

CITY OF WILLIAMSPORT, PENNSYLVANIA

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
&
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, 2006, 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 activity, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Williamsport, Pennsylvania as of December 31, 2006, 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 June 13, 2007 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 "Robert Landolph, LLC". The signature is written in a cursive, flowing style.

Williamsport, Pennsylvania
June 13, 2007

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, 2006. 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 \$2,855,000. Net assets related to governmental activities increased by \$2,037,000, whereas net assets of the City's business-type activities increased by \$819,000.
- As of December 31, 2006, net assets of the City's governmental activities were \$14,661,000.
- The unreserved, undesignated fund balance of the General Fund was \$1,165,000, or 7.4 percent of total General Fund expenditures and transfers out.
- The excess of revenues and other financing sources over expenditures and other financing uses was \$573,000 within the City's General Fund for the year ended December 31, 2006. This is higher than the \$611,000 deficit spending that was anticipated in the City's 2006 General Fund budget, and is primarily attributable to a \$491,000 positive budget variance within the taxes revenue line item, a \$134,000 positive budget variance within the licenses and permits revenue line item, and \$189,000, \$172,000 and \$296,000 positive budget variances within the general government, 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.

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 government 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, the Williamsport Bureau of Transportation (d/b/a River Valley Transit).

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 nine 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 four 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 an internal service fund to account for City Hall's operations. 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 gain 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 are 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, 2006 and 2005 by approximately \$34,061,000 and \$31,206,000, 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 \$12,945,000 and \$11,600,000 at December 31, 2006 and 2005, respectively. The City's investment in its capital assets reported net of related debt as related to its business-type activities was \$17,875,000 and \$17,290,000 December 31, 2006 and 2005, respectively.

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

CONDENSED STATEMENT OF NET ASSETS
 DECEMBER 31, 2006 AND 2005
 (IN THOUSANDS)

	TOTAL GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		TOTAL	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 6,928	\$ 6,374	\$ 5,703	\$ 7,255	\$12,631	\$13,629
Capital assets	<u>14,709</u>	<u>13,158</u>	<u>14,776</u>	<u>14,080</u>	<u>29,485</u>	<u>27,238</u>
Total assets	<u>21,637</u>	<u>19,532</u>	<u>20,479</u>	<u>21,335</u>	<u>42,116</u>	<u>40,867</u>
Other liabilities	2,188	2,930	829	2,503	3,017	5,433
Long-term liabilities outstanding	<u>4,788</u>	<u>3,977</u>	<u>250</u>	<u>250</u>	<u>5,038</u>	<u>4,227</u>
Total liabilities	<u>6,976</u>	<u>6,907</u>	<u>1,079</u>	<u>2,753</u>	<u>8,055</u>	<u>9,660</u>
Invested in capital assets, net of related debt	12,945	11,600	17,875	17,290	30,820	28,890
Restricted	2,019	941	752	978	2,771	1,919
Unrestricted	<u>(303)</u>	<u>84</u>	<u>773</u>	<u>313</u>	<u>470</u>	<u>397</u>
Total net assets	<u>\$14,661</u>	<u>\$12,625</u>	<u>\$19,400</u>	<u>\$18,581</u>	<u>\$34,061</u>	<u>\$31,206</u>

The restricted portion of the City's net assets, \$2,771,000 and \$1,919,000 at December 31, 2006 and 2005, respectively, represent resources that are subject to external restrictions on how they may be used.

At the end of 2006 and 2005, 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 2006 and 2005 as reflected in the \$2,855,000 and \$4,670,000 increase in total net assets for the years ended December 31, 2006 and 2005, respectively.

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

**CONDENSED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(IN THOUSANDS)**

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2006	2005	2006	2005	2006	2005
REVENUES:						
Program:						
Charges for services	\$ 977	\$ 1,045	\$ 1,003	\$ 976	\$ 1,980	\$ 2,021
Operating grants and contributions	2,096	1,608	4,143	4,419	6,239	6,027
Capital grants and contributions	1,392	2,172			1,392	2,172
General:						
Taxes	13,084	13,082			13,084	13,082
Grants and charges - unrestricted	3,252	2,414			3,252	2,414
Unrestricted investment	255	182	64	56	319	238
Miscellaneous	<u>422</u>	<u>605</u>	<u>-</u>	<u>-</u>	<u>422</u>	<u>605</u>
Total revenues	<u>21,478</u>	<u>21,108</u>	<u>5,210</u>	<u>5,451</u>	<u>26,688</u>	<u>26,559</u>
EXPENSES:						
General government	2,850	2,226			2,850	2,226
Public works - highways and streets	2,100	2,447			2,100	2,447
Other public works enterprises	218	68			218	68
Public safety	10,937	10,692			10,937	10,692
Culture and recreation	554	579			554	579
Revolving loans and grants	943	450			943	450
Capital outlay (elimination of blight)	234	180			234	180
Interest on long-term debt	193	208			193	208
Williamsport Bureau of Transportation	<u>-</u>	<u>-</u>	<u>5,540</u>	<u>5,021</u>	<u>5,540</u>	<u>5,021</u>
Total expenses	<u>18,029</u>	<u>16,850</u>	<u>5,540</u>	<u>5,021</u>	<u>23,569</u>	<u>21,871</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	3,449	4,258	(330)	430	3,119	4,688
TRANSFERS	<u>(1,413)</u>	<u>(305)</u>	<u>1,149</u>	<u>287</u>	<u>(264)</u>	<u>(18)</u>
CHANGE IN NET ASSETS	2,036	3,953	819	717	2,855	4,670
NET ASSETS, JANUARY 1	<u>12,625</u>	<u>8,672</u>	<u>18,581</u>	<u>17,864</u>	<u>31,206</u>	<u>26,536</u>
NET ASSETS, DECEMBER 31	<u>\$14,661</u>	<u>\$12,625</u>	<u>\$19,400</u>	<u>\$18,581</u>	<u>\$34,061</u>	<u>\$31,206</u>

Governmental Activities. Governmental activities increased the City's net assets by \$2,036,000 and \$3,953,000 for the years ended December 31, 2006 and 2005, 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 \$3,481,000 in 2006 and \$5,267,000 in 2005, while the depreciation on all City capital assets used in governmental activities was \$966,000 and \$703,000 in 2006 and 2005, respectively.

Business-type activities. The Williamsport Bureau of Transportation (d/b/a "River Valley Transit"), functioning as a business-type activity of the City of Williamsport, experienced an increase in net assets of \$819,000 and \$717,000 for the years ended December 31, 2006 and 2005, respectively. These gains are due to the fact that user charges (i.e., bus fares) and operating grants sufficiently covered 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, 2006 and 2005, the City's governmental funds reported combined ending fund balances of \$3,137,000 and \$2,314,000, respectively. The City's unreserved fund balance, which is available for spending at the government's discretion, was \$1,122,000 and \$1,373,000 at December 31, 2006 and 2005, respectively. The remainder of the fund balance at December 31, 2006 is reserved to indicate that it is not available for spending because it has already been committed to Liquid Fuels tax purposes, Community Development activities, debt service payments along with other less significant reserves.

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, 2006 and 2005 amounted to \$774,000 and \$313,000, respectively, and those for the Internal Service funds amounted to \$199,000 and \$179,000, respectively. The total change in net assets for the Enterprise Fund and Internal Service Fund were \$829,000 and \$702,000, 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 2006 was approximately \$16.2 million; this represents an increase of \$1,100,000 (7.3%) over 2005. The General Fund expenditure budget for fiscal year 2005 was approximately \$15.1 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, 2006, the *unreserved fund balance*, *reserved fund balance* and *unreserved, designated fund balance* of the General Fund were \$1,165,000, \$50,000 and \$631,000, respectively. During 2006, the City's General Fund fund balance increased by \$573,000. As a measure of the General Fund's liquidity, the *unreserved fund balance* represents 7.5 percent of the total General Fund expenditures (including transfers out), or 27.1 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, 2006 was in line with the recommended limits.

Revenues of the General Fund totaled \$16.1 million and \$15.4 million for the years ended December 31, 2006 and 2005, respectively, representing a year-to-year increase of \$720,000 (4.7%). The following represents a summary of General Fund revenue by source.

