

CITY OF DUBOIS
DUBOIS, PENNSYLVANIA
FINANCIAL STATEMENTS
DECEMBER 31, 2005
WITH
REPORT OF CERTIFIED
PUBLIC ACCOUNTANTS

CITY OF DUBOIS
FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

December 31, 2005

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CALLIARI, MEHOLICK & CO.

CERTIFIED PUBLIC ACCOUNTANTS

205A SOUTH MAIN STREET

DUBOIS, PA 15801-1501

Independent Auditor's Report

**Honorable City Council
City of DuBois
DuBois, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of DuBois, Pennsylvania, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the City of DuBois, Pennsylvania, prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of DuBois, Pennsylvania, as of December 31, 2005, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2006, on our consideration of the City of DuBois, Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The budgetary comparison and pension information presented on pages 30 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The City of DuBois, Pennsylvania, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board requires to supplement, although not to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of DuBois, Pennsylvania'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 also not a required part of the basic financial statements of City of DuBois, Pennsylvania. 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, fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Calliari, Meholick & Co.

Calliari, Meholick & Co.

August 22, 2006

CITY OF DUBOIS
STATEMENT OF NET ASSETS - CASH BASIS
December 31, 2005

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
ASSETS				
Cash	\$ 1,495,785	\$ 1,046,095	\$ 2,541,880	\$ 269,941
Investments	15,648	121,400	137,048	---
Due from Other Funds	<u>263,083</u>	<u>---</u>	<u>263,083</u>	<u>---</u>
Total Assets	1,774,516	1,167,495	2,942,011	269,941
LIABILITIES				
Due to Other Funds	<u>261,043</u>	<u>1,500</u>	<u>262,543</u>	<u>---</u>
Total Liabilities	<u>261,043</u>	<u>1,500</u>	<u>262,543</u>	<u>---</u>
NET ASSETS				
Restricted for:				
Debt Service	---	228,398	228,398	136,894
Capital Projects	19,450	---	19,450	---
Public Safety	169,016	---	169,016	---
Program Funding	---	---	---	98,622
Unrestricted	<u>1,325,007</u>	<u>937,597</u>	<u>2,262,604</u>	<u>34,425</u>
Total Net Assets	<u>\$ 1,513,473</u>	<u>\$ 1,165,995</u>	<u>\$ 2,679,468</u>	<u>\$ 269,941</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DUBOIS
STATEMENT OF ACTIVITIES - CASH BASIS
For the Year Ended December 31, 2005

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets			Component Unit
					Primary Government	Business - Type Activities	Total	
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	\$ 928,679	\$ 582,805	\$ 72,796	\$ ---	\$ (273,078)	\$ ---	\$ (273,078)	
Public works	1,440,412	---	162,772	541,003	(736,637)	---	(736,637)	
Public safety	1,440,151	133,809	59,166	165,000	(1,082,176)	---	(1,082,176)	
Culture and recreation	403,262	58,341	---	21,419	(323,502)	---	(323,502)	
Community development	50,436	---	---	---	(50,436)	---	(50,436)	
Tax incremental financing	23,890	---	---	---	(23,890)	---	(23,890)	
Principal on long-term debt	353,203	---	---	---	(353,203)	---	(353,203)	
Interest on long-term debt	42,308	---	---	---	(42,308)	---	(42,308)	
Total Governmental Activities	4,682,341	774,955	294,734	727,422	(2,885,230)	---	(2,885,230)	
Business - Type Activities:								
Water	1,497,306	1,324,509	---	---	---	(172,797)	(172,797)	
Sewer	2,108,124	2,353,491	---	---	---	245,367	245,367	
Total Business - Type Activities	3,605,430	3,678,000	---	---	---	72,570	72,570	
Total Primary Government	8,287,771	4,452,955	294,734	727,422	(2,885,230)	72,570	(2,812,660)	
COMPONENT UNIT:								
Redevelopment Authority	\$ 389,037	\$ 50,758						\$ (338,279)
General Revenues:								
Taxes:								
Property taxes, for general purposes					1,056,350	---	1,056,350	---
Property taxes, for culture and recreation purposes					172,765	---	172,765	---
Residence taxes					18,835	---	18,835	---
Earned income taxes					488,708	---	488,708	---
Realty transfer taxes					150,418	---	150,418	---
Emergency and municipal services taxes					368,343	---	368,343	---
Occupational privilege taxes					4,235	---	4,235	---
Per capita taxes					18,836	---	18,836	---
Payments in lieu of taxes					22,844	---	22,844	---
Tax increments					---	---	---	142,075
Payments from the City of DuBois					---	---	---	68,500
Grants and contributions not restricted to specific programs					226,875	---	226,875	---
Unrestricted interest earned					30,474	21,220	51,694	6,259
Loan principal repayments					---	---	---	34,792
Proceeds from sale of assets					87,721	---	87,721	23,515
Proceeds from sale of land					303,515	---	303,515	---
Royalties					23,406	---	23,406	---
Miscellaneous					2,996	2,927	5,923	---
Transfers					237,600	(237,600)	---	---
Total general revenues and transfers					3,213,921	(213,453)	3,000,468	275,141
Change in net assets					328,691	(140,883)	187,808	(63,138)
Net assets - beginning					1,184,782	1,306,878	2,491,660	333,079
Net assets - ending					\$ 1,513,473	\$ 1,165,995	\$ 2,679,468	\$ 269,941

The accompanying notes are an integral part of these financial statements.

CITY OF DUBOIS
GOVERNMENTAL FUND BALANCE SHEET - CASH BASIS

December 31, 2005

	General Fund	Capital Reserve	Small Communities	Other Governmental Funds	Total
ASSETS					
Cash	\$ 93,916	\$ 957,435	\$ 25	\$ 444,409	\$ 1,495,785
Investments	---	15,648	---	---	15,648
Due From Other Funds	4,128	258,955	---	---	263,083
Total Assets	\$ 98,044	\$ 1,232,038	\$ 25	\$ 444,409	\$ 1,774,516
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	\$ 258,955	\$ ---	\$ 98	\$ 1,990	\$ 261,043
Total Liabilities	258,955	---	98	1,990	261,043
Fund Balances					
Reserved for restricted purposes	---	---	---	323,839	323,839
Unreserved	(160,911)	969,759	(73)	---	808,775
Unreserved - designated for contingencies	---	262,279	---	---	262,279
Unreserved, reported in nonmajor:					
Special Revenue Funds	---	---	---	118,580	118,580
Capital Projects Funds	---	---	---	---	---
Total Fund Balances	(160,911)	1,232,038	(73)	442,419	1,513,473
Total Liabilities and Fund Balances	\$ 98,044	\$ 1,232,038	\$ 25	\$ 444,409	\$ 1,774,516

The accompanying notes are an integral part of these financial statements.

