REPORTING ENTITY

Williamsport is the largest city in north-central Pennsylvania. It is a city of the third class, incorporated on January 15, 1866, and operates under an elected Mayor-Council form of government. The City provides many services to its estimated 30,000 residents, including general government services, public safety (police, fire, emergency management and protective inspection), maintenance of streets and parks, and community enrichment programs.

The financial statements of the City include the accounts of the City's primary government and two component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City Council and/or the City's Mayor appoints a voting majority to the Board of Directors of both component units. The Municipal Authority of the City of Williamsport (the "Municipal Authority") issues separately audited financial statements, which can be obtained from the Municipal Authority Offices at 245 West Fourth Street, Williamsport, Pennsylvania 17701. The Redevelopment Authority of the City of Williamsport (the "Redevelopment Authority") did not issue separately audited financial statements for the year ended December 31, 2005.

Discretely Presented Component Unit

The Municipal Authority functions as a financing medium for various public entities.

Brief Description of Activities and Relationship to the City

The City Council appoints a voting majority to the Municipal Authority's board of directors, and the City has guaranteed Municipal Authority debt.

<u>Blended Component Unit</u>	<u>Brief Description of Activities and Relationship to the City</u>
<p>The Redevelopment Authority provides for the acquisition and demolition of properties, economic development and shopsteading loans, and historic rehabilitation and preservation.</p>	<p>A continuing financial relationship exists between the City and the Redevelopment Authority under the terms of a cooperative agreement between the City and the Redevelopment Authority.</p>
<p>This assistance is funded primarily through federal grants from the City's Community Development Block Grant ("CDBG") program.</p>	<p>According to the terms of this agreement, the Redevelopment Authority will, among other things, provide CDBG and other funding as necessary, prepare loan agreements and mortgages and obtain collateral for loans. In addition, the City's Mayor appoints a voting majority to the Board of Directors of the Redevelopment Authority.</p>

GOVERNMENT – WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *discretely presented component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program* revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**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 proprietary fund and 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 revenue 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 are recorded only when payment is due.

Property taxes, intergovernmental revenues, charges for services and interest associated with the current fiscal period are all generally considered to be susceptible to accrual and 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.

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include charges to customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

GOVERNMENTAL FUNDS

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. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for within this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid by other funds are paid from the General 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 to specified purposes. The major Special Revenue Funds reported by the City under this generic heading include the Community Development Block Grant ("CDBG") Fund, the HOME Fund and the Non-Revenue Escrow Fund. The CDBG and HOME Funds do not adopt an annual operating budget; rather, multi-year budgets that coincide with the federally mandated period of availability of funds. The Non-Revenue Escrow Fund also does not adopt an annual operating budget, as the fund primarily consists of capital escrow funds and grant proceeds, which will be spent over several years. Other nonmajor Special Revenue funds reported by the City include:

- The Liquid Fuels Fund accounts for state and county aid revenues used for building, improving and maintaining City streets.

- The Home Rehabilitation Fund accounts for the operations of the City's Home Rehabilitation program, which is funded in part by federal funds whose use is restricted for the provision of specified home rehabilitation services to eligible City residents.
- The Redevelopment Authority of the City of Williamsport is a blended component unit of the City. Additional details pertaining to the operations of the Redevelopment Authority may be found in the Reporting Entity section of Note 1.
- The Capital Reserve Fund accounts for assets set aside via budgetary transfers for small capital purchases, such as police cruisers, repairs and maintenance, etc.

Capital Projects Fund

The Capital Projects Fund (a major fund) is used to account for financial resources to be used for the acquisition or construction of major capital facilities or assets (other than those financed by proprietary funds and trust funds).

PROPRIETARY FUNDS

Enterprise Fund - Williamsport Bureau of Transportation (d/b/a River Valley Transit)

Enterprise funds are used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that determination of net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City's sole enterprise fund accounts for the operations of River Valley Transit, a regional mass transit system.

Internal Service Fund - City Hall Operating Fund

This fund is used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. The City Hall Operating Fund comprises this fund type. The City Hall Operating Fund is used to allocate the cost of the operations of City Hall among the various departments and programs that occupy the building.

FIDUCIARY FUNDS

Pension Trust Funds

Pension trust funds are used to report the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans. The City maintains three single-employer defined benefit pension trust funds; the Fire Pension Trust Fund, the Police Pension Trust Fund, and the Officers and Employees Pension Trust Fund.

Private Purpose Trust Fund

Private purpose trust funds are used to report trust arrangements under which the principal and income benefit individuals, private organizations or other governments. The City's Worker's Compensation Trust Fund and Unemployment Compensation Trust Fund are reported within the accompanying financial statements as private purpose trust funds.

Agency Funds

Agency funds are used to report resources held by the City in a purely custodial capacity (i.e., assets = liabilities.) Agency funds reported by the City in the accompanying financial statements include the Tax Collecting Fund, Payroll Revolving Fund, and certain funds the City holds as a fiscal agent that are accounted for within the Non-Revenue Escrow Fund (which are presented separately for financial reporting purposes).

CASH EQUIVALENTS

The City considers highly liquid short-term instruments purchased with a maturity of three months or less (excluding certain short-term instruments which are classified as investments) to be cash equivalents.

INVESTMENTS

Marketable securities are stated at their fair values. Other investments, including cash investment funds and certificates of deposit, are carried at cost, which approximates fair value. Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported as investment income.

RECEIVABLES

All trade and property tax receivables are shown net of allowance for uncollectibles.

PROPERTY TAX CALENDAR

The City is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the City. Taxes are due in one installment on or before June 30 following the levy date. Taxes not paid or exonerated become delinquent on December 31. The City collects taxes up to December 31 of the same year (payments post-marked by December 31 but received shortly after year-end are considered as having been collected for accounting purposes). Subsequent to year-end, all unpaid property taxes are certified to the Lycoming County Delinquent Tax Office for further collection and possible tax sales over an additional 36-month period. Current tax collections for the year ended December 31, 2005 were 93.0% of the tax levy.

INVENTORY

Inventories in the General Fund consist of expendable supplies held for consumption, gasoline and postage. Inventory is valued at the lower of cost (first-in, first-out) or market.

Inventory of the Enterprise Fund, consisting of bus parts and supplies, is stated at the lower of cost (determined on a basis that approximates the last-in, first-out method) or market. The cost of inventory is recorded as an expenditure at the time individual inventory items are consumed (consumption method).

CAPITAL ASSETS

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Beginning on January 1, 2003, the City began to prospectively capitalize its investment in infrastructure assets pursuant to GASB Statement No. 34. Infrastructure assets include long-lived, immovable capital assets such as road systems, bridges, curbs and gutters, sidewalks, drainage systems and lighting systems. Prior to 2003, infrastructure was not capitalized.

Normal maintenance and repairs are charged to expense as incurred; major renewals or betterments which extend the life or increase the value of assets are capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
Buildings and improvements	40 years	40 years
Machinery and equipment	10-20 years	10-20 years
Furniture and fixtures	15-20 years	15-20 years
Office equipment	5-15 years	5-15 years
Computer equipment	5 years	5 years
Vehicles	5-10 years	5-10 years
Streets and roadways	20 years	-
Curbing and sidewalks	20 years	-

LIABILITIES FOR COMPENSATED ABSENCES

City employees are awarded vacations each year based upon the number of years served through December 31st of the preceding year. The City's policy generally provides that employees will be compensated for earned but unused vacation at retirement or termination.

The City's sick leave policy provides sick time to employees. Non-contract employees are permitted to accumulate up to a maximum of 150 days of sick time. Employees under labor contract are permitted unlimited accumulation of sick time. Details of the sick leave policies in effect for individual labor contracts are as follows:

- City Firemen are compensated at the rate of 30% of the employee's regular rate at retirement, for all unused sick time accumulated from January 1, 1999 through the date of retirement, not to exceed 120 days. In addition to this, City Firemen are compensated at the rate of one day per three days of sick leave accumulated through December 31, 1998, at the employee's regular rate at that date;
- City Policemen are compensated at the rate of 15% of the employee's regular rate for accumulated sick leave upon retirement, up to a maximum of 120 days;
- Transit employees have an attendance incentive plan whereby an employee with three or less sick occurrences per calendar year will be paid 5% and employees with perfect attendance per calendar year will be paid 10% of their accumulated sick leave at a rate of \$10 for every eight hours accumulated up to a maximum of \$2,000 upon retirement or termination. All other accumulated sick time is forfeited at that time, and;

- Employees covered under the AFSCME labor contract are compensated \$20 for each three day unit of unused sick time, up to a maximum of 120 three day units (360 days) for a maximum of \$2,400 upon retirement or termination. All other accumulated sick time is forfeited at that time.

Under the Fair Labor Standards Act, employees are permitted to accrue up to 240 hours of compensatory ("Comp") time for hours worked beyond 40 hours in any one week. Comp time is awarded at the premium rate of time and one-half. Upon termination of employment, any accumulated Comp time will be paid at a rate not less than the average regular rate of pay over the employee's last three years of employment or the final regular rate, whichever is higher.

DEFERRED REVENUE

Deferred revenue consists of receivables not collected within 60 days subsequent to the City's year-end (fund-perspective financial statements), advance billings by the River Valley Transit for each local municipality's share of its budgeted operating deficit, grant revenues received but not yet expended, and loans receivable associated with grant-funded revolving loan pools. It is expected that these items will be included in revenues of future fiscal years.

At December 31, 2005, the General, CDBG, HOME, Non-Revenue Escrow, Non-major and Enterprise funds had deferred revenues of \$1,143,524, \$443,723, \$721,176, \$731,909, \$99,594, and \$614,038, respectively.