REVENUES (in thousands)	<u>2006</u>	<u>2005</u>
Taxes	\$13,612	\$12,928
Licenses and permits	503	444
Fines and forfeits	236	273
Interest, rents and royalties	178	114
Intergovernmental	1,102	1,032
Charges for services	137	187
Miscellaneous	<u>372</u>	<u>442</u>
Total revenues	<u>\$16,140</u>	<u>\$15,420</u>

The General Fund's operations were also supported by operating transfers in which totaled \$120,000 during the years ended December 31, 2006 and 2005. Additional details relating to interfund transfers can be found in Note 7 on page 48.

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

General Fund expenditures totaled \$14,534,000 and \$14,283,000 for the years ended December 31, 2006 and 2005, respectively, which represents an increase of \$251,000 (1.8%). The following represents a summary of General Fund expenditures for the years ended December 31, 2006 and 2005, by source:

EXPENDITURES (in thousands):	<u>2006</u>	<u>2005</u>
General government	\$ 1,515	\$ 1,501
Public works - highways and streets	1,478	1,311
Other public works enterprises	193	200
Public safety	10,774	10,654
Culture and recreation	522	524
Debt service	<u>52</u>	<u>93</u>
Total expenditures	<u>\$14,534</u>	<u>\$14,283</u>

In addition, the General Fund made operating transfers out to other governmental, proprietary and fiduciary funds in the amount of \$1,154,000 and \$495,000 during the years ended December 31, 2006 and 2005.

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 (\$126,000) and \$89,000 for the years ended December 31, 2006 and 2005. The CDBG Fund's deficit fund balance of \$(43,000) at December 31, 2006 represents expenditures incurred in connection with the CDBG program that the City will liquidate through future grant draw-downs. The fund balance of \$83,000 represents grant draw-downs received in connection with the CDBG program that were liquidated through future expenditures. 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, 2006, the City expended \$1,476,000 for such projects. The major capital project in 2006 consisted of work on the Williamsport Cultural District project (the Williamsport Cinema Complex). The deficit fund balance of the Capital Projects Fund at December 31, 2006 totaled (\$4,000).

Other Governmental – Special Revenue Funds

The City maintains six Special Revenue funds. Three 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
Redevelopment Authority	Housing

Operating revenues over expenditures totaled \$175,000 and \$(146,000) for 2006 and 2005, 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 \$57,395,000 and \$52,822,000 at December 31, 2006 and 2005, respectively, representing a year-to-year increase of \$4,573,000 or 8.7 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 52 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, 2006 and 2005 were \$31,372,000 and \$29,182,000 respectively (net of accumulated depreciation).

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITY			
	2006	2005	2006	2005	2006	2005
Land & improvements	\$ 2,514,823	\$ 1,168,424	\$ 1,333,503	\$ 1,298,363	\$ 3,848,326	\$ 2,466,787
Infrastructure	9,082,038	8,035,933	-	-	9,082,038	8,035,933
Buildings	1,173,074	2,184,731	9,687,485	9,491,895	10,860,559	11,676,626
Construction in process	-	-	616,239	45,706	616,239	45,706
Furniture & equipment	686,511	466,244	-	-	686,511	466,244
Vehicles	<u>1,252,860</u>	<u>1,302,341</u>	<u>5,021,003</u>	<u>5,185,618</u>	<u>6,273,863</u>	<u>6,487,959</u>
Total	<u>\$14,709,306</u>	<u>\$13,157,673</u>	<u>\$16,658,230</u>	<u>\$16,021,582</u>	<u>\$31,367,536</u>	<u>\$29,179,255</u>

LONG-TERM DEBT

Changes in the City's long-term debt for the years ended December 31, 2006 and 2005 were as follows (in thousands):

	GOVERNMENTAL	BUSINESS-TYPE	TOTAL
Notes/lease rentals payable at 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 at December 31, 2005	2,578,965	250,000	2,828,965
Additions	159,929	-	159,929
Payments	<u>(390,322)</u>	<u>-</u>	<u>(390,322)</u>
Notes/lease rentals payable at December 31, 2006	<u>\$2,348,572</u>	<u>\$ 250,000</u>	<u>\$2,598,572</u>

Additional information on the City's long-term debt can be found at Note 8 on page 49 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 4.9 percent at the end of 2006, which is an improvement compared with 5.3 percent at the end of 2005. The 2006 rate is slightly higher than Pennsylvania's overall unemployment rate (not seasonally adjusted) of 4.1 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, 2006

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS:				
Cash and cash equivalents	\$ 2,589,736	\$ 1,095,160	\$ 3,684,896	\$ 25,050
Receivables (net of allowance for uncollectibles):				
Taxes	893,937	-	893,937	-
Loans	1,853,698	-	1,853,698	2,553,240
Other	207,920	18,665	226,585	254
Internal balances	(82,346)	82,346	-	-
Due from Agency Fund	130,169	-	130,169	-
Due from other governments	1,205,928	792,460	1,998,388	-
Inventories, at cost	62,416	300,581	362,997	-
Prepaid expenses	23,237	65,192	88,429	-
Capital Assets, net of accumulated depreciation:				
Land, land improvements and monuments	2,514,823	1,333,503	3,848,326	-
Infrastructure	9,082,038	-	9,082,038	-
Buildings and improvements	1,173,067	7,805,511	8,978,578	-
Vehicles and equipment	1,939,378	5,021,004	6,960,382	-
Construction in process	-	616,239	616,239	-
Property held under capital lease, net	-	1,881,973	1,881,973	-
Net investment in direct financing leases	-	1,466,865	1,466,865	-
Deferred financing costs	43,330	-	43,330	-
Total Assets	21,637,331	20,479,499	42,116,830	2,578,544
LIABILITIES:				
Accounts payable and accrued expenses	563,380	175,551	738,931	-
Accrued liabilities	314,418	85,873	400,291	-
Compensated absences	75,102	223,026	298,128	-
Mature bonds payable	5,000	-	5,000	-
Due to private purpose trust fund	132,665	-	132,665	-
Deferred revenues	1,867,170	344,882	2,212,052	1,600
Noncurrent liabilities:				
Portion due or payable within one year:				
Capital leases payable	138,976	-	138,976	-
Notes payable	231,717	-	231,717	83,227
Portion due or payable after one year:				
Compensated absences payable	1,414,496	-	1,414,496	-
Capital leases payable	116,404	-	116,404	-
Notes payable	2,116,855	250,000	2,366,855	2,470,013
Total liabilities	6,976,183	1,079,332	8,055,515	2,554,840
NET ASSETS:				
Invested in capital assets, net of related debt	12,945,413	17,875,095	30,820,508	-
Restricted for:				
Liquid fuels tax purposes	224,654	-	224,654	-
HOME activities	40,727	-	40,727	-
Home rehabilitation purposes	57,140	-	57,140	-
Debt Service	676,577	-	676,577	-
Redevelopment activities	5,729	-	5,729	-
Workers' compensation	100	-	100	-
Reserved for grant purposes	964,371	751,567	1,715,938	-
Reserved for encumbrances	50,000	-	50,000	-
Unrestricted, undesignated	(303,563)	773,505	469,942	23,704
Total net assets	\$ 14,661,148	\$ 19,400,167	\$ 34,061,315	\$ 23,704