CITY OF DUBOIS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Capital Reserve	Small Communities	Other Governmental Funds	Total
Revenues					
Real estate taxes	\$ 1,056,350	\$ ---	\$ ---	\$ ---	\$ 1,056,350
Culture and recreation taxes	172,765	---	---	---	172,765
Residence taxes	18,835	---	---	---	18,835
Earned income taxes	488,708	---	---	---	488,708
Realty transfer taxes	150,418	---	---	---	150,418
Occupational privilege taxes	4,235	---	---	---	4,235
Emergency and municipal services taxes	368,343	---	---	---	368,343
Per capita taxes	18,836	---	---	---	18,836
Payments in lieu of taxes	22,844	---	---	---	22,844
Licenses and permits	27,148	---	---	---	27,148
Cable franchise fees	60,131	---	---	---	60,131
Fines and forfeits	62,182	---	---	---	62,182
Intergovernmental	236,478	---	391,388	621,165	1,249,031
Charges for services	501,997	---	---	18,000	519,997
Rents and royalties	76,726	---	---	---	76,726
Parking income	52,177	---	---	---	52,177
Interest income	14,647	10,620	---	5,207	30,474
Miscellaneous	2,996	---	---	---	2,996
Total Revenues	3,335,816	10,620	391,388	644,372	4,382,196
Expenditures					
General government	808,700	---	72,890	---	881,590
Public works	818,614	---	13,663	278,022	1,110,299
Public safety	1,128,574	---	165,000	59,166	1,352,740
Culture and recreation	198,019	---	89,493	50,750	338,262
Housing rehabilitation	---	---	50,436	---	50,436
Debt Service					
Debt principal	160,688	---	---	192,515	353,203
Interest	36,701	---	---	5,607	42,308
Capital outlay	417,524	---	---	112,089	529,613
Total Expenditures	3,568,820	---	391,482	698,149	4,658,451
Excess (Deficiency) of Revenues Over Expenditures	(233,004)	10,620	(94)	(53,777)	(276,255)
Other Financing Sources (Uses)					
Sale of general fixed assets	87,721	---	---	---	87,721
Sale of land	---	---	---	303,515	303,515
Tax incremental financing	(23,890)	---	---	---	(23,890)
Transfers in	126,154	262,600	---	---	388,754
Transfers out	(25,000)	(104,055)	---	(22,099)	(151,154)
Total Other Financing Sources and (Uses)	164,985	158,545	---	281,416	604,946
Net Change in Fund Balances	(68,019)	169,165	(94)	227,639	328,691
Fund Balances - Beginning	(92,892)	1,062,873	21	214,780	1,184,782
Fund Balances - Ending	<u>\$ (160,911)</u>	<u>\$ 1,232,038</u>	<u>\$ (73)</u>	<u>\$ 442,419</u>	<u>\$ 1,513,473</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DUBOIS
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS - CASH BASIS
December 31, 2005

	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets			
Cash	\$ 615,482	\$ 430,613	\$ 1,046,095
Investments	121,400	---	121,400
	736,882	430,613	1,167,495
LIABILITIES			
Current Liabilities			
Due to Other Funds	---	1,500	1,500
	---	1,500	1,500
NET ASSETS			
Restricted for Debt Service	228,398	---	228,398
Unrestricted	508,484	429,113	937,597
	508,484	429,113	937,597
Total Net Assets	\$ 736,882	\$ 429,113	\$ 1,165,995

The accompanying notes are an integral part of these financial statements.

CITY OF DUBOIS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS - CASH BASIS

For the Year Ended December 31, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 1,315,662	\$ 2,281,085	\$ 3,596,747
Tap fees	---	23,400	23,400
Other fees	8,847	49,006	57,853
Intergovernmental	170	---	170
Miscellaneous	2,485	272	2,757
Total Operating Revenues	1,327,164	2,353,763	3,680,927
Operating Expenses			
Administration and general	304,381	427,022	731,403
Filtration and purification	487,472	---	487,472
Source of supply	6,834	---	6,834
Transmission and distribution	400,355	---	400,355
Treatment plant	---	661,293	661,293
System maintenance	---	454,247	454,247
Capital expenditures	42,086	445,577	487,663
Total Operating Expenses	1,241,128	1,988,139	3,229,267
Operating Income (Loss)	86,036	365,624	451,660
Non-Operating Revenues (Expenses)			
Interest revenue	13,689	7,531	21,220
Interest expense	(187,725)	(48,290)	(236,015)
Principal payments on long - term debt	(68,453)	(71,695)	(140,148)
Total Non-Operating Revenues (Expenses)	(242,489)	(112,454)	(354,943)
Income (Loss) Before Transfers	(156,453)	253,170	96,717
Transfers In	13,075	---	13,075
Transfers Out	(60,000)	(190,675)	(250,675)
Change in Net Assets	(203,378)	62,495	(140,883)
Total Net Assets - Beginning	940,260	366,618	1,306,878
Total Net Assets - Ending	\$ 736,882	\$ 429,113	\$ 1,165,995

The accompanying notes are an integral part of these financial statements.

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The City of DuBois, Pennsylvania (the "City"), is a municipal corporation governed by an elected mayor and four member council. The City's major operations include police and fire protection, parks, library, recreation, public works and general administrative services. In addition, the City owns and operates a water and sewer system.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The City presents its financial statements under the reporting model of this statement.

B. Reporting Entity

These financial statements present the City (the primary government) and its component unit, the Redevelopment Authority of the City of DuBois. As defined by GASB No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

The Redevelopment Authority was incorporated in 1969 pursuant to the Urban Development Law. The purpose of the Redevelopment Authority is to promote urban development and improve the economic well being of the City. The City Council appoints the members of the Authority's Board. Although legally separate, the Authority works in conjunction with the City on numerous major projects undertaken in the City of DuBois.

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C. Basic Financial Statements – Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, library, recreation, community development, public works and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a cash basis. The City's net assets are reported in two parts-restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

D. Basic Financial Statements-Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

a. 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.

b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

2. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

D. Basic Financial Statements-Fund Financial Statements (Continued)

2. Proprietary Funds (Continued):

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing the services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

E. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The City maintains its books and records and presents its financial statements on the cash basis of accounting. The cash basis of accounting recognizes revenue when received rather than when earned and expenses when paid rather than when incurred.

F. Cash and Cash Equivalents

The City considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The City's cash and investment balances are fully collateralized in accordance with Pennsylvania State law.

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

G. Investments

Investments are comprised of certificates of deposit which are stated at cost.

H. Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by creditors, grantors, laws or regulations of other governments.

I. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2. BUDGETARY INFORMATION

Annual budgets for the general fund, state liquid fuels fund and the water and sewer funds are adopted on a cash basis. A proposed budget is drafted by the City Manager and submitted to the Mayor and Council for their review and consideration. The draft is usually completed and submitted during November of each year.

After review by the Mayor and Council, the budget is presented for public comment through budget hearings conducted during the month of December. Upon completion of the budget hearings and consideration of public input regarding the proposed budget, a final budget for the year is adopted by Ordinance of City Council.

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 3. PROPERTY TAXES

By ordinance of the City Council, property taxes for the year ended December 31, 2005, were enacted and levied on the assessed value of property as follows:

Land – 89 mills (General Fund purposes)
Buildings – 3 mills (General Fund purposes)
Land and Buildings – 3 ½ mills (Recreation Fund purposes)

Duplicates and tax bills are prepared by the County and provided to the City Treasurer's Office. The City Treasurer is responsible for collecting taxes for the County and the School District as well as the City's property taxes.

For 2005, taxes collected for the period March 1 through April 30 allowed for a 2% discount on the face amount to the taxpayer. Collections were made at face value during the period of May 1 through June 30. A 10% penalty was attached to all collections made after June 30.

Taxes not collected by the Treasurer's office before the third Monday in January of the following calendar year are turned over to the County for collection and the City is relieved of its collection responsibility on these taxes. Subsequent collection of the City's share of delinquent taxes along with the applicable interest and penalty amounts are then remitted to the City by the County net of 5% collection charge.

NOTE 4. LONG TERM DEBT

Primary Government

Long-term debt at December 31, 2005, was comprised of the following:

In May and November of 1988, the City incurred lease rental debt for \$830,000 and \$830,000 respectively, for the purpose of constructing a new municipal building.