PENSION PLANS

The City provides separate defined benefit pension plans for general employees, Police and Fire department personnel. It is the City's policy to fund its annual required contribution.

2. BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING

The City utilizes the Executive Budget approach to budgetary control. This approach requires the chief executive (i.e., Mayor), together with the Department of Accounts and Finance, to prepare and submit a governing financial plan to the legislative body on an annual basis.

All transfers or supplemental appropriations must be enacted by City Council. During the year, all transfers and appropriations were approved by City Council, in accordance with the Pennsylvania Third Class City Code. Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the department level.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

The City prepares its budgets for each fund type in accordance with accounting principles generally accepted in the United States of America ("GAAP" basis).

Accounting principles generally accepted in the United States of America require that the City include a combined statement of revenues, expenditures and changes in fund balances - budgeted and actual - for the General Fund and for each major special revenue fund for which *annual* budgets have been legally adopted. A statement of revenues, expenditures and changes in fund balance - budgeted and actual - General Fund is presented on page 23 of the accompanying financial statements.

The City does not adopt *annual* budgets for its Community Development Block Grant Fund, HOME Fund and Non-Revenue Escrow Fund, the three major special revenue fund types. Rather, program year budgets are adopted for these funds. These program year budgets, which are in effect through program conclusion (typically a three to five year period), are not required to be presented.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

PRIMARY GOVERNMENT

Pennsylvania statutes provide for the investment of governmental funds in 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 cash management and investment purposes, which the City does. In addition to the investments authorized for governmental funds, pension trust fund investments may be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practices. Act 72 requires all governmental (public funds) deposits not insured by the Federal Depository Insurance Corporation (FDIC) to be collateralized by the financial institution.

The deposit and investment policies of the City adhere to state statutes. Deposits of the governmental funds are either maintained in demand deposits, Pennsylvania Local Government Investment Trust ("PLGIT") or pooled for investment purposes in certificates of deposit. The deposits and investments of the three pension trust funds are administered by trustees and are held separately from those of other City funds.

Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures related to the following deposit and investment risks; credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following is a description of the City's deposit and investment risks.

DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the City will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, the City's total bank deposits were \$4,993,360. Of this amount, \$289,979 was insured by the FDIC. The remaining bank deposits of \$4,703,381 were exposed to custodial credit risk, since the deposits were collateralized with securities held by the pledging financial institutions, but not in the City's name.

INVESTMENTS

Assets in the pension trust funds are stated at fair value. The Police Pension Board, Fire Pension Board and Officers and Employees Pension Board have adopted investment guidelines that summarize the investment philosophy of the Boards, as follows:

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the city will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2005, all of the City's investments were held by Wachovia Securities, LLC, and were insured by SIPC or to the extent that the City's investments exceed SIPC coverage, are insured up to \$500,000 per account.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a credit rating by a nationally recognized rating organization. The City's investment policy protects against credit risk by limiting investments to the following:

- Only corporate or tax exempt debt issues that meet or exceed a credit rating of A from Standard & Poor's and/or an A rating from Moody's may be purchased;
- No issues may be purchased with more than 30 years to maturity.

As of December 31, 2005, the City's credit quality distribution of securities as a percentage of total investments is as follows:

CREDIT QUALITY DISTRIBUTION OF SECURITIES WITH
 CREDIT EXPOSURE AS A PERCENTAGE OF TOTAL INVESTMENTS

Corporate bonds	AAA	1.16%
Corporate bonds	AA	1.96%
Corporate bonds	A	4.17%
Corporate bonds	BAA	0.30%
Mortgaged backed securities	A	0.86%
Fannie Mae (Fed Nat Mortgage Assoc.)	AAA	0.52%
Federal Home Loan Mortgage Corporation	AAA	7.13%
Federal National Mortgage Association	AAA	10.63%
Federal Home Loan Bank	AAA	11.84%
Certificate of Deposit	AAA	1.79%
Certificate of Deposit	AA	0.56%

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City places limits on the amounts that may be invested in any one issuer. For all investments, the City may not invest more than 5% of the investment group's portfolio market value in one individual issuer/security (with the exception of the U.S. Government and its agencies). As of December 31, 2005, investments that exceeded 5% of the total portfolio's market value are as follows:

<u>SECURITY</u>	<u>% OF MARKET VALUE</u>
Federal National Mortgage Association	7.09%

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair-value losses arising from interest rates, the City's investment policy allows the investment manager to invest the fixed income component of the portfolio so as to prevent the returns for the fixed income portfolio from under performing the fixed income index by more than 3% in any quarter.

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table, which provides a distribution of the City's investments by maturity at December 31, 2005:

<u>INVESTMENT</u>	<u>MATURES</u>	<u>FAIR VALUE</u>
Corporate bonds	2009	\$ 36,590
Corporate bonds	2010	149,192
Corporate bonds	2011	1,190,320
Corporate bonds (Callable)	2011	544,483
Corporate bonds	2013	462,403
Corporate bonds (Callable)	2013	199,204
Corporate bonds (Callable)	2014	110,292
Corporate bonds	2015	181,629
Corporate bonds (Callable)	2015	110,292
Corporate bonds	2022	734,342
Corporate bonds	2035	274,915
US Treasury bills	2006	244,450
Federal Home Loan Mortgage Corporation	2009	2,085,348
Federal National Mortgage Association	2010	505,823
Federal Home Loan Bank	2010	690,110
Federal National Mortgage Association	2013	3,729,528
Federal Home Loan Bank	2013	474,912
Federal Home Loan Bank	2015	497,250
Federal Home Loan Mortgage Corporation	2015	956,640
Federal National Mortgage Association	2015	614,717
Federal Home Loan Bank	2017	2,238,432
Federal Home Loan Bank	2018	540,043
Fannie Mae	2020	274,645
Federal Home Loan Mortgage Corporation	2020	703,525
Federal Home Loan Bank	2020	1,789,125
Federal Home Loan Mortgage Association	2020	721,324
US Treasury Bonds	2023	417,271
FNMA Gov't Asset Backed Securities	2013	11,896
United States Treasury Inflation Index	2015	1,739,469
FHLMC Gov't Asset Backed Securities	2026	4,364
GNMA Gov't Asset Backed Securities	2028	5,401
FNMA Gov't Asset Backed Securities	2030	10,975
Mortgage Backed Securities	2018	452,270
Certificate of Deposit	2009	940,175
Certificate of Deposit	2015	294,352

Foreign Currency Risk – Foreign currency risk is the risk that changes in the foreign exchange rate will adversely affect the fair value of an investment. The investment policy of the City does not allow for the investment in securities exchanged in foreign denominations.

COMPONENT UNIT - MUNICIPAL AUTHORITY

CASH

At December 31, 2005 the carrying amount and bank balance of the Municipal Authority's deposits were \$20,313, all of which was covered by federal depository insurance.

4. DIRECT FINANCING LEASES

The City's direct financing lease activities consist of long-term office space rentals in a building owned by the River Valley Transit (the "RVT"). Such leases expire in 2029.

Following is a summary of the components of the RVT's net investment in direct financing leases at December 31, 2005:

Total minimum lease payments to be received	\$1,566,198
Estimated residual value of leased property	65,327
Unearned income	<u>(113,301)</u>
Net investment	<u>\$ 1,518,224</u>

Unearned income is amortized using the straight-line method over the lease term, 29 years.

Minimum lease payments to be received as of December 31, 2005 for each of the next five years are as follows:

2006	\$ 58,693
2007	58,693
2008	58,693
2009	59,057
2010	63,062
Thereafter	<u>1,268,000</u>
Total	<u>\$1,566,198</u>

5. PROPERTY TAXES

The City's property tax is levied each January 1 on the assessed values as of the date of levy for all taxable real property located in the City. The assessed value at January 1, 2005, upon which the 2005 levy was based, was \$957,536,970. The estimated market value was \$957,536,970 making the assessed value 100% of the estimated market value.

The City is permitted by state law to levy taxes up to \$25 per \$1,000 of assessed valuation for general governmental services. The tax rate to finance general governmental services for the year ended December 31, 2005, was \$8.52 per \$1,000, which means that the City has a tax margin of \$16.48 per \$1,000.