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUE					NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	COMPONENT UNIT
PRIMARY GOVERNMENT:							
Governmental activities:							
General Government	\$ 2,849,743	\$ 410,488	\$ 603,432	\$ 171,564	\$ (1,835,823)		\$ (1,835,823)
Public works - highways and streets	2,100,440	19,440	617,760	-	(1,291,676)		(1,291,676)
Other public works enterprises	217,721	-	-	-	(217,721)		(217,721)
Public Safety	10,937,052	238,210	852,534	-	(9,846,308)		(9,846,308)
Culture and Recreation	554,683	-	22,501	910,002	377,820		377,820
Revolving loans and grants	942,953	309,123	-	310,200	(323,630)		(323,630)
Capital Outlay (elimination of blight)	233,747	-	-	-	(233,747)		(233,747)
Interest on Long-term debt	192,746	-	-	-	(192,746)		(192,746)
Total governmental activities	18,029,065	977,261	2,096,227	1,391,766	(13,563,831)		(13,563,831)
BUSINESS-TYPE ACTIVITIES,							
River Valley Transit	5,529,211	1,003,154	4,143,458	-		\$ (382,599)	(382,599)
Total primary government	\$ 23,558,296	\$ 1,980,415	\$ 6,239,685	\$ 1,391,766	(13,563,831)	(382,599)	(13,946,430)
COMPONENT UNITS,							
Municipal Authority of the City of Williamsport	\$ 148,631	\$ 147,521	\$ -	\$ -			\$ (1,110)
GENERAL REVENUES:							
Taxes					13,083,996		13,083,996
Grants and charges not restricted to specific programs					3,251,919		3,251,919
Unrestricted investment earnings					255,069	64,130	319,199
Miscellaneous					421,988		421,988
Loss on disposal of assets					(11,900)		(11,900)
Transfers from governmental activities					1,153,544		1,153,544
Transfers to business-type activities					(1,260,126)		(1,260,126)
Transfers to fiduciary funds					(152,512)	(4,271)	(156,783)
Total general revenues and transfers					15,600,335	1,201,503	16,801,838
CHANGE IN NET ASSETS					2,036,504	818,904	2,855,408
NET ASSETS, Beginning					12,624,644	18,581,263	31,205,907
NET ASSETS, Ending					\$ 14,661,148	\$ 19,400,167	\$ 34,061,315

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	GENERAL FUND	CDBG	HOME	CAPITAL PROJECTS	NON-REVENUE ESCROW	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:							
Cash and cash equivalents	\$ 715,152	\$ 85,005	\$ 35,926	\$ 150,514	\$ 1,044,502	\$ 340,814	\$ 2,371,913
Receivables:							
Taxes	893,937	-	-	-	-	-	893,937
Loans	-	440,737	723,404	-	620,246	69,311	1,853,698
Other	204,217	467	-	-	-	3,236	207,920
Due from other funds	1,318,161	4,345	4,801	12,121	115,797	45,166	1,500,391
Due from other governments	2,837	211,284	74,629	917,178	-	-	1,205,928
Inventories, at cost	62,416	-	-	-	-	-	62,416
Prepaid expenses	23,237	-	-	-	-	-	23,237
Total assets	\$ 3,219,957	\$ 741,838	\$ 838,760	\$ 1,079,813	\$ 1,780,545	\$ 458,527	\$ 8,119,440
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Vouchers payable	\$ 169,312	\$ 198,953	\$ 74,629	\$ 89,620	\$ 1,317	\$ 13,973	\$ 547,804
Accrued liabilities	305,319	9,099	-	-	-	-	314,418
Compensated absences	71,870	3,232	-	-	-	-	75,102
Matured bonds payable	5,000	-	-	-	-	-	5,000
Due to other funds	217,530	132,874	-	994,592	194,611	42,554	1,582,161
Deferred revenue	604,369	440,737	723,404	-	620,246	69,311	2,458,067
Total liabilities	1,373,400	784,895	798,033	1,084,212	816,174	125,838	4,982,552
Fund balances:							
Reserved for:							
Liquid fuels tax purposes	-	-	-	-	-	224,654	224,654
HOME activities	-	-	40,727	-	-	-	40,727
Home rehabilitation	-	-	-	-	-	57,140	57,140
Redevelopment activities	-	-	-	-	-	5,729	5,729
Debt service	-	-	-	-	-	45,166	45,166
Workers' compensation	100	-	-	-	-	-	100
Encumbrances	50,000	-	-	-	964,371	-	50,000
Other reserves	-	-	-	-	-	-	964,371
Unreserved, designated for,	631,411	-	-	-	-	-	631,411
Debt service	1,165,046	(43,057)	-	(4,399)	-	-	1,117,590
Unreserved, undesignated	-	-	-	-	-	-	-
Total fund balances (deficit)	1,846,557	(43,057)	40,727	(4,399)	964,371	332,689	3,136,888
Total liabilities and fund balances	\$ 3,219,957	\$ 741,838	\$ 838,760	\$ 1,079,813	\$ 1,780,545	\$ 458,527	\$ 8,119,440

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, 2006**

TOTAL FUND BALANCE, GOVERNMENTAL FUNDS		\$ 3,136,888
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 \$20,595,548, and the accumulated depreciation is (\$5,886,242).		14,709,306
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	\$ (2,348,572)	
Capital lease payable	(255,380)	
Compensated absences (long-term)	<u>(1,414,496)</u>	
		(4,018,448)
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 (\$7,370).		43,330
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.		590,897
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>199,175</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS		<u>\$ 14,661,148</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, 2006

	GENERAL FUND	CDBG	HOME	CAPITAL PROJECTS	NON- REVENUE ESCROW	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:							
Taxes	\$ 13,612,494	-	\$ -	-	\$ -	-	\$ 13,612,494
Licenses and permits	502,815	-	-	-	-	-	502,815
Fines and forfeits	236,105	-	-	-	-	-	236,105
Interest, rents and royalties	177,634	-	1,336	-	58,530	16,229	253,729
Intergovernmental:							
Federal	3,190	2,159,449	632,968	189,383	-	-	2,984,990
State	881,725	-	-	892,183	531,223	589,404	2,894,535
Local	216,910	-	-	-	-	376,504	593,414
Charges for services	137,105	-	-	-	23,454	-	160,559
Collection on loans	-	53,828	111,458	-	97,953	45,884	309,123
Miscellaneous	372,401	-	-	58,095	47,904	350	478,750
Total revenues	16,140,379	2,213,277	745,762	1,139,661	759,064	1,028,371	22,026,514
EXPENDITURES:							
Current:							
General government	1,515,352	402,771	82,623	265,372	620,318	12,984	2,899,420
Public works	1,478,374	1,248,698	-	254,187	-	456,058	3,437,317
Other public works enterprises	192,596	-	-	-	-	-	192,596
Public safety	10,774,100	11,767	-	25,728	-	-	10,811,595
Culture and recreation	521,544	-	-	930,363	-	-	1,451,927
Revolving loans and grants	-	-	624,874	-	-	318,079	942,953
Capital outlay	-	591,139	-	-	-	25,000	616,139
Debt service	51,976	-	-	-	-	-	51,976
Total expenditures	14,533,942	2,254,375	707,497	1,475,670	620,318	812,121	20,403,923
Excess (deficiency) of revenues over expenditures	1,606,437	(41,098)	38,265	(336,009)	138,746	216,250	1,622,591
OTHER FINANCING SOURCES (USES):							
Proceeds from the issuance of long-term debt	-	-	-	-	-	159,929	159,929
Debt service	-	-	-	-	-	(509,459)	(509,459)
Transfers in	120,000	35,000	-	430,742	-	554,625	1,140,367
Transfers out	(1,153,871)	(120,000)	-	(115,000)	-	(201,483)	(1,590,354)
Total other financing sources (uses)	(1,033,871)	(85,000)	-	315,742	-	3,612	(799,517)
NET CHANGE IN FUND BALANCES	572,566	(126,098)	38,265	(20,267)	138,746	219,862	823,074
FUND BALANCES - BEGINNING	1,273,991	83,041	2,462	15,868	825,625	112,827	2,313,814
FUND BALANCES (DEFICIT) - ENDING	\$ 1,846,557	\$ (43,057)	\$ 40,727	\$ (4,399)	\$ 964,371	\$ 332,689	\$ 3,136,888