**CITY OF DUBOIS
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2005**

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

The financing was obtained through the Pennsylvania Pooled Finance Authority from proceeds of the sale of its adjustable rate convertible guaranteed lease revenue bonds series 1986 A and series 1986 B. In August of 1993, this debt was refinanced through the issuance of revenue bonds refunding series C of 1993 in the amount of \$1,715,000. Scheduled future maturities and the applicable rates of interest on this issuance are as follows:

<u>Due November 1,</u>	<u>Principal</u>	<u>Interest Rate</u>
2006	145,000	5.25%
2007	150,000	5.25%
2008	<u>165,000</u>	5.25%
TOTAL	<u>\$ 460,000</u>	

In March of 1996, the City secured a loan in the amount of \$100,000 through the Pennsylvania Emergency Management Agency in order to partially finance the purchase of a new fire truck. The terms of repayment of this obligation call for 180 monthly payments of \$643.51, including interest at a rate of 2% per annum. The monthly payments began in May 1996 as required.

In June of 1996, through issuance of a guaranteed water revenue bond in the principal amount of \$3,696,000 to the Rural Economic and Community Development Service (formerly the Farmers Home Administration), the City relieved its debt with S&T Bank for that same amount. The debt with S&T Bank had been entered into during 1994 as interim financing for the purpose of upgrading the water distribution system. The current issue requires semi-annual payments of principal and interest on June 26 and December 26 each year until June 26, 2036. Interest on the issue is computed on a daily basis at a rate of 4.875%.

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

During October of 1996, the City entered into a demand loan agreement with Clearfield Bank & Trust Co. for the purpose of interim financing on a street construction project. The principal amount of the note was \$147,000, of which \$126,010 had been drawn down by the City. This outstanding balance along with accrued interest was satisfied during 1997 through Pennvest borrowing. The Pennvest borrowing was in the principal amount of \$126,010. The terms of repayment of this obligation require monthly payments for a period of 187 months beginning in November 1997. Monthly payments for the first 54 months are to be in the amount of \$728.00 a month, including interest at the rate of 1% per annum. The remaining 133 monthly payments are to be in the amount of \$739.21, including interest at the rate of 1.28% per annum.

During December of 1996, the City entered into a second demand loan agreement with Clearfield Bank & Trust Co. for the purpose of interim financing on improvements to the sewage treatment plant. The initial principal amount of this note was \$400,000; however, due to delays in obtaining permanent financing, this note was extended during the spring of 1997 and the City borrowed \$509,094 on this demand obligation. Upon securing permanent financing in the form of a Pennvest loan, the demand note, including accrued interest, was satisfied. The Pennvest borrowing was in the principal amount of \$654,937. The terms of repayment of this debt require monthly payments for a period of 188 months beginning in November 1997. Monthly payments for the first 54 months are to be in the amount of \$3,748.23 a month, including interest at the rate of 1% per annum. The remaining 134 monthly payments are to be in the amount of \$3,819.96, including interest at the rate of 1.28% per annum.

In October of 2001, the City entered into a loan agreement with the Pennsylvania Department of Transportation to finance the installation of traffic signals in the City.

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

The loan was in the principal amount of \$90,000. Repayment terms of this obligation require annual payments in the amount of \$11,234.71 for a period of ten (10) years. Interest on the unpaid balance is at the rate of 4.25% per annum. During the 2002 year, the City made a lump sum payment on this obligation in the principal amount of \$36,708. The annual required payments and interest rate will remain as stated, however; the loan will be paid off in 2008.

In June of 2002, the City entered into a loan agreement with the Pennsylvania Emergency Management Agency to assist in the financing of a new fire truck. The loan was in the principal amount of \$100,000. The terms of repayment require monthly payments in the amount of \$643.51 for a period of fifteen (15) years. Interest on the unpaid balance is at the rate of 2% per annum.

During October of 2002, the City secured a loan through the Pennsylvania Infrastructure Investment Authority (Pennvest) in an amount of up to \$182,207 for improvements to the sewer system, of which the City subsequently borrowed \$173,097. Repayment of principal and interest on the loan will be made in 226 monthly installments beginning on February 1, 2003. The first 60 installments, with interest at 1.000% per annum, will be in the amount of \$841. The remaining 166 installments, with interest at 1.269% per annum, will be in the amount of \$857.

In October of 2002, the City entered into a loan agreement with the Washington County Authority to provide the City with loan funding in the principal amount of \$5,040,000. This financing was obtained to be specifically applied to the following projects:

Wastewater Treatment Plant	\$	3,300,000
Water Treatment Plant		850,000
Hoover Avenue Reconstruction		890,000

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

The balance of \$5,040,000 has been reserved for the City to draw upon in connection with the projects noted. As of December 31, 2005, the City had an outstanding balance of \$1,797,454 on the loan consisting of the following:

Wastewater Treatment Plant	\$	1,154,561
Water Treatment Plant		642,893

An additional \$354,243 was borrowed in 2004 to complete the Wastewater Treatment Plant project and monthly principal and interest payments on this debt began in 2004. Monthly payments on this obligation will be made at a variable rate of interest, 4.68% at December 31, 2005, through June of 2029.

The Water Treatment Plant project was completed and monthly principal and interest payments on this debt began in 2003. Interest on this borrowing is at a variable rate, 4.68% at December 31, 2005, and monthly payments will continue through December 2023.

The Hoover Avenue Reconstruction project was also completed during 2003. Interest only payments were made on a monthly basis through 2004. The outstanding principal balance of \$192,515 was paid in full during 2005.

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

Long-term debt activity for the year ended December 31, 2005, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Building	\$ 590,000	\$ ---	\$ 130,000	\$ 460,000	\$ 145,000
Fire Truck	45,900	---	6,867	39,033	7,017
New Street	70,744	---	8,012	62,732	8,115
Traffic Signal	34,523	---	9,738	24,785	10,161
Fire Truck	85,344	---	6,071	79,273	6,193
Hoover Ave.	<u>192,515</u>	<u>---</u>	<u>192,515</u>	<u>---</u>	<u>---</u>
Total Governmental	1,019,026	---	353,203	665,823	176,486
 <u>Business-Type Activities</u>					
Rural Dev.-Water	3,376,261	---	46,947	3,329,314	48,739
Pennvest-Sewer	370,442	---	41,340	329,102	41,872
Pennvest-Sewer	156,931	---	8,557	148,374	8,643
Washington Co.-Sewer	1,176,359	---	21,798	1,154,561	23,142
Washington Co.-Water	<u>664,398</u>	<u>---</u>	<u>21,506</u>	<u>642,892</u>	<u>22,606</u>
Total Business-Type	<u>5,744,391</u>	<u>---</u>	<u>140,148</u>	<u>5,604,243</u>	<u>145,002</u>
Total Primary Government	<u>\$ 6,763,417</u>	<u>\$ ---</u>	<u>\$ 493,351</u>	<u>\$ 6,270,066</u>	<u>\$ 321,488</u>

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

Principal maturities on long-term debt are estimated as follows:

	<u>Governmental Activities</u>					
	<u>Building</u>	<u>Fire Truck</u>	<u>New Street</u>	<u>Traffic Signal</u>	<u>Fire Truck</u>	<u>Total</u>
2006	\$ 145,000	\$ 7,017	\$ 8,115	\$ 10,161	\$ 6,193	\$ 176,486
2007	150,000	7,160	8,220	10,601	6,319	182,300
2008	165,000	7,291	8,326	4,023	6,446	191,086
2009	---	7,438	8,433	---	6,576	22,447
2010	---	7,588	8,541	---	6,709	22,838
2011-2015	---	2,539	21,097	---	35,630	59,266
2016-2020	---	---	---	---	11,400	11,400
Total	<u>\$ 460,000</u>	<u>\$ 39,033</u>	<u>\$ 62,732</u>	<u>\$ 24,785</u>	<u>\$ 79,273</u>	<u>\$ 665,823</u>