6. CAPITAL ASSETS

	BALANCE JANUARY <u>1, 2005</u>	<u>ACQUISITIONS</u>	<u>DISPOSALS</u>	BALANCE DECEMBER <u>31, 2005</u>
Governmental activities:				
Cost:				
Land, land improvements, and monuments	\$ 907,240	\$ 285,184		\$1,192,424
Infrastructure	4,767,435	3,609,686		8,377,121
Buildings and improvements	3,394,796	982,093		4,376,889
Furniture and equipment	1,329,717	120,950	\$(235,446)	1,215,221
Transportation	<u>3,134,191</u>	<u>268,634</u>	<u>(400,203)</u>	<u>3,002,622</u>
Total cost	<u>13,533,379</u>	<u>5,266,547</u>	<u>(635,649)</u>	<u>18,164,277</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Less accumulated
depreciation:

Land improvements and monuments	(10,898)	(13,102)		(24,000)
Infrastructure	(131,161)	(210,027)		(341,188)
Buildings and improvements	(2,113,807)	(78,351)		(2,192,158)
Furniture and equipment	(843,746)	(113,424)	208,193	(748,977)
Transportation	<u>(1,796,656)</u>	<u>(288,211)</u>	<u>384,586</u>	<u>(1,700,281)</u>
Total accumulated depreciation	<u>(4,896,268)</u>	<u>(703,115)</u>	<u>592,779</u>	<u>(5,006,604)</u>
Governmental activities capital assets, net	<u>\$ 8,637,111</u>	<u>\$ 4,563,432</u>	<u>\$ (42,870)</u>	<u>\$13,157,673</u>

Business – type activities:	BALANCE JANUARY 1, 2005	ADDITIONS	TRANSFERS	BALANCE DECEMBER 31, 2005
Cost:				
Land & land improvements	\$ 869,191		\$ 429,172	\$ 1,298,363
Buildings and improvements	9,982,487	\$ 6,261	434,072	10,422,820
Machinery and equipment	10,178,480	1,629,590		11,808,070
Property held under capital lease	2,277,644			2,277,644
Construction in process	<u>409,930</u>	<u>499,020</u>	<u>(863,244)</u>	<u>45,706</u>
Total cost	<u>23,717,732</u>	<u>2,134,871</u>	<u>-</u>	<u>25,852,603</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	BALANCE JANUARY 1, <u>2005</u>	<u>ADDITIONS</u>	TRANSFERS	BALANCE DECEMBER 31, 2005
Less				
accumulated				
depreciation				
for:				
Buildings and				
improvements	(2,532,312)	(339,718)		(2,872,030)
Machinery and				
equipment	(5,913,680)	(708,772)		(6,622,452)
Property held				
under				
capital lease	<u>(276,112)</u>	<u>(60,427)</u>		<u>(336,539)</u>
Total				
accumulated				
depreciation	<u>(8,722,104)</u>	<u>(1,108,917)</u>	_____	<u>(9,831,021)</u>
Business-type				
activities				
capital assets,				
net	<u>\$ 14,995,628</u>	<u>\$1,025,954</u>	<u>\$ _____ -</u>	<u>\$16,021,582</u>

**PROPERTY HELD UNDER CAPITAL LEASE -
 GOVERNMENTAL ACTIVITIES**

The City has entered into several agreements that have been accounted for as capital leases. These agreements cover vehicles, computer equipment, fire equipment and a radio system. These assets are being amortized over their respective lease terms, which approximate their estimated productive lives. Amortization of assets under capital leases related to governmental activities amounted to approximately \$84,000 for the year ended December 31, 2005.

CITY OF WILLIAMSPORT, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

The following is a schedule, by year, of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2005, as related to the City's governmental activities:

YEARS ENDING DECEMBER 31:

2006	\$ 146,475
2007	64,576
2008	3,081
2009	1,250
2010	<u>937</u>
Total minimum lease payments	216,319
Less amounts representing interest	<u>(14,854)</u>
Present value of net minimum lease payments	201,465
Less: current portion	<u>(135,959)</u>
Present value of net minimum lease payments, long-term	<u>\$ 65,506</u>

**PROPERTY HELD UNDER CAPITAL LEASE -
BUSINESS-TYPE ACTIVITIES**

During December 1999, River Valley Transit (the "RVT") became the lessee of a portion of a new parking deck (consisting of 150 parking spaces and an enclosed area for the exclusive use of its "Park and Ride" passenger program) under a capital lease agreement with the Williamsport Parking Authority. This lease term expires in 2029, with two bargain renewal options, which extend the term to 2049. Under the terms of this capital lease agreement, RVT was required to make the full lease payment upon commencement of the lease.

During 2001, the City entered into a capital lease financing arrangement for a radio system, which is shared among various City departments, including RVT. Although the lease term expires in 2006, RVT agreed to pay its share of the lease over the first two years of the agreement; the radio system is being amortized over the original lease term, 5 years.

These assets are being amortized over their respective lease terms, which approximate their estimated productive lives. Amortization of assets under capital leases amounted to \$60,427 for the year ended December 31, 2005.

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Following is a summary of property held under capital lease as related to the City's business-type activities:

150 parking spaces	\$2,100,000
Enclosed waiting area for "Park & Ride" Program	100,000
Radio system	<u>77,644</u>
	2,277,644
Less: Accumulated amortization	<u>(336,539)</u>
Property held under capital leases, net	<u>\$1,941,105</u>

7. INTERFUND BALANCES AND ACTIVITY

BALANCES DUE TO/FROM OTHER FUNDS

Individual fund receivable and payable amounts at December 31, 2005 were as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 771,998	\$ (139,261)
Special Revenue Funds:		
Community Development Block Grant	35,588	(96,619)
HOME		(35,588)
Non-Revenue Escrow	116,165	(196,218)
Liquid Fuels		(36,000)
Capital Reserve Fund	8,958	
Capital Projects Fund		(466,976)
Enterprise Fund	94,654	
Internal Service Fund (City Hall Operating)	40,227	(3,207)
Fiduciary Fund (Unemployment Compensation)	7,588	
Agency Fund	<u>-</u>	<u>(101,309)</u>
Total	<u>\$1,075,178</u>	<u>\$(1,075,178)</u>

Balances due to/from other funds primarily represent interfund borrowings for ongoing capital projects (including City Streetscape Projects, construction of a Transit Museum, and improvements/repairs to Historic Bowman Field) that are expected to be reimbursed by federal and state fund in future periods. Other less significant balances represent amounts due between funds for salary reimbursements and other cost allocations.

TRANSFERS TO/FROM OTHER FUNDS

Interfund transfers for the year ended December 31, 2005 were as follows:

	<u>IN</u>	<u>OUT</u>
General Fund	\$ 120,000	\$ 495,223
Non-Revenue Escrow Fund	16,000	
Special Revenue Funds:		
Community Development Block Grant	39,300	120,000
Community Development Home		39,300
Capital Projects	1,390,000	900,000
Capital Reserve	58,958	
Debt Service	1,015,449	1,390,000
Proprietary Funds,		
Enterprise Fund (RVT)	293,664	6,357
Fiduciary Fund (Unemployment Compensation)	<u>17,509</u>	<u>-</u>
 Total	 <u>\$2,950,880</u>	 <u>\$2,950,880</u>

The General Fund made interfund transfers in support of Capital Project and Enterprise Fund operations, as well as its share of the activity within the Unemployment Compensation Fund. CDBG activity is intra-program in nature.

8. LONG-TERM DEBT

PRIMARY GOVERNMENT

The following is a summary of changes in long-term debt obligations of the City for the year December 31, 2005:

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Notes/Lease rentals payable, January 1, 2005	\$2,059,700	\$249,043	\$2,308,743
Additions	1,440,898	250,000	1,690,898
Payments	<u>(921,633)</u>	<u>(249,043)</u>	<u>(1,170,676)</u>
Notes/Lease rentals payable, December 31, 2005	2,578,965	250,000	2,828,965
Less: current portion	<u>(100,417)</u>	<u>-</u>	<u>(100,417)</u>
Notes/Lease rentals payable, long-term	<u>\$2,478,548</u>	<u>\$250,000</u>	<u>\$2,728,548</u>

GOVERNMENTAL ACTIVITIES

**\$6,000,000 GUARANTEED NOTE,
SERIES OF 2005 (C&N BANK)**

In February 2005, the City entered into a lease rental agreement with the Municipal Authority in the amount of \$6,000,000 to finance a variety of capital projects, including: a street resurfacing and rehabilitation project; improvements to City storm sewer and fire hydrant systems; improvements to and furnishing of City Hall; purchasing street lights and other capital equipment; paying capitalized interest on the note, and; paying the costs of financing the note. Proceeds of the 2005 note are available to the City as a non-revolving line of credit from the bank. The note bears interest at the rate of 4.875% per annum; interest payments are due semi-annually on May 15 and November 15 of each year. Principal payments commence on May 15, 2008, and continue through and including May 15, 2032. The outstanding principal balance on this note was \$1,412,000 at December 31, 2005.

**\$1,000,000 GUARANTEED REVENUE NOTE,
SERIES B OF 2004 (FEDERALLY TAXABLE) (LEGACY BANK)**

In December 2004, the City entered into a lease rental agreement with the Municipal Authority in the amount of \$1,000,000 to finance a portion of the City's annual pension cost (minimum municipal obligation). Lease rental interest only payments began in 2005 at a rate of 5.46% through May 15, 2012 and then the rate shall float at Prime minus .60% (not to exceed 8%) until maturity. Monthly principal payments are deferred until 2006 and are required on an annual basis through May 2015. The outstanding principal balance on this note was \$1,000,000 at December 31, 2005.

**\$1,000,000 GUARANTEED REVENUE NOTE,
SERIES C OF 2004 (FEDERALLY TAXABLE) (M&T BANK)**

In December 2004, the City entered into a lease rental agreement with the Municipal Authority in the amount of \$1,000,000 to finance costs associated with approved projects that are awaiting reimbursement from grant funds. Lease rental interest only payments begin January 2005. Monthly interest payments are required on the 15th of each month, at a variable rate not to exceed 8%, through May 2009, with principal payments required on an annual basis beginning May 15th through May 2009. During 2005, the City made \$900,000 in principal payments on this note; the outstanding principal balance on this note was \$100,000 at December 31, 2005.

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

**\$100,000 NOTE PAYABLE,
 FIRST COMMUNITY FOUNDATION OF PENNSYLVANIA**

In February 1997, the City entered into a non-interest bearing note payable agreement with the First Community Foundation of Pennsylvania (formerly the Williamsport-Lycoming Foundation) (the "Foundation") in the amount of \$100,000 for the purpose of renovating the playing surface at Bowman Field. Under the terms of the original agreement, the City was required to pay this note in full by February 2002. In 2002, a new agreement was negotiated with the Foundation to extend the payment terms of the note. This unsecured note is now payable in monthly installments of \$1,000, with final payment due in March 2009. The outstanding principal on this note was \$47,699 at December 31, 2005.