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, 2006**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS:	\$ 823,074
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.	2,525,528
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 2006.	203,711
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, 2006.	18,104
Internal service funds are used by management to charge the operating costs of City Hall to individual funds. The operating income of the internal service fund (City Hall Operating Fund) is reported within the governmental activities.	9,733
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 2006.	390,322
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.	(163,614)
Issuance of capital leases.	(257,626)
Transfer of capital assets from governmental-type activities to business-type activities are included as a reconciling item.	(962,650)
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.	(549,628)
Losses from the disposal of fixed assets.	<u>(450)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,036,504</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	BUDGETED AMOUNTS		ACTUAL AMOUNTS, BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 13,121,437	\$ 13,121,437	\$ 13,612,494	\$ 491,057
Licenses and permits	369,000	369,000	502,815	133,815
Fines and forfeits	241,000	241,000	236,105	(4,895)
Interest, rents, royalties and investment gains	76,400	76,400	177,634	101,234
Intergovernmental:				
Federal	-	-	3,190	3,190
State	875,000	875,000	881,725	6,725
Local	200,000	200,000	216,910	16,910
Charges for services	237,000	237,000	137,105	(99,895)
Miscellaneous	336,400	336,400	372,401	36,001
Total revenues	<u>15,456,237</u>	<u>15,456,237</u>	<u>16,140,379</u>	<u>684,142</u>
EXPENDITURES:				
Current:				
General government	1,656,219	1,704,727	1,515,352	189,375
Public works - highways and streets	1,667,006	1,650,432	1,478,374	172,058
Other public works enterprises	189,013	190,433	192,596	(2,163)
Public safety	11,118,908	11,070,404	10,774,100	296,304
Culture and recreation	522,003	527,153	521,544	5,609
Debt service	492,480	492,480	51,976	440,504
Total Expenditures	<u>15,645,629</u>	<u>15,635,629</u>	<u>14,533,942</u>	<u>1,101,687</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(189,392)</u>	<u>(179,392)</u>	<u>1,606,437</u>	<u>1,785,829</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	120,000	120,000	120,000	-
Transfers out	(542,000)	(552,000)	(1,153,871)	(601,871)
Total other financing uses	<u>(422,000)</u>	<u>(432,000)</u>	<u>(1,033,871)</u>	<u>(601,871)</u>
NET CHANGE IN FUND BALANCES	(611,392)	(611,392)	572,566	1,183,958
FUND BALANCES, BEGINNING	<u>74,937</u>	<u>74,937</u>	<u>1,273,991</u>	<u>1,199,054</u>
FUND BALANCES, ENDING	<u>\$ (536,455)</u>	<u>\$ (536,455)</u>	<u>\$ 1,846,557</u>	<u>\$ 2,383,012</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	BUSINESS- TYPE ACTIVITY (RVT)	INTERNAL SERVICE FUND (CHO)
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,095,160	\$ 217,823
Other accounts receivable (net of allowance)	18,665	-
Due from other funds	87,914	-
Receivables from other governments	792,460	-
Inventories, at cost	300,581	-
Prepays	<u>65,192</u>	<u>-</u>
Total current assets	<u>2,359,972</u>	<u>217,823</u>
Capital assets:		
Land and improvements	1,355,038	1
Buildings and improvements	11,052,914	1,367,296
Equipment	12,243,956	115,352
Construction in Progress	616,239	-
Less accumulated depreciation	<u>(10,491,890)</u>	<u>(844,961)</u>
Net capital assets	14,776,257	637,688
Net investment in direct financing leases	1,466,865	-
Property held under capital lease, net	<u>1,881,973</u>	<u>-</u>
TOTAL	<u>\$ 20,485,067</u>	<u>\$ 855,511</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Vouchers payable	175,551	\$ 15,574
Accrued liabilities	85,873	-
Compensated absences	223,026	-
Due to other funds	5,568	3,074
Deferred revenue	<u>344,882</u>	<u>-</u>
Total current liabilities	<u>834,900</u>	<u>18,648</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	17,875,095	637,688
Restricted	751,567	-
Unrestricted	<u>773,505</u>	<u>199,175</u>
Total net assets	<u>19,400,167</u>	<u>836,863</u>
TOTAL	<u>\$ 20,485,067</u>	<u>\$ 855,511</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, 2006**

	BUSINESS- TYPE ACTIVITY (RVT)	INTERNAL SERVICE FUND (CHO)
OPERATING REVENUES,		
Charges for services	\$ 1,003,154	\$ 238,266
OPERATING EXPENSES:		
Wages and salaries	2,218,130	15,798
Depreciation	1,221,166	50,852
Employee benefits	602,409	16,398
Administrative expense	451,773	-
Materials and supplies	578,047	116,961
Maintenance	267,933	28,524
Insurance	189,753	-
Bad debt expense	-	-
Total operating expenses	<u>5,529,211</u>	<u>228,533</u>
OPERATING LOSS	<u>(4,526,057)</u>	<u>9,733</u>
NON-OPERATING REVENUES (EXPENSES):		
Loss on disposal of equipment	(11,900)	-
Subsidies from other governments:		
State	2,416,042	-
Federal	1,511,790	-
Local	215,626	-
Interest income	<u>64,130</u>	<u>-</u>
Total non-operating revenue (expense)	<u>4,195,688</u>	<u>-</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>(330,369)</u>	<u>9,733</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in	1,272,314	-
Operating transfers out	<u>(123,041)</u>	<u>-</u>
Total other financing sources	<u>1,149,273</u>	<u>-</u>
NET INCOME (LOSS)	818,904	9,733
NET ASSETS, BEGINNING	<u>18,581,263</u>	<u>827,130</u>
NET ASSETS, ENDING	<u>\$ 19,400,167</u>	<u>\$ 836,863</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	BUSINESS-TYPE ACTIVITY (RVT)	INTERNAL SERVICE FUND (CHO)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from users	\$ 998,129	\$ 239,785
Cash payments to employees for services	(2,790,471)	(36,030)
Cash paid to suppliers for goods and services	<u>(2,919,009)</u>	<u>(96,398)</u>
Net cash (used in) provided by operating activities	<u>(4,711,351)</u>	<u>107,357</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES,		
Operating subsidies and transfers to other funds	<u>3,206,360</u>	<u>-</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES,		
Earnings on investments	<u>64,130</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Subsidies received from other governments	1,552,008	-
Payments for capital acquisitions	(907,064)	(40,057)
Payments received under direct financing leases	<u>51,359</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>696,303</u>	<u>(40,057)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(744,558)	67,300
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,839,718</u>	<u>150,523</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,095,160</u>	<u>\$ 217,823</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss) income	\$ (4,526,057)	\$ 9,733
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	1,221,166	50,852
Changes in assets and liabilities:		
Accounts receivable, other	(5,025)	1,520
Due from/to other governments and funds	12,308	40,094
Prepaid expenses	(5,192)	
Inventories	(3,754)	
Vouchers payable	(1,434,865)	5,810
Other operating liabilities	<u>30,068</u>	<u>(652)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (4,711,351)</u>	<u>\$ 107,357</u>

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2006

	PENSION TRUST FUNDS	PRIVATE PURPOSE TRUSTS	AGENCY FUNDS
ASSETS:			
Cash and cash equivalents	\$ 1,499,301	\$ 10,378	\$ 397,488
Receivables, Other	209,663	-	-
Due from other funds	-	132,665	-
Investments, at fair value:			
U.S. Government securities	21,771,257	-	-
Domestic corporate bonds	3,491,427	-	-
Domestic equity securities	28,995,290	-	-
Mutual funds	1,427,621	-	-
Total investments	55,685,595	-	-
TOTAL	\$ 57,394,559	\$ 143,043	\$ 397,488
LIABILITIES:			
Vouchers payable		\$ 6,550	\$ 22,957
Due to other funds		-	130,169
Due to other taxing units		-	244,362
Claims Liability		126,115	-
Total liabilities		132,665	\$ 397,488
NET ASSETS:			
Held in trust for pension benefits	\$ 57,394,559	-	
Reserved for workers' compensation	-	10,378	
Total net assets	57,394,559	10,378	
TOTAL	\$ 57,394,559	\$ 143,043	

See Notes to Financial Statements

CITY OF WILLIAMSPORT, PENNSYLVANIA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	PENSION TRUST FUNDS	PRIVATE PURPOSE TRUSTS
ADDITIONS:		
Contributions:		
Employer	\$ 1,182,550	\$ -
Transfers in Commonwealth of Pennsylvania	-	156,783
Employees	<u>1,038,796</u>	-
	476,972	-
Total contributions	<u>2,698,318</u>	<u>156,783</u>
Investment earnings:		
Interest and dividends	1,596,336	-
Net appreciation in fair value of investments	3,144,207	-
Other investment income	<u>162,528</u>	-
Total investment earnings	4,903,071	-
LESS INVESTMENT EXPENSE	<u>(126,598)</u>	-
NET INVESTMENT EARNINGS	<u>4,776,473</u>	-
Total additions	<u>7,474,791</u>	<u>156,783</u>
DEDUCTIONS:		
Benefits	2,877,988	169,225
Administrative	<u>24,210</u>	<u>4,161</u>
Total deductions	<u>2,902,198</u>	<u>173,386</u>
CHANGE IN NET ASSETS	4,572,593	(16,604)
NET ASSETS, BEGINNING	<u>52,821,966</u>	<u>26,982</u>
NET ASSETS, ENDING	<u>\$ 57,394,559</u>	<u>\$ 10,378</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. Separately issued financial statements of the Redevelopment Authority of the City of Williamsport (the "Redevelopment Authority") can also be obtained from its office, located at 245 West Fourth Street, Williamsport, Pennsylvania 17701.