**CITY OF DUBOIS
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2005**

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

Principal maturities on long-term debt are estimated as follows:

Business-Type Activities

	<u>Rural Dev. Water</u>	<u>Pennvest Sewer</u>	<u>Pennvest Sewer</u>	<u>Wash Co. Sewer</u>	<u>Wash Co. Water</u>	<u>Total</u>
2006	\$ 48,739	\$ 41,872	\$ 8,643	\$ 23,142	\$ 22,606	\$ 145,002
2007	51,174	42,411	8,730	24,570	23,762	150,647
2008	53,276	42,957	8,688	26,085	24,978	155,984
2009	56,391	43,510	8,786	27,694	26,256	162,637
2010	59,208	44,071	8,898	29,402	27,599	169,178
2011-2015	342,988	114,281	46,221	176,566	160,678	840,734
2016-2020	437,344	---	49,247	238,148	206,208	930,947
2021-2025	558,561	---	9,161	321,226	150,805	1,039,753
2026-2030	712,790	---	---	287,728	---	1,000,518
2031-2035	909,612	---	---	---	---	909,612
2036	99,231	---	---	---	---	99,231
Total	<u>\$ 3,329,314</u>	<u>\$ 329,102</u>	<u>\$ 148,374</u>	<u>\$ 1,154,561</u>	<u>\$ 642,892</u>	<u>\$ 5,604,243</u>

**CITY OF DUBOIS
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2005**

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

Estimated interest due on long-term debt is as follows:

	<u>Governmental Activities</u>					
	<u>Building</u>	<u>Fire Truck</u>	<u>New Street</u>	<u>Traffic Signal</u>	<u>Fire Truck</u>	<u>Total</u>
2006	\$ 24,150	\$ 717	\$ 755	\$ 1,074	\$ 1,529	\$ 28,225
2007	16,500	575	651	634	1,404	19,764
2008	8,700	431	545	174	1,276	11,126
2009	---	284	438	---	1,146	1,868
2010	---	134	329	---	1,014	1,477
2011-2015	---	11	339	---	2,981	3,331
2016-2020	---	---	---	---	181	181
Total	<u>\$ 49,350</u>	<u>\$ 2,152</u>	<u>\$ 3,057</u>	<u>\$ 1,882</u>	<u>\$ 9,531</u>	<u>\$ 65,972</u>

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4. LONG TERM DEBT (CONTINUED)

Primary Government (Continued)

Estimated interest due on long-term debt is as follows:

Business-Type Activities

	<u>Rural</u> <u>Dev.</u>	<u>Pennvest</u> <u>Sewer</u>	<u>Pennvest</u> <u>Sewer</u>	<u>Total</u>
2006	\$ 163,910	\$ 3,967	\$ 1,444	\$ 169,321
2007	161,475	3,428	1,357	166,260
2008	159,372	2,882	1,691	163,945
2009	156,257	2,329	1,501	160,087
2010	153,440	1,769	1,389	156,598
2011-2015	720,254	1,926	5,212	727,392
2016-2020	625,898	---	2,186	628,084
2021-2025	504,681	---	57	504,738
2026-2030	350,452	---	---	350,452
2031-2035	153,630	---	---	153,630
2036	<u>2,566</u>	<u>---</u>	<u>---</u>	<u>2,566</u>
Total	<u>\$ 3,151,935</u>	<u>\$ 16,301</u>	<u>\$ 14,837</u>	<u>\$ 3,183,073</u>

Estimated interest due on the Washington County, RRZ loans, variable rate loans, is not available for presentation.

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 4. LONG TERM DEBT (CONTINUED)

Component Unit – Redevelopment Authority

In order to satisfy interim financing which had been obtained to partially finance the construction of a multi-tenant facility, the Authority secured permanent financing for this obligation through County National Bank during September 1998. The principal amount of the borrowing was \$300,000, payable in monthly installments of \$2,400.60 including interest at the rate of 5.18% per annum for a period of 180 months. This debt is secured by the guarantee of the City of DuBois.

In order to implement a redevelopment project in the Hoover Avenue Area of the City of DuBois, the Authority secured debt in the amount of \$1,200,000 from Mid Penn Bank. Repayment terms on this obligation are as follows. Commencing January 1, 2004 and continuing on the first day of each month for a period of 60 months, monthly installments including principal and interest at the rate of 5.95% are to be made in the amount of \$10,126. At the conclusion of the 60 month term the Authority and the Bank will enter into interest rate negotiations to determine a fixed rate of interest to be in effect for the ensuing 60 month period, which may include a one, three or five year fixed rate option. In the event that the Authority and the Bank are not able to agree on a renegotiated fixed rate of interest commencing December 2008 until maturity, amounts outstanding under the note will bear interest at a floating rate per annum which is at all times 1% point in excess of the prime rate. Any unpaid principal together with interest due thereon if not paid sooner, shall be due and payable in December 2018.

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4. LONG TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities</u>					
TIF Loan	<u>\$1,144,875</u>	<u>\$ ---</u>	<u>\$(79,563)</u>	<u>\$1,065,312</u>	<u>\$ 59,504</u>
<u>Business-Type Activities</u>					
Building Loan	<u>\$ 202,331</u>	<u>\$ ---</u>	<u>\$(18,769)</u>	<u>\$ 183,562</u>	<u>\$ 19,764</u>

<u>Years Ending December 31</u>	<u>TIF Loan</u>		<u>Building Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 59,504	\$ 62,008	\$ 19,764	\$ 9,044
2007	63,143	58,369	20,812	7,995
2008	67,004	54,508	21,916	6,891
2009	66,200	50,968	23,078	5,729
2010	70,283	46,885	24,303	4,504
2011-2015	422,041	163,799	73,689	5,530
2016-2018	<u>317,137</u>	<u>30,552</u>	<u>---</u>	<u>---</u>
Total	<u>\$1,065,312</u>	<u>\$ 467,089</u>	<u>\$ 183,562</u>	<u>\$ 39,693</u>

CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 5. PENSION PLANS

Primary Government

Plan Description

The City maintains two pension plans, one covering substantially all police employees, the other all non-uniformed employees. The police pension provides for benefits to be received under normal retirement at age 50 and after 20 years of service. Early retirement is not available under the plan. Normal retirement benefits are equal to the sum of (1) the greater of 50% of average compensation or 50% of monthly compensation and (2) 2.5% of the amount determined in (1) multiplied by the number of completed years in excess of 20 (maximum \$500). Service on or subsequent to the participant's 65th birthday will not be included. Average compensation is the monthly average of total gross pay received for the five compensation years out of all years, which gives the highest amount. Monthly compensation is 1/12th of an employee's compensation for such year. Vesting is 100% after 12 years of accrual service. Participant contributions to the plan are 3% of monthly pay plus a \$.50 per pay period police increment. Cost of living adjustments are applied to participants who retire on or after January 1, 1978, at a rate of 7.5% each year with an overall benefit limit of 130% of the normal retirement benefit. Cost of living adjustments are applied to participants who retire on or after January 1, 1999, at the rate of 6.66% each year with an overall benefit limit of 140% of the normal retirement benefit. In any case, no adjustment will be made if the original retirement benefit exceeds 50% of the highest paid patrolman's salary for the prior year.

The non-uniformed plan provides for benefits to be received under normal retirement at age 60 with at least 12 years of service. Early retirement is available after 20 years of service with a voluntary termination or after 8 years with an involuntary termination. Normal benefits are equal to .0175 multiplied by the years of credited service multiplied by the final average salary, but in no event is the basic benefit greater than 75% of final average salary. The final average salary is based upon the highest 5-year average salary. No social security offset enters into the calculation. Vesting is 100% after 12 years of service. Participant contributions to the plan are 3.5% of pay. The City may optionally award post-retirement adjustments based on the system's investment performance.