**\$28,898 NOTE PAYABLE,
 POWER PRO EQUIPMENT**

In June 2005, the City entered into a note payable with Power Pro Equipment for the purpose of financing the purchase of a "Hustler" Tractor. The note bears interest at 5% and is due in annual payments of \$10,596 including principal and interest, and matures in 2007. The principal balance outstanding on this note was \$19,265 at December 31, 2005. This note is secured by the tractor, which had a net book value of \$28,610 at December 31, 2005.

The following is a schedule, by year, of the future minimum principal and interest payments required under the note payable and lease rental agreements as of December 31, 2005:

YEARS ENDING DECEMBER 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 100,417	\$ 127,369	\$ 227,786
2007	104,859	122,445	227,304
2008	167,928	76,646	244,574
2009	235,278	108,772	344,050
2010	130,313	96,781	227,094
2011-2015	745,186	390,285	1,135,471
2016-2020	236,122	244,975	481,097
2021-2025	299,569	181,528	481,097
2026-2030	380,064	101,033	481,097
2031-2032	<u>179,228</u>	<u>13,210</u>	<u>192,438</u>
Totals	<u>\$2,578,964</u>	<u>\$1,463,044</u>	<u>\$4,042,008</u>

BUSINESS-TYPE ACTIVITIES

In December 1998, RVT entered into a lease rental agreement with the Municipal Authority in the amount of \$3,000,000 to finance a construction project. Lease rental payments were deferred until January 2000, at which time monthly payments began. Monthly payments of \$12,500 plus accrued interest at 3.93% are required through December 31, 2005, with a final payment of all unpaid principal and interest due on January 1, 2006. During 2005, this note was paid by the City and RVT is repaying the note to the City according to the original terms.

Under the terms of this agreement, RVT is required to make the following payments, which correspond to the Municipal Authority's debt repayment schedule:

<u>YEAR</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006		\$ 12,188	\$ 12,188
2007		12,187	12,187
2008	\$ 5,329	12,188	17,517
2009	5,589	11,928	17,517
2010	5,861	11,655	17,516
2011-2015	33,881	53,701	87,582
2016-2020	42,986	44,597	87,583
2021-2025	54,536	33,047	87,583
2026-2030	69,190	18,393	87,583
2031-2035	<u>32,628</u>	<u>2,405</u>	<u>35,033</u>
	<u>\$250,000</u>	<u>\$212,289</u>	<u>\$462,289</u>

9. EMPLOYEE PENSION FUNDS

PLAN DESCRIPTIONS

The Williamsport Officers' and Employees' Pension Fund ("O&E"), Williamsport Firemen's Pension Fund ("Fire") and Williamsport Police Pension Fund ("Police") (collectively, the "Plans") are single-employer defined benefit pension plans administered by the City. The Plans were established effective May 23, 1945. The City is the only participating employer in the Plans. Stand-alone financial statements are not issued for the Plans, nor are the Plans included in the report of any public employee retirement system or other entity.

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Additional information related to each of the plans is as follows:

	<u>Officers' and Employees' Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Police Pension Fund</u>
Employee groups covered	Any elected or appointed official, or any person employed by the City on a permanent basis	Any person employed on a full-time basis by the City as a firefighter	Any person employed on a full-time basis by the City as a police officer
Legislative body governing plan and responsible for management of plan assets	Officers' and Employees' Retirement Board	Firemen's Pension Board	Council of the City of Williamsport
Normal retirement age	60	50	50
Years of service requirement prior to retirement	20	20	20
Monthly retirement benefits	Fifty percent of the higher of: (1) monthly rate of compensation at date of severance; or (2) compensation averaged over the final sixty month period prior to termination	Fifty percent of the higher of: (1) compensation averaged over the twelve month period prior to termination; or (2) compensation averaged over any five year period prior to termination	Fifty percent of the compensation averaged over the last 12 month period prior to termination
Monthly service increment benefit	None	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100; service after age sixty-five shall not be included	Equal to one-fortieth of the pension benefit for each completed year of service in excess of twenty years, up to a maximum of \$100; service after age sixty-five shall not be included

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	<u>Officers' and Employees' Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Police Pension Fund</u>
Reduction in monthly retirement benefit	None	None	None
Disability benefits: Eligibility	Upon total and permanent disablement which occurs following the completion of fifteen years of service	Upon total and permanent disablement for service related injuries, regardless of length of service; and upon total and permanent disablement which occurs after five years of service for non-service related injuries	Upon total and permanent disablement which occurs while performing duties of a police officer for the City of Williamsport
Monthly disability benefits	Same as monthly retirement benefit, but no reduction for social security benefits	Equal to the accrued benefit based upon average monthly compensation and years of service at the date of disablement	Same as monthly retirement benefit calculated at date of disablement
Death benefits - Spouse			
Before retirement	Refund of contributions if any, without interest	Monthly benefit equal to fifty percent of the accrued benefit until death or remarriage for non-service related death; monthly benefit equal to one hundred percent of accrued benefit until death or remarriage for service-related death	Refund of contributions without interest if participant had less than twenty years of service; if after twenty years of service, receives same benefit as if death occurred after retirement

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	<u>Officers' and Employees' Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Police Pension Fund</u>
After retirement	Excess of participant's accumulated contributions over the total payment received shall be paid to participant's estate	Monthly benefit equal to 100% of pension participant was receiving or entitled to receive on day of participant's death is payable to spouse until death or remarriage. In the event of the death of the spouse, each of the participant's dependent children will receive an equal share of benefit until their 18 th birthday	Monthly benefit equal to 100% of the pension participant was receiving or entitled to receive on the day of participant's death is payable to spouse

Membership of the Plans consisted of the following at January 1, 2005, the date of the latest actuarial valuation:

	<u>Officers' and Employees' Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Police Pension Fund</u>
Retirees and beneficiaries receiving benefits	33	80	65
Terminated members entitled to but not yet receiving benefits	4	3	-
Active plan members	<u>107</u>	<u>34</u>	<u>53</u>
Total	<u>144</u>	<u>117</u>	<u>118</u>

FUNDING POLICY

The contribution requirements of plan members are established and may be amended by the respective legislative bodies governing each of the plans (see Plan Descriptions). Employees are required to contribute five percent of compensation to the respective plans. Participants in the Police and Fire plans are required to contribute an additional \$1 per month until age sixty-five.

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

The contribution requirements of the City are determined in accordance with the Commonwealth of Pennsylvania's Municipal Pension Plan Funding and Recovery Act (Act 205 of 1984, [the "Act"]). The Act requires that annual contributions be based on a Minimum Municipal Obligation ("MMO"), as determined in connection with the Plans' biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions and a credit equal to ten percent of the excess (if any) of the actuarial present value of assets over the actuarial accrued liability.

The Commonwealth of Pennsylvania provides an allocation of funds that must be used for pension funding. The City must fund any financial requirement established by the MMO that exceeds state/member contributions.

For the year ended December 31, 2005, the combined City/Commonwealth contributions to the Fire, Police and O&E plans were \$1,208,437, \$828,782 and \$243,320, respectively, each of which was equal to the related MMO.

ANNUAL PENSION COST AND NET PENSION ASSET

The City's annual pension cost and net pension asset for the current year were calculated as follows:

	Officers' and Employees' Pension <u>Fund</u>	Firemen's Pension <u>Fund</u>	Police Pension <u>Fund</u>
Annual required contribution	\$ (243,320)	\$(1,208,437)	\$(828,782)
Interest on net pension asset	16,907	2,972	11,065
Adjustment to annual required contribution	<u>-</u>	<u>(6,259)</u>	<u>-</u>
Annual pension cost	(226,413)	(1,211,724)	(817,717)
Contributions made	<u>238,745</u>	<u>1,208,437</u>	<u>828,782</u>
Increase (decrease) in net pension asset	12,332	(3,287)	11,065
Net pension asset, beginning of year	<u>211,341</u>	<u>39,627</u>	<u>138,307</u>
Net pension asset, end of year	<u>\$223,673</u>	<u>\$ 36,340</u>	<u>\$149,372</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

The annual required contribution ("ARC") for the current year was determined as part of the January 1, 2005 actuarial valuation, which used the following assumptions:

<u>Actuarial assumption</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Police Pension Fund</u>
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Investment rate of return	8%	7.5%	8%
Projected salary increase	5%	5%	5%
Consumer price index	3%	3%	3%
Asset valuation method	Fair value	Fair value	Fair value
Remaining amortization period	12 years	9 years	13 years

TREND INFORMATION

<u>Plan and Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Officers' and Employees' Pension Fund			
12/31/05	\$ 226,413	105%	\$(223,673)
12/31/04	223,090	107%	(211,341)
12/31/03	7,658	289%	(195,686)
12/31/02	(13,422)	N/A	(181,191)
12/31/01	(12,427)	N/A	(167,769)
Firemen's Pension Fund			
12/31/05	\$1,211,724	100%	(36,340)
12/31/04	1,239,497	100%	(39,628)
12/31/03	990,493	99%	(43,212)
12/31/02	787,002	99%	(47,120)
12/31/01	727,900	99%	(51,382)
Police Pension Fund			
12/31/05	\$817,717	101%	(149,372)
12/31/04	804,855	101%	(138,307)
12/31/03	450,696	102%	(128,062)
12/31/02	211,533	104%	(118,576)
12/31/01	183,916	104%	(109,793)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are made. Employer contributions to each Plan are recognized when made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

METHOD USED TO VALUE INVESTMENTS

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

CONTRIBUTIONS

Employee contributions are governed by the Plans' respective governing ordinances and collective bargaining. (See Funding Policy above).