<u>Discretely Presented Component Unit</u>	<u>Brief Description of Activities and Relationship to the City</u>
The Municipal Authority functions as a financing medium for various public entities.	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.

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).

Debt Service Fund

The Debt Service Fund (a nonmajor fund) is used to account for financial resources to be used for the payment of principal and interest on the City's long-term debt obligations.

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, 2006 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, 2006, the General, CDBG, HOME, Non-Revenue Escrow, Non-major and Enterprise funds had deferred revenues of \$604,369, \$440,737, \$723,404, \$620,246, \$69,311, and \$344,882, 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.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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, 2006, the City's total deposits were \$5,851,052. Of this amount, \$176,948 was insured by the FDIC and \$100,000 was insured by the SIPC. The remaining deposits of \$5,574,104 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, 2006, 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 \$50,000,000 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, 2006, 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	0.99%
Corporate bonds	AA	2.62%
Corporate bonds	A	2.52%
Foreign bonds	AAA	1.88%
Foreign bonds	AA	0.17%
Mortgaged backed securities	A	0.76%
Freddie Mac	AAA	0.42%
Federal Home Loan Mortgage Corp	AAA	11.56%
Federal National Mortgage Association	AAA	9.40%
Federal Home Loan Bank	AAA	10.88%
Certificate of Deposit	AAA	1.81%
Certificate of Deposit	AA	0.52%
Certificate of Deposit	A	0.27%

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, 2006, investments that exceeded 5% of the total portfolio’s market value are as follows:

<u>SECURITY</u>	<u>% OF MARKET VALUE</u>
Federal Home Loan Bank Mortgage Corp	11.57%
Federal Home Loan Bank	10.47%
Federal National Mortgage Association	9.38%

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.

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, 2006:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Corporate bonds	2009	\$ 35,736
Corporate bonds	2010	767,748
Corporate bonds	2011	167,149
Corporate bonds	2013	477,689
Corporate bonds	2014	503,820
Corporate bonds	2016	353,609
Corporate bonds	2022	87,156
Corporate bonds	2027	242,073
Corporate bonds	2029	279,300
Corporate bonds	2035	261,161
Corporate bonds	2036	315,985
Foreign bonds	2009	172,074
Foreign bonds	2013	452,998
Foreign bonds	2014	192,005
Foreign bonds	2016	524,600

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Federal Home Loan Mortgage Corporation	2009	163,000
Federal National Mortgage Association	2010	1,602,856
Federal Home Loan Bank	2010	188,974
Federal Home Loan Mortgage Corporation	2011	394,996
Federal Home Loan Bank	2011	487,089
Federal National Mortgage Association	2011	612,494
US Treasury Notes	2011	66,403
Federal Home Loan Bank	2013	489,039
Federal Home Loan Mortgage Corporation	2014	2,618,806
Federal National Mortgage Association	2015	2,375,992
Federal Home Loan Mortgage Corporation	2015	960,096
Federal Home Loan Bank	2017	2,243,987
Federal Home Loan Bank	2018	219,006
Federal Home Loan Mortgage Corporation	2019	1,439,988
Federal Home Loan Bank	2020	1,836,046
Federal Home Loan Mortgage Corporation	2020	1,005,000
US Treasury Bonds	2023	242,783
Freddie Mac	2028	239,460
Federal Home Loan Bank	2033	489,426
Federal National Mortgage Association	2036	744,960
FNMA Government Asset Backed Securities	2013	9,964
FHLB Government Asset Backed Securities	2019	242,450
FHLMC Government Asset Backed Securities	2026	2,643
GNMA Government Asset Backed Securities	2028	3,314
FNMA Government Asset Backed Securities	2030	9,681
Mortgaged Back Securities	2018	430,196
Certificate of Deposit	2009	1,032,696
Certificate of Deposit	2014	153,413
Certificate of Deposit	2015	296,895

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, 2006 the carrying amount and bank balance of the Municipal Authority's deposits were \$25,050, 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, 2006:

Total minimum lease payments to be received	\$1,507,505
Estimated residual value of leased property	65,327
Unearned income	<u>(105,967)</u>
 Net investment	 <u>\$1,466,865</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, 2006 for each of the next five years are as follows:

2007	\$ 58,693
2008	58,693
2009	59,057
2010	63,062
2011	63,062
Thereafter	<u>1,204,938</u>
 Total	 <u>\$1,507,505</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, 2006, upon which the 2006 levy was based, was \$949,390,770. The estimated market value was \$949,390,770 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, 2006, was \$9.18 per \$1,000, which means that the City has a tax margin of \$15.82 per \$1,000.

6. CAPITAL ASSETS

	BALANCE JANUARY 1, <u>2006</u>	<u>ACQUISITIONS</u>	<u>DISPOSALS/ TRANSFERS</u>	BALANCE DECEMBER 31, <u>2006</u>
Governmental activities:				
Cost:				
Land, land improvements, and monuments	\$1,192,424	\$1,370,214		\$ 2,562,638
Infrastructure	8,377,121	1,462,920		9,840,041
Buildings and improvements	4,376,889	28,900	\$ (962,643)	3,443,146
Furniture and equipment	1,215,221	345,372	(53,501)	1,507,092
Transportation	<u>3,002,622</u>	<u>273,526</u>	<u>(33,517)</u>	<u>3,242,631</u>
Total cost	<u>18,164,277</u>	<u>3,480,932</u>	<u>(1,049,661)</u>	<u>20,595,548</u>
Less accum. depreciation:				
Land improv., monuments	(24,000)	(23,815)		(47,815)
Infrastructure	(341,188)	(416,815)		(758,003)
Buildings and improvements	(2,192,158)	(77,914)		(2,270,072)
Furniture and equipment	(748,977)	(124,648)	\$ 53,044	(820,581)
Transportation	<u>(1,700,281)</u>	<u>(323,007)</u>	<u>33,517</u>	<u>(1,989,771)</u>
Total accumulated depreciation	<u>(5,006,604)</u>	<u>(966,199)</u>	<u>86,561</u>	<u>(5,886,242)</u>
Governmental activities capital assets, net	<u>\$13,157,673</u>	<u>\$2,514,733</u>	<u>\$ (963,100)</u>	<u>\$14,709,306</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Business – type activities:	BALANCE JANUARY 1, 2006	ADDITIONS	DISPOSALS/ TRANSFERS	BALANCE DECEMBER 31, 2006
Cost:				
Land & land improvements	\$ 1,298,363	\$ 56,675		\$ 1,355,038
Buildings and improvements	10,422,820	20,632	\$609,462	11,052,914
Machinery and equipment	11,808,070	479,183	(43,297)	12,243,956
Property held under capital lease	2,277,644			2,277,644
Construction in process	<u>45,706</u>	<u>350,573</u>	<u>219,960</u>	<u>616,239</u>
Total cost	<u>25,852,603</u>	<u>907,063</u>	<u>786,125</u>	<u>27,545,791</u>
Less accumulated depr. for:				
Land improv.		(21,535)		(21,535)
Buildings and improvements	(2,872,030)	(375,372)		(3,247,402)
Machinery and equipment	(6,622,452)	(765,126)	164,625	(7,222,953)
Property held under capital lease	<u>(336,539)</u>	<u>(59,132)</u>	<u>-</u>	<u>(395,671)</u>
Total accumulated depreciation	<u>(9,831,021)</u>	<u>(1,221,165)</u>	<u>164,625</u>	<u>(10,887,561)</u>
Business-type activities capital assets, net	<u>\$16,021,582</u>	<u>\$ (314,102)</u>	<u>\$950,750</u>	<u>\$16,658,230</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 \$172,000 for the year ended December 31, 2006.

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, 2006, as related to the City's governmental activities:

YEAR ENDING DECEMBER 31

2007	\$154,388
2008	92,893
2009	31,535
2010	<u>937</u>
Total minimum lease payments	279,753
Less amounts representing interest	<u>(24,373)</u>
Present value of net minimum lease payments	255,380
Less: current portion	<u>(138,976)</u>
Present value of net minimum lease payments, long-term	<u>\$116,404</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.

