CITY OF MONESSEN
WESTMORELAND COUNTY, PENNSYLVANIA

FINANCIAL AND COMPLIANCE
AUDIT REPORT

Year Ended December 31, 2003

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HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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To The Honorable Mayor and
Members of City Council
City of Monessen
Monessen, Pennsylvania

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of the City of Monessen Pennsylvania, (the "City") as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As set forth in Note A, the City has stated the assets in the general fixed assets account group at appraised value rather than at historical cost as prescribed by accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of not stating the general fixed assets account group at cost, as discussed in the preceding paragraph, the general purpose financial statements present fairly, in all material respects, the financial position of the City at December 31, 2003 and the results of its operations and the cash flows of its proprietary fund types and pension trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 14, 2003, 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 grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents on pages 31 through 33 are presented for purposes of additional analysis and are not a required part of the City's general purpose 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 City's general purpose financial statements. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Herbein & Company, Inc.

Pittsburgh, Pennsylvania
May 14, 2004

CITY OF MONESSEN

COMBINED BALANCE SHEET -

ALL FUND TYPES AND ACCOUNT GROUPS

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		December 31	
								2003	2002
	General	Special Revenue	Debt Service	Enterprise Funds	Trust and Agency	General Fixed Assets	General Long-Term Debt	Totals (Memorandum Only)	
ASSETS									
Cash and cash equivalents	$ 56,530	$ 73,745	$ 2,001	$ 255,255	$ 246,535	$ 0	$ 0	$ 634,066	$ 263,952
Investments	0	0	0	124,026	3,672,634	0	0	3,796,660	3,374,788
Accounts Receivable:									
Taxes	181,319	0	0	0	0	0	0	181,319	192,134
Other	168,358	0	0	24,505	21,587	0	0	214,450	256,778
Due from other governments	0	1,867	0	0	0	0	0	1,867	1,215
Loans receivable, recipients	0	935,285	0	482,462	0	0	0	1,417,747	1,521,510
Prepaid expenses	141,644	0	0	0	0	0	0	141,644	127,256
Property held for redevelopment	0	0	0	209,147	0	0	0	209,147	170,067
Fixed assets	0	0	0	690,134	0	3,988,474	0	4,678,608	4,533,327
Accumulated depreciation	0	0	0	(613,600)	0	0	0	(613,600)	(587,700)
Amount available in Debt Service Funds	0	0	0	0	0	0	0	0	289
Amount to be provided for the retirement of long-term debt	0	0	0	0	0	0	325,722	325,722	342,186
Amount to be provided for accumulated compensated absences	0	0	0	0	0	0	162,096	162,096	129,720
Future lease rentals receivable for retirement of bonded debt	0	0	0	0	0	0	0	0	18,000
TOTAL ASSETS	$ 547,851	$ 1,010,897	$ 2,001	$ 1,171,929	$ 3,940,756	$ 3,988,474	$ 487,818	$ 11,149,726	$ 10,343,522
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	$ 146,827	$ 15,867	$ 0	$ 35,280	$ 0	$ 0	$ 0	$ 197,974	$ 189,239
Accrued liabilities	0	0	0	317	0	0	0	317	323
Bank overdraft	0	0	0	193	0	0	0	193	0
Notes payable, current portion	0	0	0	0	0	0	88,256	88,256	84,436
Notes payable, long-term portion	0	0	0	0	0	0	120,593	120,593	212,732
Leases payable	0	0	0	0	0	0	116,873	116,873	45,307
Bonded Debt, Parking Authority:									
Parking Revenue Bonds, Series of 1965	0	0	0	0	0	0	0	0	18,000
Deferred revenue	370,907	0	0	0	0	0	0	370,907	386,991
Accumulated compensated absences payable	0	0	0	0	0	0	162,096	162,096	129,720
TOTAL LIABILITIES	517,734	15,867	0	35,790	0	0	487,818	1,057,209	1,066,748

See accompanying notes.

CITY OF MONESSEN

COMBINED BALANCE SHEET -

ALL FUND TYPES AND ACCOUNT GROUPS - CONTINUED

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		December 31	
								2003	2002
	General	Special Revenue	Debt Service	Enterprise Funds	Trust and Agency	General Fixed Assets	General Long-Term Debt	Totals (Memorandum Only)	
TOTAL LIABILITIES - CONTINUED	517,734	15,867	0	35,790	0	0	487,818	1,057,209	1,066,748
FUND BALANCES									
Unreserved	30,117	995,030	0	0	0	0	0	1,025,147	1,054,964
Reserved	0	0	2,001	113,854	3,940,756	0	0	4,056,611	3,342,522
Investment in General Fixed Assets	0	0	0	0	0	3,988,474	0	3,988,474	3,864,899
Retained earnings	0	0	0	1,022,285	0	0	0	1,022,285	1,014,389
TOTAL FUND BALANCES	30,117	995,030	2,001	1,136,139	3,940,756	3,988,474	0	10,092,517	9,276,774
TOTAL LIABILITIES AND FUND BALANCES	$ 547,851	$ 1,010,897	$ 2,001	$ 1,171,929	$ 3,940,756	$ 3,988,474	$ 487,818	$ 11,149,726	$ 10,343,522