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 6. CLAIMS AND JUDGMENTS

A lawsuit had been brought against the City by Sandy Township. The Township, a customer on the City's sewer system, had raised a claim for damages alleging that it was deprived of the 400,000 gallons reserved for it in the sewage treatment plant. In addition, the Township had objected to the increased rates instituted by the City as well as the tap-in fee on the basis that neither was supported by proper calculations. The City filed a Counterclaim demanding payment of unpaid tap-in fees and raised a claim for the unpaid sewer fees under the new rate.

The case went to trial in August 2004 and the Court subsequently rendered its decision on the matters brought forth. The Court's decision is summarized as follows:

- (1) No damages were awarded to the Township for deprivation at the City's sewage treatment plant.
- (2) The City was not found to be entitled to the tap-in fees sought.
- (3) While the Township was ordered to pay the increased sewage rates instituted by the City, the Court found the rate to be retroactive to January 1, 2005, rather than the effective date of the ordinance. Further, the Court will review the financial activity of the City's sewer fund for the 2005 year in order to determine the appropriate rate for the Township in the future. As of the date of these financial statements, there has been no further ruling on this matter.

The City is party to other various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

NOTE 7. CONTINGENCIES

Consent Order and Agreement – Sewer System

On June 11, 2002, as a result of bypass violations at the City's sewage treatment plant, the City entered into a consent order and agreement with the Pennsylvania Department of Environmental Protection (DEP).

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 7. CONTINGENCIES (CONTINUED)

Consent Order and Agreement – Sewer System (Continued)

Under this order and agreement the City agreed to construct flow equalization facilities with a minimum capacity of 2.1 million gallons to eliminate unauthorized bypasses of sewage at the sewage treatment plant. The City has further agreed to perform sewage collection system diagnostic and rehabilitation work on the City's sewage collection system. These steps of corrective action were scheduled to be completed at various milestone dates between June 2002 and March 2005, as specified in the agreement. Failure by the City to comply with the milestone provisions of the agreement could result in significant penalties against the City. Bypass occurrences after the effective date of the agreement will also result in significant penalties against the City. The City estimates that costs in complying with the order and agreement will approximate \$8,600,000, including \$1,367,000 for the flow equalization facility which was completed during 2003.

In order to finance additional repairs and replacement of existing sewer lines throughout the City, the City secured interim financing in the amount of \$3,126,000 from S&T Bank. This financing obtained during 2005, will permit the City to proceed with the necessary improvements to the system as mandated by DEP. Permanent financing in the form of a Pennvest loan was applied for and awarded in 2006.

Consent Order and Agreement – Wetlands

On February 24, 2004, the City entered into a consent order and agreement with the Pennsylvania Department of Environmental Protection (DEP) in connection with violations associated with wetlands in the Beaver Meadow Industrial Park. Under this order and agreement the City has agreed to construct and adequately monitor replacement wetlands in the DuBois Wetland Mitigation Site. Completion of the construction phase of the agreement was required by December 31, 2004, with performance monitoring reports to be completed by September 30, 2005, 2006, and 2007.

**CITY OF DUBOIS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 7. CONTINGENCIES (CONTINUED)

Consent Order and Agreement – Wetlands (Continued)

In addition, the City has agreed to pay a civil penalty to the Commonwealth in the amount of \$15,000. Should the City fail to comply with the provisions of the agreement, a civil penalty in the amount of \$1,000 per calendar month or part thereof may be assessed during the time the City remains in violation of the agreement. The construction work was completed as required during 2004, with the subsequent monitoring reports to be completed as stipulated in the agreement.

NOTE 8. SUBSEQUENT EVENT

As discussed in Note 7, the City has been awarded Pennvest funding during 2006 as permanent financing for various sewer line replacements, throughout the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUBOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND - CASH BASIS
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance With</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Real estate taxes	\$ 1,051,162	\$ 1,051,162	\$ 1,056,350	\$ 5,188
Residence taxes	19,300	19,300	18,835	(465)
Earned income taxes	579,999	579,999	488,708	(91,291)
Realty transfer taxes	50,244	50,244	150,418	100,174
Occupational privilege taxes	---	---	4,235	4,235
Emergency and municipal services taxes	397,000	397,000	368,343	(28,657)
Per capita taxes	22,400	22,400	18,836	(3,564)
Culture and recreation taxes	176,983	176,983	172,765	(4,218)
Licenses and permits	17,150	17,150	27,148	9,998
Cable franchise fees	60,000	60,000	60,131	131
Fines and forfeits	59,604	59,604	62,182	2,578
Interest	4,800	4,800	14,647	9,847
Rents and royalties	77,404	77,404	76,726	(678)
Intergovernmental	8,450	8,450	236,478	228,028
Payments in lieu of taxes	22,865	22,865	22,844	(21)
Charges for services	495,120	495,120	501,997	6,877
Parking facilities	49,800	49,800	52,177	2,377
Miscellaneous	2,100	2,100	2,996	896
Total Revenues	3,094,381	3,094,381	3,335,816	241,435
Expenditures				
General government	645,067	645,067	808,700	163,633
Public works	933,549	933,549	818,614	(114,935)
Public safety	1,002,578	1,002,578	1,128,574	125,996
Culture and recreation	195,117	195,117	198,019	2,902
Interest expense	50,199	50,199	36,701	(13,498)
Principal payments on long-term debt	160,712	160,712	160,688	(24)
Capital outlay	315,000	315,000	417,524	102,524
Total Expenditures	3,302,222	3,302,222	3,568,820	266,598
Excess (Deficiency) of Revenue Over Expenditures	(207,841)	(207,841)	(233,004)	(25,163)
Other Financing Sources (Uses)				
Sale of general fixed assets	160,000	160,000	87,721	(72,279)
Sale of timber	100,000	100,000	---	(100,000)
Tax incremental financing	---	---	(23,890)	(23,890)
Transfers in	---	---	126,154	126,154
Transfers out	(50,000)	(50,000)	(25,000)	25,000
Total Other Financing Sources and Uses	210,000	210,000	164,985	(45,015)
Excess (Deficiency) of Revenue Over Expenditures and Other Financing Sources and Uses	<u>\$ 2,159</u>	<u>\$ 2,159</u>	(68,019)	<u>\$ (70,178)</u>
Fund Balance - Beginning			(92,892)	
Fund Balance - Ending			<u>\$ (160,911)</u>	

The accompanying notes to supplementary information are an integral part of these schedules.

CITY OF DUBOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL STATE LIQUID FUELS FUND - CASH BASIS
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
State allocation	\$ 160,698	\$ 160,698	\$ 162,772	\$ 2,074
Interest earnings	700	700	1,281	581
Total Revenues	<u>161,398</u>	<u>161,398</u>	<u>164,053</u>	<u>2,655</u>
Expenditures				
Snow removal	5,000	5,000	5,000	---
Street lighting	30,000	30,000	29,612	(388)
Highway construction	<u>126,398</u>	<u>126,398</u>	<u>107,650</u>	<u>(18,748)</u>
Total Expenditures	<u>161,398</u>	<u>161,398</u>	<u>142,262</u>	<u>(19,136)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>\$ ---</u>	<u>\$ ---</u>	21,791	<u>\$ 21,791</u>
Fund Balance - Beginning			<u>882</u>	
Fund Balance - Ending			<u>\$ 22,673</u>	

The accompanying notes to supplementary information are an integral part of these schedules.