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

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 \$59,231 for the year ended December 31, 2006.

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>
Less: Accumulated amortization	<u>(395,671)</u>
Property held under capital leases, net	<u>\$1,881,973</u>

7. INTERFUND BALANCES AND ACTIVITY

BALANCES DUE TO/FROM OTHER FUNDS

Individual fund receivable and payable amounts at December 31, 2006 were as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$1,318,161	\$(217,530)
Special Revenue Funds:		
Community Development Block Grant	4,345	(132,874)
HOME	4,801	
Non-Revenue Escrow	115,797	(194,611)
Liquid Fuels		(42,554)
Debt Service Fund	45,166	
Capital Projects Fund	12,121	(994,590)
Enterprise Fund	87,914	(5,568)
Internal Service Fund (City Hall Operating)		(3,074)
Fiduciary Fund	132,665	
Agency Fund	<u>-</u>	<u>(130,169)</u>
Total	<u>\$1,720,970</u>	<u>\$(1,720,970)</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

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 and site preparation/acquisition for the Williamsport Cinema Complex) 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, 2006 were as follows:

	<u>IN</u>	<u>OUT</u>
General Fund	\$ 120,000	\$(1,153,871)
Special Revenue Funds:		
Community Development Block Grant	35,000	(120,000)
Community Development Home		(35,000)
Capital Projects	430,742	(115,000)
Liquid Fuels		(6,554)
Debt Service	554,624	(159,929)
Proprietary Funds,		
Enterprise Fund (RVT)	309,664	(16,459)
Fiduciary Funds:		
Unemployment compensation	20,668	-
Workers' Compensation	<u>136,115</u>	<u>-</u>
 Total	 <u>\$1,606,813</u>	 <u>\$(1,606,813)</u>

The General Fund made interfund transfers in support of Debt Service, 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

A summary of changes in long-term debt for 2006 is as follows:

<u>NOTE PAYABLE</u>	<u>BALANCE 1/1/06</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE 12/31/06</u>	<u>DUE WITHIN ONE YEAR</u>
Series of 2005 – Capital projects (C&N Bank)	\$1,662,000	\$159,929		\$1,821,929	\$ -
Series B of 2004 – Pension costs (Legacy Bank)	1,000,000		\$368,689	631,311	210,085
Series C of 2004 – Capital projects (M&T Bank)	100,000			100,000	-
Community Foundation	47,699		12,000	35,699	12,000
Tractor purchase	<u>19,265</u>		<u>9,632</u>	<u>9,633</u>	<u>9,632</u>
Total	<u>\$2,828,964</u>	<u>\$159,929</u>	<u>\$390,321</u>	<u>\$2,598,572</u>	<u>\$231,717</u>

The following table presents the same information provided above, however, illustrates how such activity relates to the City's governmental and business-type activities for the year December 31, 2006:

	<u>GOVERN- MENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
Notes payable, January 1, 2006	\$2,578,965	\$250,000	\$2,828,965
Additions	159,929	-	159,929
Payments	<u>(390,322)</u>	<u>-</u>	<u>(390,322)</u>
Notes payable, December 31, 2006	2,348,572	250,000	2,598,572
Less: current portion	<u>(231,717)</u>	<u>-</u>	<u>231,717</u>
Notes payable, long-term	<u>\$2,116,855</u>	<u>\$250,000</u>	<u>\$2,366,855</u>

Additional information regarding the City's long-term debt obligations is as follows:

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 \$1,571,929 at December 31, 2006.

**\$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. Under the original terms of this note, principal payments were deferred until 2006, and would have been required through May 2015; however, the City currently anticipates making advance payments of approximately \$210,000 annually until the note has been paid in full. The outstanding principal balance on this note was \$631,311 at December 31, 2006.

**\$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 through May 2009. The outstanding principal balance on this note was \$100,000 at December 31, 2006.

**\$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 \$35,699 at December 31, 2006.

**\$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 \$9,632 at December 31, 2006. This note is secured by the tractor, whose fair value approximates the carrying value of the note at December 31, 2006.

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, 2006:

<u>YEAR ENDING DECEMBER 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 231,717	\$ 96,088	\$ 327,805
2008	177,297	67,563	244,860
2009	159,579	96,859	256,438
2010	255,909	88,608	344,517
2011	119,029	74,885	193,914
2012-2016	219,865	322,061	541,926
2017-2021	278,943	262,983	541,926
2022-2026	353,896	188,030	541,926
2027-2031	448,989	92,937	541,926
2032-2036	<u>103,348</u>	<u>5,038</u>	<u>108,386</u>
Total	<u>\$2,348,572</u>	<u>\$1,295,052</u>	<u>\$3,643,624</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% were 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 terms of the City's Guaranteed Note, Series of 2005 (C&N Bank) as described above.

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 ENDING DECEMBER 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 12,188	\$ 12,188
2008	5,329	12,188	17,517
2009	5,589	11,928	17,517
2010	5,861	11,656	17,517
2011	6,147	11,370	17,517
2012-2016	35,534	52,048	87,582
2017-2021	45,079	42,503	87,582
2022-2026	57,195	30,387	87,582
2027-2031	72,564	15,018	87,582
2032-2036	<u>16,702</u>	<u>814</u>	<u>17,516</u>
Total	<u>\$250,000</u>	<u>\$200,100</u>	<u>\$450,100</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.

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, 2006, the combined City/Commonwealth contributions to the Fire, Police and O&E plans were \$1,236,659, \$805,191 and \$179,496, 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:

	<u>OFFICERS' AND EMPLOYEES' PENSION FUND</u>	<u>FIREMEN'S PENSION FUND</u>	<u>POLICE PENSION FUND</u>
Annual required contribution	\$179,496	\$1,236,659	\$805,191
Interest on net pension asset	(18,260)	(2,726)	(11,950)
Adjustment to annual required contribution	<u> -</u>	<u> 5,740</u>	<u> -</u>
Annual pension cost	161,236	1,239,673	793,241
Contributions made	<u>179,496</u>	<u>1,236,659</u>	<u>805,191</u>
Increase (decrease) in net pension asset	18,260	(3,014)	11,950
Net pension asset, beginning of year	<u>228,248</u>	<u> 36,340</u>	<u> 149,372</u>
Net pension asset, end of year	<u>\$246,508</u>	<u>\$ 33,326</u>	<u>\$161,322</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			
12/31/06	\$161,236	111%	\$(246,508)
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)

CITY OF WILLIAMSPORT, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

<u>Plan and Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Firemen's Pension Fund			
12/31/06	\$1,239,673	99.8%	\$(33,326)
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)
Police Pension Fund			
12/31/06	\$793,241	102%	\$(161,322)
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 Nationwide Retirement Solutions. 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, 147 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, 2006, expenditures of approximately \$984,600 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, 2006 that relate to claims made during the 1994 through June 1997 timeframe amounted to \$144,768. During the year ended December 31, 2006, the City increased its reserve by \$136,115 and, as a result, 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 2006 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

During the year ended December 31, 2006, the Williamsport Parking Authority purchased certain management services from River Valley Transit (an enterprise fund operation of the City) amounting to \$30,012.

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.

In addition, the City 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 - 2007

In December 2006, City Council approved a resolution authorizing City Officials to enter into a Tax and Revenue Anticipation Note, Series I of 2007, dated January 1, 2007, 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 8.95%, maturing on December 31, 2007.