Employer contributions are determined pursuant to the Commonwealth of Pennsylvania's Municipal Pension Funding and Recovery Act (Act 205 of 1984, [see Funding Policy above]).

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plans and funded through the MMO and/or Plan earnings.

10. DEFINED CONTRIBUTION (SECTION 457) PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, known as the United States Conference of Mayors Deferred Compensation Program, is administered by the Public Employees Benefit Services Corporation ("PEBSCO"). The Plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency, as defined.

11. OTHER POSTRETIREMENT BENEFITS

In addition to the pension benefits described in Note 9, the City provides other postretirement benefits, consisting of health-care benefits and life insurance for retired employees who are participants in the City Firemen's and Police pension plans and their dependents, and life insurance for retired employees who are participants in the City Officers' and Employees' pension plan. Currently, 173 retirees plus their dependents meet those eligibility requirements. Such benefits are provided in accordance with various union contracts. All costs in relation to these benefits are absorbed by the City.

Expenditures for postretirement benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2005, expenditures of approximately \$1,059,000 were recognized for these health insurance and life insurance benefits.

12. WORKERS' COMPENSATION

During the period from 1994 through June 1997, the City established and maintained a workers' compensation trust fund. The purpose of this fund was to provide and maintain reserves for liabilities incurred under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act. During this time, the City retained the risk arising from liabilities related to Workers' Compensation. Workers' compensation payments made during the year ended December 31, 2005 that relate to claims made during the 1994 through June 1997 timeframe amounted to \$12,549. As of December 31, 2005, known Workers' Compensation claims did not exceed amounts held in reserve for such claims.

During June 1997, the City changed its approach to Workers' Compensation risk management from self-insurance to an indemnity plan and negotiated a commercial insurance contract to cover this risk.

13. RELATED ORGANIZATIONS

The City's officials are responsible for appointing certain members of the governing boards of other organizations; but the City's accountability for these organizations during 2005 did not extend beyond making the appointments. A majority of the boards of the following organizations are either appointed by City Council or recommended and nominated by the Mayor and approved by City Council:

- Williamsport Municipal Water Authority
- Williamsport Sanitary Authority
- Williamsport Parking Authority

In addition to the above, City Council voted to dissolve the Williamsport Housing Authority (the "City Housing Authority") (a related party at December 31, 2004) effective September 30, 2005. Pursuant to an *Agreement Plan of Complete Dissolution of the Williamsport Housing Authority and the Assumption of All Contractual Obligations, Assets, and Outstanding Debts of the Former Williamsport Housing Authority by the Lycoming County Housing Authority* (the "Dissolution Agreement"), the City agreed to transfer all public housing assets and all other non-liquid assets of the City Housing Authority to the Housing Authority of the County of Lycoming, Pennsylvania (the "County Housing Authority"). The County Housing Authority's Board of Directors, by resolution, accepted the transfer, and agreed to maintain all contractual and operational responsibilities of the City Housing Authority with the United States Department of Housing and Urban Development. The County Housing Authority also agreed to be solely responsible for and to hold both the City and the City Housing Authority harmless of any and all unpaid, unreleased or undischarged debts and other obligations (contractual or bonded) of the City Housing Authority.

During the year ended December 31, 2005, the Williamsport Parking Authority purchased certain management services from River Valley Transit (an enterprise fund operation of the City) amounting to \$44,321.

14. COMMITMENTS AND CONTINGENT LIABILITIES

LITIGATION

The City has been named as a defendant in various lawsuits which relate to the day-to-day operations of City government. In the opinion of management and legal counsel, the resolution of these lawsuits will not have a material adverse effect on the City's financial position or results of operations.

GRANT PROGRAMS

In June 2000, representatives from the U.S. Department of Housing and Urban Development ("HUD") conducted a review of the City's Community Development Block Grant ("CDBG") program. This review identified numerous concerns and questioned costs, which led to a program audit by HUD's Office of the Inspector General (the "Inspector General"). The Inspector General's program audit report was issued on March 19, 2002. This report identified a number of findings and alleged program violations and unsupported payments/draw downs. By working with the Comptroller's Office for Community Planning and Development, the City successfully resolved all outstanding issues related to the program audit report in 2005.

In August 2003, representatives from the U.S. Department of Housing and Urban Development ("HUD") conducted a subsequent monitoring review of the City's CDBG program. The HUD representatives noted improvement relative to documentation of compliance with HUD regulations. The City successfully responded to the findings of the 2003 monitoring report and all findings were cleared.

In addition to the CDBG program, the City also participates in a variety of other federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City is potentially liable for any expenditure that may be disallowed pursuant to the terms of these grant programs.

TAX REVENUE ANTICIPATION NOTE - 2006

In December 2005, City Council approved a resolution authorizing City Officials to enter into a Tax and Revenue Anticipation Note, Series I of 2006, dated January 1, 2006, in the amount of \$1,500,000, bearing interest at a variable rate based upon 65% of the one-month LIBOR Rate plus a margin of 1.5%, not to exceed 8.34%, maturing on December 31, 2006.

ENVIRONMENTAL

The City maintains a fuel storage facility. The City is potentially liable for any expenditures associated with compliance to mandated regulations and any assessments by regulatory authorities related to this facility or other similarly situated facilities.

15. SUBSEQUENT EVENTS

LEASE OF 2006 GMC BUCKET TRUCK

In January 2006, City Council approved a resolution authorizing a municipal tax-exempt lease purchase financing agreement for a 2006 GMC Aerial Lift Bucket Truck. The cost of the vehicle was \$111,569. Under the terms of the lease, the City is required to make four annual lease payments of \$30,163, including principal and interest at a rate of 5% per annum.

COUNTY TRANSFER OF "THE CENTER" BUILDING

Also in January 2006, the City entered into an agreement with the County of Lycoming, Pennsylvania (the "County"), wherein the County surrendered all rights, title and interest in a building located at 600 Campbell Street, Williamsport, Pennsylvania, known as "The Center" (formerly the Bethune Douglas Community Center) to the City.

16. PENDING CHANGES IN ACCOUNTING PRINCIPLES

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pensions*. Other post-employment benefits (OPEB) include health insurance and life insurance. This statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26. If applicable, the City would be required to adopt Statement No. 43 for its calendar year 2007 financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. Other post-employment benefits (OPEB) include health insurance and life insurance. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities (assets) in the financial statements of state and local governments. The City will be required to adopt Statement No. 45 for its calendar year 2008 financial statements.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The City will be required to adopt Statement No. 46 for its calendar year 2006 financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. GASB 47 requires that a liability and expense be recognized for voluntary termination benefits when the offer is accepted, and that a liability and expense be recognized for involuntary termination benefits (for example, severance benefits) when a plan has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. The City will be required to adopt Statement No. 47 for its calendar year 2006 financial statements.

City management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

CITY OF WILLIAMSPORT, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - PENSION TRUST FUNDS (UNAUDITED)
 FOR THE YEAR ENDED DECEMBER 31, 2005

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (Asset)	Funded Ratio (a)/(b)	Annual Covered Payroll	Ratio of Unfunded Liability to Annual Covered Payroll
<u>POLICE PENSION FUND</u>						
January 1, 2005	\$ 23,025,939	\$ 21,760,869	\$ (1,265,070)	105.81%	\$ 3,280,897	N/A
January 1, 2003	20,397,776	22,806,903	2,409,127	89.44%	3,052,756	78.92%
January 1, 2001	19,523,424	19,181,587	(341,837)	101.78%	2,834,560	N/A
January 1, 1999	19,070,275	16,381,194	(2,689,081)	116.42%	2,602,332	N/A
January 1, 1997	15,333,032	13,405,949	(1,927,083)	114.37%	2,396,964	N/A
<u>FIREMEN'S PENSION FUND</u>						
January 1, 2005	\$ 15,576,933	\$ 19,449,427	\$ 3,872,494	80.09%	\$ 1,696,453	228.27%
January 1, 2003	13,174,201	19,940,005	6,765,804	66.07%	1,557,749	434.33%
January 1, 2001	12,339,737	17,862,197	5,522,460	69.08%	1,720,660	320.95%
January 1, 1999	11,882,081	16,589,739	4,707,658	71.62%	1,517,956	310.13%
January 1, 1997	9,388,005	14,776,857	5,388,852	63.53%	1,469,314	366.76%
<u>OFFICERS' AND EMPLOYEES' PENSION PLAN</u>						
January 1, 2005	\$ 10,441,771	\$ 8,673,065	\$ (1,768,706)	120.39%	\$ 3,726,549	0.00%
January 1, 2003	9,014,865	9,716,550	701,685	92.78%	3,539,914	19.82%
January 1, 2001	8,244,863	7,451,727	(793,136)	110.64%	2,288,980	N/A
January 1, 1999	8,089,429	6,223,592	(1,865,837)	129.98%	2,986,571	N/A
January 1, 1997	6,585,508	5,694,798	(890,710)	115.64%	2,636,203	N/A

Note: The January 1, 2005 actuarial valuation recognized two assumption changes. (1) The actuarial value of assets was changed from a smoothing method whereby one-third of market value gains and losses were recognized at each valuation date and the remaining two-thirds were deferred to future biennial valuations to a market value method. (2) The salary scale assumption was lowered from 5.5% to 5% for the Police and Fire Plans.

Note: As permitted by GASB No. 25, the City has elected to value these plans on a biennial basis.