CITY OF DUBOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
NET ASSETS - BUDGET AND ACTUAL WATER FUND - CASH BASIS
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance With</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Charges for services	\$ 1,310,047	\$ 1,310,047	\$ 1,315,662	\$ 5,615
Other fees	12,099	12,099	11,502	(597)
Total Operating Revenues	1,322,146	1,322,146	1,327,164	5,018
Operating Expenses				
Administrative	307,992	307,992	304,381	(3,611)
Filtration and purification	476,655	476,655	487,472	10,817
Source of supply	7,760	7,760	6,834	(926)
Transmission and distribution	312,656	312,656	400,355	87,699
Capital expenditures	200,000	200,000	42,086	(157,914)
Total Operating Expenses	1,305,063	1,305,063	1,241,128	(63,935)
Operating Income	17,083	17,083	86,036	68,953
Non-Operating Revenues (Expenses)				
Interest revenue	12,000	12,000	13,689	1,689
Proceeds from sale of timber	50,000	50,000	---	(50,000)
Refund of prior year expenditures	185,000	185,000	---	(185,000)
Interest expense	(183,069)	(183,069)	(187,725)	(4,656)
Principal payments on long-term debt	(79,959)	(79,959)	(68,453)	11,506
Total Non - Operating Revenues (Expenses)	(16,028)	(16,028)	(242,489)	(226,461)
Income (Loss) Before Transfers	1,055	1,055	(156,453)	(157,508)
Transfers in	59,075	59,075	13,075	(46,000)
Transfers out	(60,000)	(60,000)	(60,000)	---
Change in Net Assets	<u>\$ 130</u>	<u>\$ 130</u>	<u>(203,378)</u>	<u>\$ (203,508)</u>
Total Net Assets - Beginning			940,260	
Total Net Assets - Ending			<u>\$ 736,882</u>	

The accompanying notes to supplementary information are an integral part of these schedules.

CITY OF DUBOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
NET ASSETS - BUDGET AND ACTUAL SEWER FUND - CASH BASIS
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance With</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Charges for services	\$ 2,091,417	\$ 2,091,417	\$ 2,281,085	\$ 189,668
Other fees	45,179	45,179	72,678	27,499
Total Operating Revenues	2,136,596	2,136,596	2,353,763	217,167
Operating Expenses				
Administrative	422,987	422,987	427,022	4,035
System maintenance	319,520	319,520	454,247	134,727
Treatment plant	633,530	633,530	661,293	27,763
Capital expenditures	330,000	330,000	445,577	115,577
Total Operating Expenses	1,706,037	1,706,037	1,988,139	282,102
Operating Income	430,559	430,559	365,624	(64,935)
Non-Operating Revenues (Expenses)				
Interest revenue	2,400	2,400	7,531	5,131
Interest expense	(35,425)	(35,425)	(48,290)	(12,865)
Principal payments on long - term debt	(183,327)	(183,327)	(71,695)	111,632
Total Non - Operating Revenues (Expenses)	(216,352)	(216,352)	(112,454)	103,898
Income Before Transfers	214,207	214,207	253,170	38,963
Transfers out	(69,600)	(69,600)	(190,675)	(121,075)
Change in Net Assets	<u>\$ 144,607</u>	<u>\$ 144,607</u>	62,495	<u>\$ (82,112)</u>
Total Net Assets - Beginning			366,618	
Total Net Assets - Ending			<u>\$ 429,113</u>	

The accompanying notes to supplementary information are an integral part of these schedules.

**CITY OF DUBOIS
PENSION INFORMATION
DECEMBER 31, 2005**

The following is a summary of the most recent information available for each plan:

	<u>Non- Uniformed</u> 01/01/05	<u>Police Pension</u> 01/01/05
Valuation Date		
Actuarial Value of Assets	\$ 7,369,919	\$ 4,280,073
Actuarial Accrued Liability	<u>7,003,697</u>	<u>4,574,354</u>
(Unfunded) Overfunded Actuarial Accrued Liability	<u>\$ 366,222</u>	<u>\$ (294,281)</u>
Funded Ratio	105.23%	93.57%
Covered Payroll	\$ 1,496,808	\$ 640,559
(Unfunded) Overfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	24.47%	45.94%
Assumed Rate of Return on Investments	6.0%	6.75%

The actuarial cost method used for both plans is the entry age normal cost method.

Statement of Net Assets December 31,

	<u>2005</u>	<u>2005</u>
	<u>Non- Uniformed</u>	<u>Police Pension</u>
Assets at Fair Value		
Pennsylvania Municipal Retirement System	\$ 4,590,696	\$ ---
Flexible Pension Investment Fund	<u>---</u>	<u>4,580,705</u>
Total Assets	4,590,696	4,580,705
Current Liabilities		
Retiree Reserve Liability	<u>---</u>	<u>---</u>
Net Assets	<u>\$ 4,590,696</u>	<u>\$ 4,580,705</u>

The accompanying notes to supplementary information are an integral part of these schedules.

**CITY OF DUBOIS
PENSION INFORMATION
DECEMBER 31, 2005**

Statement of Changes in Net Assets for the Period January 1, - December 31,

	<u>2005</u>	<u>2005</u>
	<u>Non-Uniformed</u>	<u>Police Pension</u>
Additions		
State Aid	\$ 91,742	\$ 106,029
Members' Contributions	52,484	20,956
Municipal Contributions	---	47,853
Investment Income	<u>267,636</u>	<u>318,793</u>
Total Additions	411,862	493,631
Deductions		
Pension Payments	326,228	175,416
Allocated Insurance Premiums	1,603	---
Administrative Expenses	1,540	16,983
Other	<u>---</u>	<u>600</u>
Total Deductions	<u>329,371</u>	<u>192,999</u>
Net Increase	82,491	300,632
Net Assets at Beginning of Period	<u>4,508,205</u>	<u>4,280,073</u>
Net Assets at End of Period	<u>\$ 4,590,696</u>	<u>\$ 4,580,705</u>

The accompanying notes to supplementary information are an integral part of these schedules.

**CITY OF DUBOIS
PENSION INFORMATION
DECEMBER 31, 2005**

Historical trend information presenting the City's funding progress is presented below:

Non-uniformed

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	(Unfunded) Overfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/89	\$1,941,669	\$2,057,950	\$ (116,281)	94.35%	\$1,022,344	11.37%
01/01/91	2,423,446	2,385,758	37,688	101.58%	1,057,496	3.56%
01/01/93	2,773,069	2,670,099	102,970	103.86%	1,148,441	8.97%
01/01/95	3,079,597	2,964,245	115,352	103.89%	1,249,196	9.23%
01/01/97	3,701,237	4,199,419	(498,182)	88.14%	1,209,159	41.20%
01/01/99	4,671,912	4,974,668	(302,756)	93.91%	1,287,492	23.52%
01/01/01	6,068,680	5,979,204	89,476	101.50%	1,404,821	6.37%
01/01/03	6,807,166	6,345,728	461,438	107.27%	1,530,185	30.16%
01/01/05	7,369,919	7,003,697	366,222	105.23%	1,496,808	24.47%

Police

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	(Unfunded) Overfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/89	\$1,314,726	\$1,299,244	\$ 15,482	101.19%	\$ 213,600	7.16%
01/01/91	1,574,857	1,524,109	50,748	103.33%	242,592	20.92%
01/01/93	1,853,855	1,603,275	250,580	115.63%	317,038	79.04%
01/01/95	2,108,255	1,878,631	229,624	112.22%	340,828	67.37%
01/01/97	2,344,059	2,112,573	231,486	110.96%	361,217	64.09%
01/01/99	2,609,745	2,641,216	(31,471)	98.81%	382,498	8.23%
01/01/01	2,869,327	3,132,796	(263,469)	91.59%	482,477	54.61%
01/01/03	3,742,399	3,841,530	(99,131)	97.42%	483,774	20.49%
01/01/05	4,280,073	4,574,354	(294,281)	93.57%	640,559	45.94%

The accompanying notes to supplementary information are an integral part of these schedules.