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. 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 September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB 48 provides guidance as to whether a government's exchange of specific receivables for immediate cash payments should be accounted for as a sale or as a collateralized borrowing. GASB 48 is effective for the City's year calendar year 2007 financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. GASB 49 is effective for the City's calendar year 2008 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, 2006

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, 2006

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	
2006	\$ 805,191	100%		\$ 1,236,659	100%		\$ 179,496	100%	
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, 2006
(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, 2006

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE JANUARY 1, 2006	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE DECEMBER 31, 2006
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>							
Community Development Block Grant Entitlement Grants	14.218	1,536,000	500,661	22,092	478,569	478,569 *	-
Community Development Block Grant Entitlement Grants	14.218	1,453,432	1,453,432	-	1,453,432	1,453,432 *	-
Community Development Block Grant Entitlement Grants	14.218	1,299,000	16,165	-	227,449	227,449 *	211,284
Community Development Block Grant Entitlement Grants - Program Income	14.218	N/A	214,894	-	214,894	214,894 *	-
Community Planning and Development - HOME Program	14.239	1,135,214	613,738	23,296	615,855	615,855	25,413
Community Planning and Development - HOME Program - Program Income	14.239	N/A	127,165	(25,759)	91,642	91,642	(61,282)
EDI-Special Project No. B-02-SP-PA-0614	N/A	250,000	-	-	-	-	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>2,926,055</u>	<u>19,629</u>	<u>3,081,841</u>	<u>3,081,841</u>	<u>175,415</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	5,278	-	5,492	5,492	214
TOTAL U.S. DEPARTMENT OF JUSTICE,							
Edward Byrne Memorial Formula Grant Program	16.579	65,000	17,000	-	3,190	3,190	(13,810)
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>							
Urban and Community Forestry (Title II)	10.664	18,000	-	(9,000)	17,417	17,417	8,417
Urban and Community Forestry (Title II)	10.664	19,000	9,500	-	-	-	(9,500)
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>9,500</u>	<u>(9,000)</u>	<u>17,417</u>	<u>17,417</u>	<u>(1,083)</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE JANUARY 1, 2006	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE DECEMBER 31, 2006
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>							
Federal Transit Administration Capital Improvement Grant	20.500	3,210,228	-	-	-	-	-
Federal Transit Administration Capital Improvement Grant	20.500	1,457,667	1,274,433	1,231,964	107,827	107,827	65,358
Federal Transit Administration Capital Improvement Grant	20.500	1,213,592	-	-	-	-	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	250,000	-	-	-	-	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	650,878	4,980	-	4,980	4,980 *	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	712,502	2,180	2,180	-	-	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	1,477,416	220,000	-	697,605	697,605 *	477,605
Federal Transit Administration Capital and Operating Assistance Grant	20.507	657,121	-	-	-	-	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	687,758	515,818	171,940	343,878	343,878 *	-
Federal Transit Administration Capital and Operating Assistance Grant	20.507	235,000	235,000	-	235,000	235,000 *	-
Passed through Pennsylvania Department of Transportation: Highway Planning and Construction	20.205	1,604,610	48,426	8,572	39,854	39,854	-
Highway Planning and Construction	20.205	598,000	24,289	24,289	-	-	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>2,325,126</u>	<u>1,438,945</u>	<u>1,429,144</u>	<u>1,429,144</u>	<u>542,963</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE JANUARY 1, 2006	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE DECEMBER 31, 2006
<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	2,999	-
Health Care and Other Facilities	93.887	1,000	1,000	-	1,000	1,000	-
TOTAL U.S. DEPARTMENT OF HEALTH RESOURCES AND SERVICES ADMINISTRATION			1,000	(2,999)	3,999	3,999	-
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>							
Assistance to Firefighters Grant	97.044	6,597	1,574	1,574	-	-	-
Passed through Pennsylvania Emergency Management Agency, Public Assistance Grants	97.036	263,256	121,249	-	121,249	121,249	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			122,823	1,574	121,249	121,249	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 5,406,782	\$ 1,448,149	\$ 4,662,332	\$ 4,662,332	\$ 703,599

* 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, 2006
(UNAUDITED)

	LIQUID FUELS	HOME REHAB	REDEV. AUTHORITY	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 277,945	\$ 57,140	\$ 5,729	\$ -	\$ 340,814
Receivables:					
Loans	-	69,311	-	-	69,311
Other	591	-	2,645	-	3,236
Due from other funds	-	-	-	45,166	45,166
TOTAL	\$ 278,536	\$ 126,451	\$ 8,374	\$ 45,166	\$ 458,527
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Vouchers payable	\$ 11,328	-	\$ 2,645	-	\$ 13,973
Due to other funds	42,554	-	-	-	42,554
Deferred revenue	-	69,311	-	-	69,311
Total liabilities	53,882	69,311	2,645	-	125,838
Fund balances:					
Reserved for:					
Liquid fuels tax purposes	224,654	-	-	-	224,654
Home rehabilitation	-	57,140	-	-	57,140
Redevelopment activities	-	-	5,729	-	5,729
Debt service	-	-	-	45,166	45,166
Total fund balances	224,654	57,140	5,729	45,166	332,689
TOTAL	\$ 278,536	\$ 126,451	\$ 8,374	\$ 45,166	\$ 458,527

CITY OF WILLIAMSPORT, PENNSYLVANIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)

	LIQUID FUELS	HOME REHAB	REDEV. AUTHORITY	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:					
Interest, rents, royalties	\$ 15,839	\$ 390	\$ -	\$ -	\$ 16,229
Intergovernmental					
Federal	-	-	-	-	-
State	589,404	-	-	-	589,404
Local	28,356	-	348,148	-	376,504
Collections on loans	-	45,884	-	-	45,884
Miscellaneous	-	-	350	-	350
Total revenues	<u>633,599</u>	<u>46,274</u>	<u>348,498</u>	<u>-</u>	<u>1,028,371</u>
EXPENDITURES:					
Current:					
General government	-	-	12,984	-	12,984
Public Safety	-	-	-	-	-
Public works	456,058	-	-	-	456,058
Culture and recreation	-	-	-	-	-
Education	-	-	-	-	-
Revolving loans and grants	-	-	318,079	-	318,079
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	25,000	-	25,000
Total expenditures	<u>456,058</u>	<u>-</u>	<u>356,063</u>	<u>-</u>	<u>812,121</u>
Excess (deficiency) of revenues over expenditures	<u>177,541</u>	<u>46,274</u>	<u>(7,565)</u>	<u>-</u>	<u>216,250</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from the issuance of long-term debt	-	-	-	159,929	159,929
Debt service	-	-	-	(509,459)	(509,459)
Transfers in	-	-	-	554,625	554,625
Transfers out	(6,554)	(35,000)	-	(159,929)	(201,483)
Total other financing sources (uses)	<u>(6,554)</u>	<u>(35,000)</u>	<u>-</u>	<u>45,166</u>	<u>3,612</u>
Net change in fund balances	170,987	11,274	(7,565)	45,166	219,862
Fund balances - beginning	<u>53,667</u>	<u>45,866</u>	<u>13,294</u>	<u>-</u>	<u>112,827</u>
Fund balances - ending	<u>\$ 224,654</u>	<u>\$ 57,140</u>	<u>\$ 5,729</u>	<u>\$ 45,166</u>	<u>\$ 332,689</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PENSION TRUST FUNDS
 DECEMBER 31, 2006
 (UNAUDITED)

	FIREMEN'S PENSION	POLICE PENSION	O&E PENSION	TOTAL
ASSETS:				
Cash and cash equivalents	\$ 519,024	\$ 586,886	\$ 393,391	\$ 1,499,301
Receivables, Other	<u>68,426</u>	<u>98,423</u>	<u>42,814</u>	<u>209,663</u>
Investments, at fair value:				
U.S. Government securities	7,334,514	9,954,412	4,482,331	21,771,257
Domestic corporate bonds	1,241,839	1,480,808	768,780	3,491,427
Domestic equity securities	8,794,558	13,856,559	6,344,173	28,995,290
Mutual funds	<u>487,983</u>	<u>680,275</u>	<u>259,363</u>	<u>1,427,621</u>
Total investments	<u>17,858,894</u>	<u>25,972,054</u>	<u>11,854,647</u>	<u>55,685,595</u>
TOTAL	<u>\$ 18,446,344</u>	<u>\$ 26,657,363</u>	<u>\$ 12,290,852</u>	<u>\$ 57,394,559</u>
NET ASSETS,				
Held in trust for benefits and other purposes	<u>\$ 18,446,344</u>	<u>\$ 26,657,363</u>	<u>\$ 12,290,852</u>	<u>\$ 57,394,559</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 PENSION TRUST FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (UNAUDITED)