See Note to Required Supplementary Information - Pension Trust Funds

CITY OF WILLIAMSPORT, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION TRUST FUNDS (UNAUDITED)
 FOR THE YEAR ENDED DECEMBER 31, 2005

YEAR ENDED DECEMBER 31,	POLICE PENSION FUND		FIREMEN'S PENSION FUND		OFFICERS' AND EMPLOYEES' PENSION FUND	
	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
2005	\$828,782	100%	\$1,208,437	100%	\$243,320	100%
2004	815,100	100%	1,235,913	100%	238,745	100%
2003	460,182	100%	986,585	100%	22,153	100%
2002	220,316	100%	782,740	100%	-	N/A
2001	192,049	100%	723,253	100%	-	N/A
2000	167,750	100%	720,013	100%	-	N/A
1999	128,121	100%	736,322	100%	29,142	100%
1998	126,600	100%	771,555	100%	20,657	100%
1997	478,565	100%	966,993	100%	107,098	100%

See Note to Required Supplementary Information - Pension Trust Funds

CITY OF WILLIAMSPORT, PENNSYLVANIA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION TRUST FUNDS
DECEMBER 31, 2005 (UNAUDITED)**

ACTUARIAL ASSUMPTIONS

The following actuarial assumptions were used in the January 1, 2005 actuarial valuation, the most recent actuarial valuation:

<u>Actuarial assumption</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Firemen's Pension Fund</u>	<u>Police Pension Fund</u>
Actuarial cost method	Entry Age Normal Actuarial Cost Method	Entry Age Normal Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Investment rate of return	8%	7.5%	8%
Projected salary increase	5%	5%	5%
Consumer Price Index	3% per annum	3% per annum	3% per annum
Asset valuation method	Fair value	Fair value	Fair value
Remaining amortization period	12 Years	9 years	13 Years

CITY OF WILLIAMSPORT, PENNSYLVANIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE JANUARY 1, 2005	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE DECEMBER 31, 2005
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>							
Community Development Block Grant Entitlement Grants	14.218	\$ 1,405,332	\$ 597,850	\$ 23,801	\$ 574,049	\$ 574,049 *	\$ -
Community Development Block Grant Entitlement Grants	14.218	1,536,000	1,035,339	-	1,057,431	1,057,431 *	22,092
Community Development Block Grant Entitlement Grants	14.218	1,453,432	-	-	-	- *	-
Community Development Block Grant Entitlement Grants - Program Income	14.218	N/A	63,965	-	63,965	63,965 *	-
Community Planning and Development - HOME Program	14.239	2,170,576	442,579	25,302	440,573	440,573 *	23,296
Community Planning and Development - HOME Program - Program Income	14.239	N/A	39,880	(26,694)	40,815	40,815 *	(25,759)
EDI-Special Project No. B-02-SP-PA-0614	N/A	250,000	285	-	285	285	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>2,179,898</u>	<u>22,409</u>	<u>2,177,118</u>	<u>2,177,118</u>	<u>19,629</u>
<u>U.S. DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE:</u>							
Passed through Pennsylvania Historical and Museum Commission, Historical Preservation Fund Grants-In-Aid	15.904	5,492	-	-	-	-	-
<u>U.S. DEPARTMENT OF JUSTICE:</u>							
Local Law Enforcement Block Grants Program	16.592	36,776	-	(22,882)	22,882	22,882	-
Local Law Enforcement Block Grants Program	16.592	13,441	13,441	-	13,441	13,441	-
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>13,441</u>	<u>(22,882)</u>	<u>36,323</u>	<u>36,323</u>	<u>-</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>							
Urban and Community Forestry (Title II)	10.664	12,000	12,000	-	12,000	12,000	-
Urban and Community Forestry (Title II)	10.664	18,000	9,000	-	-	-	(9,000)
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>21,000</u>	<u>-</u>	<u>12,000</u>	<u>12,000</u>	<u>(9,000)</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED		REVENUE RECOGNIZED	EXPENDITURES	ACCRUED	
				(DEFERRED) REVENUE JANUARY 1, 2005	REVENUE RECOGNIZED			(DEFERRED) REVENUE DECEMBER 31, 2005	REVENUE RECOGNIZED
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>									
Federal Transit Administration Capital Improvement Grant	20.500	1,980,630	149,227	-	-	149,227	149,227	-	-
Federal Transit Administration Capital Improvement Grant	20.500	1,457,667	1,344	-	-	1,233,308	1,233,308	1,231,964	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	650,878	8,282	-	-	8,282	8,282	-	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	712,502	-	-	-	2,180	2,180	2,180	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	656,359	12,835	-	-	-	-	-	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	657,121	657,121	357,906	-	299,215	299,215	-	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	687,758	171,940	-	-	343,880	343,880	171,940	-
Federal Transit Administration Capital and Operating Assistance Grant	20.516	100,000	25,000	25,000	-	-	-	-	-
Passed through Pennsylvania Department of Transportation:									
Highway Planning and Construction	20.205	1,614,610	475,336	182,946	-	300,962	300,962	8,572	-
Highway Planning and Construction	20.205	350,000	350,000	-	-	350,000	350,000	-	-
Highway Planning and Construction	20.205	598,000	384,987	-	-	409,276	409,276	24,289	-
Appalachian Area Development	23.002	40,000	40,000	-	-	40,000	40,000	-	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>2,276,072</u>	<u>578,687</u>		<u>3,136,330</u>	<u>3,136,330</u>	<u>1,438,945</u>	

CITY OF WILLIAMSPORT, PENNSYLVANIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE JANUARY 1, 2005	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE DECEMBER 31, 2005
<u>U.S. DEPARTMENT OF HEALTH RESOURCES AND SERVICES ADMINISTRATION</u>							
Passed through the Pennsylvania Department of Health, Health Care and Other Facilities	93.887	2,999	2,999	-	-	-	(2,999)
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>							
Assistance to Firefighters Grant	97.044	6,597	5,023	-	6,597	6,597	1,574
Passed through Pennsylvania Emergency Management Agency, Public Assistance Grants	97.036	142,007	142,007	-	142,007	142,007	-
			147,030	-	148,604	148,604	1,574
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY							
TOTAL FEDERAL ASSISTANCE			\$ 4,640,440	\$ 578,214	\$ 5,510,375	\$ 5,510,375	\$ 1,448,149

* Tested as a "major" program.

Notes: This schedule includes the federal award activity of the City of Williamsport, PA, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts may differ from amounts presented in, or used in the preparation of the financial statements.

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2005

	LIQUID FUELS	HOME REHAB	REDEV. AUTHORITY	CAPITAL RESERVE	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:						
Cash and cash equivalents	\$ 118,838	\$ 45,866	\$ 33,553	\$ -	\$ -	\$ 198,257
Receivables:						
Loans		99,594	-	-	-	99,594
Other	591	-	-	8,958	-	591
Due from other funds	-	-	-	-	-	8,958
Total assets	\$ 119,429	\$ 145,460	\$ 33,553	\$ 8,958	-	307,400
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Vouchers payable	\$ 29,762	\$ -	\$ 20,259	\$ 8,958	\$ -	\$ 58,979
Due to other funds	36,000	99,594	-	-	-	36,000
Deferred revenue	-	-	-	-	-	99,594
Total liabilities	65,762	99,594	20,259	8,958	-	194,573
Fund balances:						
Reserved for:						
Liquid Fuels tax purposes	53,667	45,866	-	-	-	53,667
Home rehabilitation	-	-	13,294	-	-	45,866
Redevelopment activities	-	-	-	-	-	13,294
Total fund balances	53,667	45,866	13,294	-	-	112,827
Total liabilities and fund balances	\$ 119,429	\$ 145,460	\$ 33,553	\$ 8,958	\$ -	\$ 307,400

CITY OF WILLIAMSPORT, PENNSYLVANIA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

	LIQUID FUELS	HOME REHAB	REDEV. AUTHORITY	CAPITAL RESERVE	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:						
Interest, rents, royalties	\$ 7,920	\$ 180	\$ -	\$ -	\$ -	\$ 8,100
Intergovernmental	-	-	-	-	-	-
Federal	550,976	-	-	-	-	550,976
State	28,356	-	89,024	-	-	117,380
Local	-	39,284	-	-	-	39,284
Collections on loans	-	-	11,337	-	-	11,337
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>587,252</u>	<u>39,464</u>	<u>100,361</u>	<u>-</u>	<u>-</u>	<u>727,077</u>
EXPENDITURES:						
Current:						
General government	-	-	1,345	-	-	1,345
Public Safety	-	-	-	80,155	-	80,155
Public works	606,412	-	-	-	-	606,412
Culture and recreation	-	-	-	-	-	-
Education	-	-	97,570	-	-	97,570
Revolving loans and grants	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-
Total expenditures	<u>606,412</u>	<u>-</u>	<u>98,915</u>	<u>80,155</u>	<u>-</u>	<u>785,482</u>
Excess (deficiency) of revenues over expenditures	<u>(19,160)</u>	<u>39,464</u>	<u>1,446</u>	<u>(80,155)</u>	<u>-</u>	<u>(58,405)</u>
OTHER FINANCING SOURCES (USES):						
Proceeds from the issuance of long-term debt	-	-	-	58,958	1,412,000	1,412,000
Debt service	-	-	-	(106,903)	(1,037,449)	(1,037,449)
Transfers in	-	(39,300)	-	-	1,015,449	1,074,407
Transfers out	-	-	-	(47,945)	(1,390,000)	(1,536,203)
Total other financing sources and uses	<u>-</u>	<u>(39,300)</u>	<u>-</u>	<u>(47,945)</u>	<u>-</u>	<u>(87,245)</u>
Net change in fund balances	<u>(19,160)</u>	<u>164</u>	<u>1,446</u>	<u>(128,100)</u>	<u>-</u>	<u>(145,650)</u>
Fund balances - beginning	<u>72,827</u>	<u>45,702</u>	<u>11,848</u>	<u>128,100</u>	<u>-</u>	<u>258,477</u>
Fund balances - ending	<u>\$ 53,667</u>	<u>\$ 45,866</u>	<u>\$ 13,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,827</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PENSION TRUST FUNDS
 DECEMBER 31, 2005
 (UNAUDITED)