**CITY OF DUBOIS
PENSION INFORMATION
DECEMBER 31, 2005**

Schedule of Contributions From the Employer and Other Contributing Entities

Non-Uniformed

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Actuarial Valuation Date Basis For Contributions</u>	<u>Percentage Contributed</u>
1997	\$48,852	1995	100%
1998	48,070	1995	100
1999	151,796	1997	100
2000	143,139	1997	100
2001	129,772	1999	100
2002	131,465	1999	100
2003	85,652	2001	100
2004	50,850	2003	100
2005	47,505	2003	100

Police Pension

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
1995	\$10,305	\$10,305	100%
1996	22,030	28,056	127
1997	19,327	24,306	126
1998	26,212	40,435*	154
1999	28,063	28,063	100
2000	29,508	31,218	106
2001	75,443	75,443	100
2002	64,923	64,923	100
2003	109,900	117,357	107
2004	129,468	140,620	109
2005	142,823	153,882	108

* This amount was received January 4, 1999 and applied to the 1998 plan year.

The accompanying notes to supplementary information are an integral part of these schedules.

CITY OF DUBOIS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2005

NOTE 1. BUDGETARY BASIS OF ACCOUNTING

The accompanying comparative budget to actual schedules have been prepared on the cash basis of accounting.

NOTE 2. PENSION PLANS

Summary of Significant Accounting Policies

Non-Uniformed Plan

Basis of Accounting – The plan’s financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments – Investments are reported at fair value. The plan’s assets with Pennsylvania Municipal Retirement System (PMRS) are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS’s separately issued CAFR.

Contributions – Act 205 requires that annual contributions be based upon the plan’s minimum municipal obligation (MMO). The MMO is based upon the plan’s biennial actuarial valuation.

In accordance with the plan’s governing Ordinance, members are required to contribute 3.50 percent of compensation to the plan.

CITY OF DUBOIS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2005

NOTE 2. PENSION PLANS (CONTINUED)

Summary of Significant Accounting Policies (Continued)

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and funded through investment earnings.

The Pennsylvania Municipal Retirement System is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Police Pension

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

Methods Used to Value Investments – The pension plan’s unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefits or administrative expense charged by the Principal Life Insurance Company. The pension plan’s unallocated separate accounts are valued at fair value.

CITY OF DUBOIS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2005

NOTE 2. PENSION PLANS (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Contributions – Act 205 requires that annual contributions to the plan be based upon the plan’s Minimum Municipal Obligation (MMO), which is based on the plan’s biennial actuarial valuation. In accordance with the plan’s governing document, employees are required to contribute 3% of monthly pay plus a \$.50 per pay period police increment to the plan. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Investment expenses, including investment manager and custodial services, are funded through investment earnings.

Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

Plan Participation

As of December 31, 2005, participants in the plan were as follows:

	<u>Non- Uniformed</u>	<u>Police Pension</u>
Active Plan Members	39	13
Retirees and Beneficiaries		
Currently Receiving Benefits	32	9
Terminated Plan Members Entitled to but not yet Receiving Benefits	<u>5</u>	<u>1</u>
	76	23

CITY OF DUBOIS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2005

Actuarial Assumptions and Methods

	<u>Non-Uniformed</u>	<u>Police</u>
Actuarial valuation date	January 1, 2003	January 1, 2005
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	14.97 years	4 years
Asset valuation method	Fair value	Contract basis
Actuarial assumptions:		
Investment rate of return	6.5% net of expenses	6.75%
Projected salary increases	5.2%	4.0%

Significant Factors Affecting Schedules

The following changes in the Police Pension Plan affect the comparability of costs since the January 1, 1999 plan year:

<u>Actuarial Valuation Date</u>	<u>Reason(s)</u>	<u>Change in Actuarial Accrued Liability</u>
01/01/1999	Assumption changes	\$ 22,685
01/01/1999	COL Changes	8,786
01/01/2001	Plan Amendment (Pay)	159,127
01/01/2001	Plan Amendment (COLA)	60,320
01/01/2003	Benefit/Assumption Changes	166,831
01/01/2005	Benefit/Assumption Changes	203,398

FEDERAL AWARD PROGRAMS

CITY OF DUBOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Receipts	Federal Disbursements/ Expenditures
<u>U.S. Dept. of Housing & Urban Development</u>				
Passed through PA Department of Community and Economic Development Community Development Block Grants/State's Program				
	14.228	C000014671	\$ 220,919	\$ 220,919
	14.228	C000007601	98,316	98,316
	14.228	C000003058	72,153	72,153
Subtotal Community Development Block Grants/State's Program			391,388	391,388
 <u>U.S. Dept. of Housing & Urban Development</u>				
Passed through PA Department of Community and Economic Development Home Investment Partnerships Program				
	14.239	C000007691	123,897	123,897
 <u>U.S. Department of Justice</u>				
Public Safety Partnership and Community Policing Grants (COPS)				
	16.710	2002UMWX0357	59,166	59,166
 <u>U.S. Department of Transportation</u>				
Passed through PA Department of Transportation Appalachian Development Highway System				
	23.003	02B942	31,387	31,387
 <u>U.S. Department of Homeland Security</u>				
Passed through PA Emergency Management Agency Public Assistance Grants				
	97.036	FEMA-1557-DR- PA-033-20136-00	135,565	8,486
 <u>U.S. Department of Agriculture</u>				
Rural Development Water and Waste Disposal Systems for Rural Communities (Note B)				
	10.760	N/A	---	3,329,314
Total Federal Awards			\$ 741,403	\$ 3,943,638

Notes to Schedule of Expenditures of Federal Awards:

Note A. Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of the City's federal award programs presented on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

Note B. Water and Wastewater Disposal Systems for Rural Communities

During the year ended December 31, 1996, the City received financial assistance in the form of a loan in the amount of \$3,696,000 to finance improvements to the water distribution system. The balance presented in the schedule of expenditures of federal awards represents the principal balance due on this obligation as of December 31, 2005.

In accordance with the terms of the agreement with Rural Development the City provides for the semi-annual payments on the loan by transferring the amount of \$17,581 a month to a reserve account established for repayment of the debt. At December 31, 2005, this account had a balance of \$15,202. The City also maintains a sinking fund in connection with this debt, to which the monthly sum of \$1,758 is transferred. At December 31, 2005, there was a balance of \$213,196 in the sinking fund. The balances for each of these funds are reported as restricted for debt service on the City's Statement of Net Assets – Proprietary Funds.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Honorable City Council
The City of DuBois
DuBois, Pennsylvania**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of DuBois, Pennsylvania as of and for the year ended December 31, 2005, which collectively comprise the City of DuBois Pennsylvania's basic financial statements and have issued our report thereon dated August 22, 2006. The financial statements are presented on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

However, we noted certain matters that we reported to management of City of DuBois, Pennsylvania, in a separate letter dated August 22, 2006.

This report is intended solely for the information and use of management, 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.

Calliari, Meholick & Co.

CALLIARI, MEHOLICK & CO.
August 22, 2006

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

**Honorable City Council
The City of DuBois
DuBois, Pennsylvania**

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the type 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 of DuBois, Pennsylvania'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 on the City of DuBois, Pennsylvania's compliance with those requirements.