	FIREMEN'S PENSION	POLICE PENSION	O&E PENSION	TOTAL
ADDITIONS:				
Contributions:				
Employer	\$ 763,816	\$ 307,869	\$ 110,865	\$ 1,182,550
Commonwealth of Pennsylvania	472,843	497,322	68,631	1,038,796
Employees	101,978	175,538	199,457	476,972
Total contributions	1,338,637	980,729	378,953	2,698,318
Investment earnings:				
Interest and dividends	508,233	727,392	360,711	1,596,336
Net appreciation in fair value of investments	918,917	1,538,494	686,796	3,144,207
Other investment income	60,734	74,553	27,241	162,528
Total investment earnings	1,487,884	2,340,439	1,074,748	4,903,071
Less investment expense (advisory fees)	(45,267)	(65,897)	(15,434)	(126,598)
Net investment earnings	1,442,617	2,274,542	1,059,314	4,776,473
Total additions	2,781,254	3,255,270	1,438,267	7,474,791
DEDUCTIONS:				
Benefits and refunds of contributions	1,218,686	1,260,625	398,677	2,877,988
Administrative	1,217	10,615	12,379	24,210
Total deductions	1,219,903	1,271,240	411,056	2,902,198
CHANGE IN NET ASSETS	1,561,351	1,984,030	1,027,211	4,572,593
NET ASSETS, BEGINNING	16,884,993	24,673,333	11,263,641	52,821,966
NET ASSETS, ENDING	\$ 18,446,344	\$ 26,657,363	\$ 12,290,852	\$ 57,394,559

CITY OF WILLIAMSPORT, PENNSYLVANIA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST FUNDS
 DECEMBER 31, 2006
 (UNAUDITED)

	Workers' Compensation	Unemployment Compensation	Total
ASSETS:			
Cash and cash equivalents	\$ 10,378	\$ -	\$ 10,378
Due from other funds	<u>126,115</u>	<u>6,550</u>	<u>132,665</u>
TOTAL	<u>\$ 136,493</u>	<u>\$ 6,550</u>	<u>\$ 143,043</u>
LIABILITIES:			
Vouchers payable	\$ -	\$ 6,550	\$ 6,550
Claims liability	<u>126,115</u>	<u>-</u>	<u>126,115</u>
Total liabilities	<u>126,115</u>	<u>6,550</u>	<u>132,665</u>
NET ASSETS,			
Reserved for workers' compensation	<u>10,378</u>	<u>-</u>	<u>10,378</u>
Total net assets	<u>10,378</u>	<u>-</u>	<u>10,378</u>
TOTAL	<u>\$ 136,493</u>	<u>\$ 6,550</u>	<u>\$ 143,043</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (UNAUDITED)

	WORKERS' COMPENSATION	UNEMPLOYMENT COMPENSATION	TOTAL
DEDUCTIONS:			
Benefits	\$ 144,768	\$ 24,457	\$ 169,225
Administrative	<u>4,161</u>	<u>-</u>	<u>4,161</u>
Total deductions	148,929	24,457	173,386
OTHER FINANCING SOURCES,			
Operating transfers in	<u>136,115</u>	<u>20,668</u>	<u>156,783</u>
CHANGE IN NET ASSETS	(12,815)	(3,789)	(16,604)
NET ASSETS, Beginning	<u>23,193</u>	<u>3,789</u>	<u>26,982</u>
NET ASSETS, Ending	<u>\$ 10,378</u>	<u>\$ -</u>	<u>\$ 10,378</u>

CITY OF WILLIAMSPORT, PENNSYLVANIA

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 DECEMBER 31, 2006
 (UNAUDITED)

	TAX COLLECTING	PAYROLL REVOLVING	NONREVENUE ESCROW	TOTAL
ASSETS,				
Cash and cash equivalents	<u>\$ 364,531</u>	<u>\$ 1,956</u>	<u>\$ 31,001</u>	<u>\$ 397,488</u>
LIABILITIES:				
Vouchers payable	\$ -	\$ 1,956	\$ 21,001	\$ 22,957
Due to other funds	120,169	-	10,000	130,169
Due to other taxing units	<u>244,362</u>	<u>-</u>	<u>-</u>	<u>244,362</u>
Total liabilities	<u>\$ 364,531</u>	<u>\$ 1,956</u>	<u>\$ 31,001</u>	<u>\$ 397,488</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, 2006, and have issued our report thereon dated June 13, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2006-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2006-1, 2006-2, and 2006-3.

We noted certain matters that we reported to the management of the City in a separate letter dated June 13, 2007.

The City's response to the findings identified in our audit are described in a separate letter, as prepared by City management. We did not audit the City's response and, accordingly, we express no opinion on it.

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.

Garante Landry, LLC

Williamsport, Pennsylvania
June 13, 2007

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM
AND ON 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, Pennsylvania (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, 2006. 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.

As described in items 2006-2 and 2006-3 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding suspension and debarment and equipment management that are applicable to its Community Development Block Grant program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2006.

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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2006-2 and 2006-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider either of the significant deficiencies described to be material weaknesses.

The City's response to the findings identified in our audit are described in a separate letter, as prepared by City management. We did not audit the City's response and, accordingly, we express no opinion on it.

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.



Williamsport, Pennsylvania
June 13, 2007

CITY OF WILLIAMSPORT, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified? X Yes no

Significant deficiency(ies) 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

Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes 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
20.507	Federal Transit Administration Capital and Operating Assistance Grant

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

Auditee qualified as low-risk auditee? yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING NO.	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
2006-1	<p>Internal Control Over Financial Reporting – City Pension Funds</p> <p>CRITERIA: The City maintains three single employer defined benefit pension plans for its Police, Fire and Non-uniformed Officers and Employees (the “Pension Funds”). The Pension Funds employ an investment advisor, CS McKee; whereas investment activity is transacted by a separate securities brokerage firm, Wachovia Securities, which also holds the related pension assets in safekeeping.</p> <p>At December 31, 2006, the three City pension funds collectively held over \$57,000,000 in cash and investments, with each fund having significant activity for the year then ended.</p> <p>CONDITION: While sophisticated investment policies are in place, and the respective pension boards meet periodically with CS McKee and Wachovia to review investment performance, the City does not maintain its Pension Funds on its general ledger system, nor is the activity within these funds reconciled on a monthly basis by an appropriate individual within City Hall. As such, existing internal control is limited with regard to these funds.</p> <p>CAUSE: Management considers its external professionals (broker/safekeeper, external auditor) to be a part of its internal control over financial reporting as related to its Pension Funds.</p> <p>EFFECT: City management cannot be assured that its pension funds have been properly valued, credited for investment earnings, and that pension fund disbursements are limited to authorized benefit payments and administrative charges.</p>	N/A

FINDING NO.	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
RECOMMENDATION:	City management should establish separate pension trust funds on its American Fundware general ledger system, and put in place monthly reconciliation procedures whereby investment activity is tracked, recorded and reconciled by an appropriate individual with adequate training in accounting for investments (e.g., recalculation of interest earned on debt securities, verification of dividends paid on equity securities, recalculation of realized gains and losses on sales, recalculation of investment advisory fees, reconciliation of monthly benefits paid to underlying support, etc.).	
SECTION III - AWARD FINDINGS AND QUESTIONED COSTS		
2006-2	CFDA No. 14.218, CDBG Entitlement Grants	
CRITERIA:	Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Contactors and all subrecipients must certify that the organization and its principals are not suspended or debarred for individual awards of \$100,000 or more.	
CONDITION:	The City has not implemented policies or procedures to ensure that no contractors awarded individual contracts of \$100,000 or more are suspended or debarred.	
CAUSE:	Management was unaware of this requirement.	
EFFECT:	Management cannot be assured that contractors paid with federal funds are not suspended or debarred.	N/A
RECOMMENDATION:	Verification of contractor and subcontractors may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting certifications from the entity, or adding a clause or condition to the covered transaction with that entity.	

FINDING NO.	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
2006-3	CFDA No. 14.218, CDBG Entitlement Grants	
	CRITERIA: A physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records.	
	CONDITION: The City has not performed a physical inventory of equipment purchased with federal funds; moreover, an appropriate control system has not been implemented to safeguard equipment.	
	CAUSE: Management was unaware of this requirement.	
	EFFECT: The City cannot be assured that equipment with federal funds is being properly maintained and adequately accounted for.	N/A
	RECOMMENDATION: A physical inventory of equipment purchased with federal funds should be performed at least once every two years and reconciled to the equipment records.	

CITY OF WILLIAMSPORT, PENNSYLVANIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

PROGRAM	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
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There were no findings related to the financial statements audit or major federal award programs audit noted in the 2005 Single Audit.