	FIREMEN'S PENSION	POLICE PENSION	O&E PENSION	TOTAL
ASSETS:				
Cash and cash equivalents	\$ 35,257	\$ 106,943	\$ 59,633	\$ 201,833
Receivables, Other	<u>89,536</u>	<u>116,987</u>	<u>51,850</u>	<u>258,373</u>
Investments, at fair value:				
U.S. Government securities	6,350,893	8,451,653	3,904,974	18,707,520
Domestic corporate bonds	1,718,569	2,378,940	1,130,976	5,228,485
Domestic equity securities	8,254,054	13,012,522	5,886,080	27,152,656
Mutual funds	<u>436,684</u>	<u>606,288</u>	<u>230,128</u>	<u>1,273,100</u>
Total investments	<u>16,760,200</u>	<u>24,449,403</u>	<u>11,152,158</u>	<u>52,361,761</u>
TOTAL	<u>\$ 16,884,993</u>	<u>\$ 24,673,333</u>	<u>\$ 11,263,641</u>	<u>\$ 52,821,967</u>
NET ASSETS,				
Held in trust for benefits and other purposes	<u>\$ 16,884,993</u>	<u>\$ 24,673,333</u>	<u>\$ 11,263,641</u>	<u>\$ 52,821,967</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
(UNAUDITED)

	FIREMEN'S PENSION	POLICE PENSION	O&E PENSION	TOTAL
ADDITIONS:				
Contributions:				
Employer	\$ 765,615	\$ 528,608	\$ 154,011	\$ 1,448,234
Commonwealth of Pennsylvania	443,551	304,200	89,309	837,060
Employees	97,688	163,090	186,577	447,355
Total contributions	<u>1,306,854</u>	<u>995,898</u>	<u>429,897</u>	<u>2,732,649</u>
Investment earnings:				
Interest and dividends	522,848	742,079	344,146	1,609,073
Net appreciation in fair value of investments	710,170	1,177,756	476,562	2,364,489
Total investment earnings	1,233,018	1,919,835	820,708	3,973,561
Less investment expense	(53,253)	(63,093)	(36,207)	(152,553)
Net investment earnings	<u>1,179,765</u>	<u>1,856,742</u>	<u>784,501</u>	<u>3,821,008</u>
Total additions	<u>2,486,619</u>	<u>2,852,640</u>	<u>1,214,398</u>	<u>6,553,657</u>
DEDUCTIONS:				
Benefits	1,391,479	1,194,382	375,564	2,961,424
Administrative	11,954	10,865	16,964	39,783
Total deductions	<u>1,403,433</u>	<u>1,205,247</u>	<u>392,528</u>	<u>3,001,207</u>
CHANGE IN NET ASSETS	1,083,186	1,647,393	821,871	3,552,450
NET ASSETS, BEGINNING	<u>15,801,807</u>	<u>23,025,940</u>	<u>10,441,770</u>	<u>49,269,517</u>
NET ASSETS, ENDING	<u>\$ 16,884,993</u>	<u>\$ 24,673,333</u>	<u>\$ 11,263,641</u>	<u>\$ 52,821,967</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST FUNDS
 DECEMBER 31, 2005
 (UNAUDITED)

	Workers' Compensation	Unemployment Compensation	Total
ASSETS:			
Cash and cash equivalents	\$ 23,193	\$ 3,789	\$ 26,982
Due from other funds	<u>-</u>	<u>7,588</u>	<u>7,588</u>
TOTAL	<u>\$ 23,193</u>	<u>\$ 11,377</u>	<u>\$ 34,570</u>
LIABILITIES,			
Vouchers payable	\$ -	<u>\$ 7,588</u>	<u>\$ 7,588</u>
NET ASSETS:			
Reserved for unemployment compensation		3,789	3,789
Reserved for workers' compensation	<u>23,193</u>	<u>-</u>	<u>23,193</u>
Total net assets	<u>23,193</u>	<u>3,789</u>	<u>26,982</u>
TOTAL	<u>\$ 23,193</u>	<u>\$ 11,377</u>	<u>\$ 34,570</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
(UNAUDITED)**

	WORKERS' COMPENSATION	UNEMPLOYMENT COMPENSATION	TOTAL
DEDUCTIONS:			
Benefits	\$ 12,549	\$ 17,509	\$ 30,058
Administrative	<u>5,901</u>	<u>-</u>	<u>5,901</u>
Total deductions	18,450	17,509	35,959
OTHER FINANCING SOURCES,			
Operating transfers in	<u>-</u>	<u>17,509</u>	<u>17,509</u>
CHANGE IN NET ASSETS	(18,450)	-	(18,450)
NET ASSETS, Beginning	<u>41,643</u>	<u>3,789</u>	<u>45,432</u>
NET ASSETS, Ending	<u>\$ 23,193</u>	<u>\$ 3,789</u>	<u>\$ 26,982</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 DECEMBER 31, 2005
 (UNAUDITED)

	TAX COLLECTING	PAYROLL REVOLVING	NONREVENUE ESCROW	TOTAL
ASSETS,				
Cash and cash equivalents	<u>\$ 419,359</u>	<u>\$ 1,990</u>	<u>\$ 25,468</u>	<u>\$ 446,817</u>
LIABILITIES:				
Vouchers payable		\$ 1,990	\$ 25,468	\$ 27,458
Due to other funds	\$ 101,309	-	-	101,309
Due to other taxing units	<u>318,050</u>	<u>-</u>	<u>-</u>	<u>318,050</u>
Total liabilities	<u>\$ 419,359</u>	<u>\$ 1,990</u>	<u>\$ 25,468</u>	<u>\$ 446,817</u>

**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***

To the Honorable Members of City Council,
City of Williamsport, Pennsylvania:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Williamsport, Pennsylvania (the "City"), as of and for the year ended December 31, 2005, and have issued our report thereon dated April 17, 2006. We did not audit the financial statements of the Municipal Authority of the City of Williamsport (the "Municipal Authority"), which is presented in the component unit section. Those financial statements were audited by other auditors whose report has been furnished to us, and our report on the City's financial statements, insofar as it relates to the amounts included for the Municipal Authority, was based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City'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 the management of the City in a separate letter dated April 17, 2006.

This report is intended solely for the information and use of the Finance Committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Garante Randolph, LLC". The signature is written in a cursive, flowing style.

Williamsport, Pennsylvania
April 17, 2006

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Members of City Council,
City of Williamsport, Pennsylvania:

COMPLIANCE

We have audited the compliance of the City of Williamsport (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Garante Randolph, LLC". The signature is written in a cursive, flowing style.

Williamsport, Pennsylvania
April 17, 2006

CITY OF WILLIAMSPORT, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X no

Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X none reported

Noncompliance material to financial statements noted? _____ Yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X no

Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X none reported

Type of auditors' report issued on compliance for major programs: UNQUALIFIED

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Entitlement Grant
14.239	Community Planning and Development – HOME Program
20.205	Federal Highway and Construction Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X No

CITY OF WILLIAMSPORT, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

CITY OF WILLIAMSPORT, PENNSYLVANIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

PROGRAM	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
04-1	<p>CRITERIA: During the first quarter of 2004, City policy required that three quotations be obtained for small purchases (i.e., purchases in amounts less than \$10,000), and that formal bids be obtained for most purchases greater than \$10,000. Under this policy, quotations could be obtained in writing or by telephone; in the case of quotations received by telephone, the use of a "Telephone Quotation Sheet" was required, whereon the date the quote was obtained, the individual representing the vendor, the vendor's name, location, telephone number, and price quoted were to be documented. Processed quotation sheets were to be maintained as part of the purchase order/invoice package in support of the purchase. (Beginning with the second quarter of 2004, the City Director of Administration began reviewing and approving all such purchases.)</p> <p>CONDITION: Four computers and related software were purchased with Community Development Block Grant funding wherein price quotes were not properly obtained.</p> <p>CAUSE: Management override of internal control policy.</p> <p>EFFECT: Management cannot be assured that federal funds have been properly utilized.</p> <p>RESOLUTION: As noted above, duties within the City's Purchasing Department were reassigned and the Director of Administration or his designee currently approves all small purchases in writing. It was noted that, during 2005, these changes were implemented and were in use.</p>	(N/A)

To the Honorable Members of City Council,
City of Williamsport, Pennsylvania:

In connection with our audit of the basic financial statements of the City of Williamsport, Pennsylvania (the "City"), for the year ended December 31, 2005, we are submitting for your consideration the accompanying recommendations designed to help you improve internal control and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to management.

Since the comments and observations contained in this report are a by-product of the audit of financial statements, the cost justification and other aspects of our suggestions have not been fully evaluated. These evaluations should be made by management. Therefore, we recognize that, after consideration, certain suggestions and recommendations may not be practical to implement.

Our comments deal exclusively with operational, accounting and recordkeeping systems and procedures, and should not be regarded as reflecting on the integrity or capabilities of anyone in your organization. Also, our comments have been restricted to weaknesses noted and suggested means of improvement and are not intended as a commentary on the various favorable aspects of the City's procedures.