As described in item 05-1 in the accompanying schedule of findings and questioned costs, the City of DuBois, Pennsylvania, did not comply with requirements regarding subrecipient monitoring that are applicable to its Home Investment Partnership Programs. Compliance with

such requirements is necessary, in our opinion, for the City of DuBois, Pennsylvania, to comply with the requirements applicable to that program.

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

Internal Control Over Compliance

The management of the City of DuBois, Pennsylvania, 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 of DuBois, Pennsylvania's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of DuBois, Pennsylvania's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 05-1 to be a material weakness.

This report is intended solely for the information of management, 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.

Calliari, Meholic & Co.

Calliari, Meholic & Co.

August 22, 2006

CITY OF DUBOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005

A. SUMMARY OF AUDIT RESULTS

1. The Auditor's report expresses an unqualified opinion on the financial statements of the City of DuBois.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of DuBois were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133. The condition is reported as a material weakness.
5. The Auditor's report on compliance for the major federal award programs for the City of DuBois expresses a qualified opinion.
6. Audit findings required to be reported in accordance with Section 510 (a) OMB Circular A-133 are reported in Part C of this Schedule.
7. The programs tested as major programs included:

<u>Program Name</u>	<u>CFDA Number</u>
Community Development Block Grant	14.228
Home Investment Partnership Program	14.239
Water and Waste Disposal Systems for Rural Communities	10.760

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of DuBois was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT
Reportable Conditions

There were no reportable conditions disclosed during the audit of the financial statements.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

05-1 Home Investment Partnership Programs –
CFDA No. 14.239; Grant No. C000007691

Condition: Documentation supporting subrecipient monitoring of funds passed through the City of DuBois to a local agency were not on file. Further, grant management personnel were not aware of their monitoring responsibilities with this grant.

Criteria: The program requires monitoring of subrecipients to provide reasonable assurance that the subrecipient administers the award in compliance with federal requirements.

Effect: Because of the lack of monitoring procedures, funds under this program may not be administered in compliance with federal requirements. Of particular concern as all funds are passed through to a subrecipient.

Recommendation: Adequate monitoring procedures should be implemented immediately to provide reasonable assurance that these funds are administered as per the requirements of the program.

There were no findings or questioned costs in connection with the audit of 2004 federal award programs.

CALLIARI, MEHOLICK & Co.

CERTIFIED PUBLIC ACCOUNTANTS

205A SOUTH MAIN STREET

DUBOIS, PA 15801-1501

August 22, 2006

**Honorable City Council
City of DuBois
DuBois, Pennsylvania**

In planning and performing our audit of the City of DuBois for the year ended December 31, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during the course of our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. We previously reported on the City's internal control structure in our report dated August 22, 2006. This letter does not affect our report dated August 22, 2006, on the financial statements of the City of DuBois.

The following is a follow-up to our comments in connection with the audit of the City's financial statements for the year ended December 31, 2004.

COMMENT

We had pointed out that a certificate of deposit in the amount of \$74,417.72 was not reflected on the City's general ledger at December 31, 2004. The certificate was acquired during 2004 with funds received in connection with the City's recycling program. The certificate did not get recorded on the general ledger due to the manner in which the certificate was acquired. Specifically, the check received for the recycling program was turned directly over to the bank in exchange for the certificate. In not first depositing the recycling funds and then disbursing them for the certificate, the receipt of the recycling funds and acquisition of the certificate went unrecorded on the general ledger. We suggested that in the future all receipts be first deposited into a City account prior to being disbursed.

CURRENT STATUS

No such instances as that which occurred with the recycling program funds during 2004 were noted by us during our audit for the year ended December 31, 2005.

COMMENT

We had noted during our testing of a sample of the City's cash disbursements that the City was not always following its established policies regarding pricing quotations when purchasing goods or services. While we did find for the transactions tested that proper bidding procedures were followed in accordance with the law for all items requiring such, we found that documentation supporting price quotations for items not requiring a bid to be lacking. In many instances there was no indication whether or not quotations were solicited, who was contacted for a quote or the amount of a quote received.. We recommended that all City personnel involved in purchasing goods and services on behalf of the City be reminded of the City's policies regarding the need for price quotations and the documentation procedures for the quotations received as required by City policy.

CURRENT STATUS

We again noted during our audit for the year ended December 31, 2005, that adherence to the City's quotation policies was lacking . We reiterate our recommendation that all personnel involved in purchasing be reminded of the City's policies.

The following is a summary of our findings in connection with the 2005 audit of the financial statements of the City of DuBois.

COMMENT

As discussed in the summary of findings and questioned costs in connection with the City's federal financial assistance programs, the City did not comply with subrecipient monitoring procedures in connection with the Home Investment Partnerships Program. Under this program the City received grant funding through the Pennsylvania Department of Community and Economic Development to provide for housing rehabilitation throughout the City of DuBois. To administer the program the City entered into a contract with Central PA Community Action. This agency directly draws down the grant funding and conducts the Home Program on behalf of the City.

While the City of DuBois does not directly receive the funding under this program, the City is the Grantee of this award and does have responsibility under the award to provide reasonable assurance that the funds are being administered in accordance with federal

Honorable City Council
August 22, 2006

Page 3

requirements under the program. These assurances are to be provided through monitoring of the program activity by the City.

RECOMMENDATION

As noted in the schedule of findings and questioned costs, page 49 of the City's audit report for the year ended December 31, 2005, we recommend that adequate monitoring procedures be implemented immediately to provide reasonable assurance that these funds are being administered as per the requirements of the program.

We have already discussed these comments and recommendations with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would at this time like to extend our thanks to the staff of the City of DuBois for the kind cooperation and assistance afforded to us during our audit.

Sincerely,

Calliari, Meholick & Co.

Calliari, Meholick & Co.



CITY OF DUBOIS, PENNSYLVANIA

16 W. SCRIBNER AVE.

P.O. BOX 408

DUBOIS, PENNSYLVANIA 15801

TELEPHONE: (814) 371-2002, Ext. 136

FAX: (814) 371-1290

Office of the Mayor

CORRECTIVE ACTION PLAN

September 27, 2006

Commonwealth of Pennsylvania
Department of Community and Economic Development

The City of DuBois, Pennsylvania respectfully submits the following corrective action plan for the year ended December 31, 2005.

Name and address of independent public accounting firm:

Calliari, Meholick & Co.
205A S. Main Street
DuBois, PA 15801

Audit period: January 1, 2005 - December 31, 2005.

The finding from the December 31, 2005 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

FINDINGS- MAJOR FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

05-1 Home Investments Partnership Programs - CFDA No. 14.239; Grant C000007691

Recommendation: Adequate monitoring procedures should be implemented immediately to provide reasonable assurance that these funds are administered as per the requirements of the program.

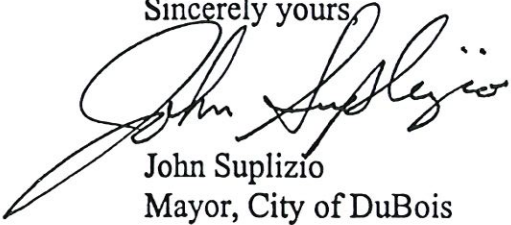
Action Taken: We have met with the staff responsible for administering this program for the City of DuBois and stressed the City's responsibility for monitoring the use of the funding passed through the City of DuBois to a local agency. Specific monitoring procedures, as suggested by our auditor, have been conveyed to our staff. These procedures are to be implemented immediately in order that the City of DuBois will be in compliance with its responsibilities under this program.

September 27, 2006

Corrective Action Plan
City of DuBois

If the Department of Community and Economic Development has questions regarding this plan,
please contact Mayor John Suplizio at (814) 371-2000.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John Suplizio". The signature is written in a cursive style with a long, sweeping underline that extends to the left.

John Suplizio
Mayor, City of DuBois