GASB No. 45

In June 2004, the Governmental Accounting Standards Board ("GASB") issued its statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Post-employment benefits ("OPEB") are benefits that employees earn during their years of service that they will not receive until after their employment ends (i.e., post-employment benefits other than pensions). They may include health and life insurance, other healthcare benefits, legal services and other benefits. GASB 45 is applicable to state and local governmental employers.

GASB 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets). The basic premise of GASB 45 is that OPEB are earned and should be recognized when the employee provides the services, as opposed to the "pay as you go" method that many governmental entities (including the City) currently employ. The statement requires an actuarial valuation for defined benefit OPEB plans, conducted once every two-three years, to meet the recognition and disclosure requirements (special provisions for plans with fewer than 100 participants would allow employers to estimate the related liability using simplified methods). Currently, the City provides certain health care benefits to retirees that would seemingly meet the criteria for accrual under this standard.

The City will be required to implement GASB 45 for its calendar year ending December 31, 2008. While the implementation date is several years away, we encourage management to begin to evaluate the impact that this new accounting standard would have on the City's accounting and financial reporting process.

GASB 34 - INFRASTRUCTURE ASSETS

During its year ended December 31, 2003, the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB No. 34"). This statement established many new and significant financial reporting requirements for the City of Williamsport.

Pursuant to GASB 34, the City began to prospectively capitalize infrastructure assets (e.g., water and sewer systems, storm drainage systems, lighting systems, bridges, overpasses, tunnels, dams and spillways, and networks of infrastructure such as roads, traffic signals, signage, medians, etc.) acquired and constructed on or after January 1, 2003. In addition, the City will be required to inventory, value and record in its accounts all "major general infrastructure" on hand at January 1, 2007, and which was acquired, constructed or substantially renovated during the period from July 1, 1980 to January 1, 2003. GASB No. 34 defines major general infrastructure as networks or subsystems of networks whose cost or estimated cost exceeds 10% and 5%, respectively, of the cost of all general capital assets reported by the City in its first fiscal year ending after June 15, 1999. The City will not be required to capitalize any major general infrastructure that it acquired or constructed prior to its fiscal years ending before June 30, 1980, unless management wishes to do so.

Considering the scope of this project, and the expertise required to value these infrastructure assets, the City will need to contract with a capital asset appraisal firm to develop values for these assets. Our experience has shown that these appraisals generally take, at a minimum, one year from the date a firm is contracted to the date the appraisal report is delivered. Moreover, once this appraisal report is received, City management and external auditors will need sufficient time to evaluate this information and assimilate it into the City's capital asset accounting records. Understanding that the City is required to implement this facet of GASB 34 during its calendar year ended December 31, 2007, we strongly encourage City management to select a vendor to perform this work sometime in 2006, and build into the contract a report delivery date of no later than September 30, 2007. Otherwise, serious delays in the completion of the City's 2007 financial statement and related Single Audit will result.

CENTRAL POST OFFICE - SEC CONTINUING DISCLOSURE FILINGS

On September 7, 2004, the Securities and Exchange Commission released a letter of interpretation that allows issuers and their dissemination agents to use "DisclosureUSA.org" in order to meet their filing requirements under SEC Rule 15c-2-12 (disclosure filings of annual financial information and material events that are required to be filed in connection with municipal security offerings). Thus, instead of making multiple filings in "hard-copy" format with Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), governments may now submit their filings electronically to one central location -- DisclosureUSA.org -- and the submission will be immediately directed to each NRMSIR (a return receipt is provided upon filing). An account must be established (free of charge) with DisclosureUSA.org prior to filing.

We recommend that management investigate this possibility.

ESTABLISH A FUND BALANCE POLICY

In order to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates, it is essential that governments maintain adequate levels of fund balance.

Settling on the "right" level of fund balance can be difficult, as credit rating agencies are likely to favor increased levels of fund balances, while opposing pressures often come from unions, taxpayers, and citizen's groups, all of which may view higher levels of fund balance as "excessive."

In order to manage the above, we recommend that the City establish a formal policy on the level of unreserved fund balance that should be maintained in its General Fund. Such a guideline should be set by City Council, and provide both a timeline and specific plans for increasing or decreasing the level of unreserved fund balance, should the level of fund balance become inconsistent with the policy.

While the adequacy of a government's unreserved fund balance in the general fund should be assessed based upon that government's own specific circumstances, we recommend at a minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five percent (5%) to fifteen percent (15%) of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures.

CAPITAL PROJECT FUND ACCOUNTING

Accounting principles generally accepted in the United States of America, as related to state and local governments, recognize the use of "capital project funds" as a means of partitioning major capital undertakings from the general operations of a governmental entity. Generally, a capital project fund involves one particular project – generally funded through financing or debt proceeds, and a capital budget that typically is "multi-year" in nature (i.e., the budget does not correspond to the government's fiscal year, as major capital projects may extend over several years). When the project is complete, any residual assets such as cash are transferred to the General Fund via a "residual equity transfer," or used to pay down the related debt as may be required. Capital Project Funds thus exist for a finite length of time – that of the underlying project itself.

During 2005, the City had a number of capital projects underway, including its Downtown Streetscape Program, Transit Museum Project, and Bowman Field FEMA project, among others. The City accounted for these projects in one overall "combined" Capital Project Fund.

We believe that the information contained within these funds could be better tracked and easier to understand if each of these funds were to be "broken-out" into individual, self-contained Capital Project Funds within the American Fundware accounting system – one separate fund for each individual project. Moreover, this practice will aid the City in avoiding any commingling of funds among projects, which is critical in situations where multiple funding streams are involved. We would be pleased to provide City management with technical assistance as related to this process.

COMMUNITY DEVELOPMENT BLOCK GRANT – CSCAP

During the year ended December 31, 2005, a portion of the Community Development's Central Services Cost Allocation Plan ("CSCAP") (\$1,000) was paid from the HOME budget.

While the balance paid was arguably immaterial, the regulations governing indirect cost for state and local government recipients of federal financial assistance, as provided in OMB Circular A-87, are complex, and the City's 2005 CSCAP does not clearly illustrate how the HOME program benefits from the indirect costs involved pursuant to OMB A-87. Accordingly, we recommend that either a separate CSCAP be prepared as related to the HOME program, or that the CDBG CSCAP be modified on a go-forward basis to incorporate the HOME Program.

FEDERAL PROGRAM REVENUE – HIGHWAY PLANNING AND CONSTRUCTION

During 2005, the City entered into a contract with the Commonwealth of Pennsylvania, Department of Transportation in connection with the Grafius Run Bridge Project. The contract required that payments to vendors be made within ten calendar days of receipt of federal funds passed to the City through the Commonwealth.

We noted one instance wherein a payment to a project engineer was made sixteen (16) days after receipt of funds from the Commonwealth. This seems to have been an isolated instance, as all other payments to vendors were actually made prior to the receipt of federal funds passed through the Commonwealth.

We recommend that City management closely monitor the cash management provisions of future contracts to ensure compliance with federal and state requirements.

LOAN FILE REVIEW

For some time, the City has made a variety of loans to homeowners, upstart businesses and existing commercial entities in connection with a variety of local, state and federal programs, including the CDBG, HOME and DCED grants, among others. At December 31, 2005, total loans receivable amounted to approximately \$2,000,000; these assets were offset by deferred revenue in the related funds' balance sheets. As principal and interest payments are made on these loans, program income is recognized for the entire payment, and the loan receivable and deferred revenue accounts are reduced by the principal portion of the payment.

Considering the dollar value of the loans involved, we believe that the City could benefit from having an external loan review conducted, in order to ensure that the appropriate documents (mortgages, current insurance, etc.) are contained within the underlying loan files. This practice is commonplace in the financial institution industry and serves as effective means of monitoring loan documentation. Alternatively, if an external loan review is not practical, City management should assign an appropriate individual to review the loan files, perhaps with the aid of a tickler list, to ensure that all appropriate documents are up to date.

LIQUID FUELS FUND – VARIOUS ACCRUAL BALANCES

The City's Liquid Fuels Fund has carried forward balances within its "Accounts Receivable – Curbing" and "Vouchers Payable-Liquid Fuels" accounts in the amounts of \$591 and \$(1,028), respectively, since 1999.

While these balances are clearly immaterial to the City's non-major governmental fund opinion unit, we recommend that the Department of Accounts and Finance investigate these balances and take action to liquidate them.

LIQUIDATION OF DUE TO/DUE FROM ACCOUNTS

For some time, the City has been accumulating balances in the various funds' "due to/due from" accounts. Simply put, these accounts represent borrowings among operating funds.

We recommend that management evaluate the composition of these accounts, and, wherever possible, consider liquidating these items (i.e., "paying off" the inter-fund borrowings). We would be pleased to assist management with the mechanics of this process.

DOWNTOWN MALL FUND "RECEIVABLES"

As initially reported to you in 1999, the residual equity transferred from the Downtown Mall Fund to the General Fund in 1999 consisted of delinquent special assessment tax receivables. The balance in this account was \$30,326 at December 31, 2005.

We understand that management believes that, due to the liens on the properties involved, these receivables will eventually be collected. However, considering that these are now assets of the General Fund - and that there has been minimal activity within these receivable balances since 1999 - we recommend that management give consideration to the establishment of an "allowance for doubtful accounts." This accounting treatment would enable the tracking and collection of the receivables, while at the same time conservatively value the asset.

We wish to express our sincere gratitude for the courteous assistance we received from your personnel during the course of this engagement.

We appreciate the opportunity to provide services to the City and will be pleased to discuss any questions you may have concerning this report.



Williamsport, Pennsylvania
April 17, 2006