CITY OF MONESSEN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

ALL GOVERNMENTAL FUND TYPES

Year Ended December 31

	Governmental Fund Types			2003	2002
	General	Special Revenue	Debt Service	Totals (Memorandum Only)	
REVENUE					
Taxes	$ 1,962,241	$ 359,403	$ 56,592	$ **2,378,236**	$ 2,338,406
Licenses and permits	144,833	0	0	**144,833**	165,650
Fines and forfeits	55,421	0	0	**55,421**	50,216
Interest, rents and royalties	525	8,419	14	**8,958**	14,507
Intergovernmental revenue	387,792	382,388	0	**770,180**	1,067,592
Charges for services	491,372	0	0	**491,372**	497,468
Miscellaneous revenue	484,516	33,410	46,106	**564,032**	639,634
TOTAL REVENUE	3,526,700	783,620	102,712	**4,413,032**	4,773,473
EXPENDITURES					
General government	502,920	0	0	**502,920**	468,366
Public safety	946,044	0	0	**946,044**	1,045,345
Health and welfare	35,929	0	0	**35,929**	47,858
Public Works:					
Sanitation	285,963	42,559	0	**328,522**	397,309
Highways, roads and streets	658,639	0	0	**658,639**	777,444
Other	18,775	0	0	**18,775**	6,917
Culture, recreation	131,746	65,000	0	**196,746**	205,083
Conservation and development	76,283	388,726	0	**465,009**	784,727
Debt service	201,467	0	101,000	**302,467**	91,956
Miscellaneous expenditures	1,167,541	1,645	0	**1,169,186**	1,097,735
Lease bond payments	0	13,400	0	**13,400**	26,800
Capital expenditures	0	4,000	0	**4,000**	95,057
TOTAL EXPENDITURES	4,025,307	515,330	101,000	**4,641,637**	5,044,597
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(498,607)	268,290	1,712	**(228,605)**	(271,124)

See accompanying notes.

CITY OF MONESSEN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

ALL GOVERNMENTAL FUND TYPES - CONTINUED

Year Ended December 31

	Governmental Fund Types			2003	2002
	General	Special Revenue	Debt Service	Totals (Memorandum Only)	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES - CONTINUED	(498,607)	268,290	1,712	**(228,605)**	(271,124)
OTHER FINANCING SOURCES (USES)					
Loan proceeds	200,000	0	0	**200,000**	120,000
Operating transfers - in	291,135	0	0	**291,135**	289,422
Operating transfers - out	0	(291,135)	0	**(291,135)**	(289,422)
Proceeds of General Fixed Assets' sales	500	0	0	**500**	0
TOTAL OTHER FINANCING SOURCES (USES)	491,635	(291,135)	0	**200,500**	120,000
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(6,972)	(22,845)	1,712	**(28,105)**	(151,124)
FUND BALANCES AT BEGINNING OF YEAR	37,089	1,017,875	289	**1,055,253**	1,206,377
FUND BALANCES AT END OF YEAR	$ 30,117	$ 995,030	$ 2,001	$ **1,027,148**	$ 1,055,253

See accompanying notes.

CITY OF MONESSEN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL - ALL BUDGETED GOVERNMENTAL FUND TYPES

Year Ended December 31

	General Fund			Special Revenue Funds			Debt Service			2003	2002
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)	Totals (Memorandum Only)	
REVENUE											
Taxes	$ 2,137,877	$ 1,962,241	$ (175,636)	$ 399,474	$ 359,403	$ (40,071)	$ 54,900	$ 56,592	$ 1,692	$ 2,378,236	$ 2,338,405
Licenses and permits	148,000	144,833	(3,167)	0	0	0	0	0	0	144,833	165,650
Fines and forfeits	58,000	55,421	(2,579)	0	0	0	0	0	0	55,421	50,216
Interest, rents and royalties	6,000	525	(5,475)	2,500	1,583	(917)	0	14	14	2,122	6,652
Intergovernmental revenue	284,560	387,792	103,232	0	0	0	0	0	0	387,792	235,652
Charges for services	576,637	491,372	(85,265)	0	0	0	0	0	0	491,372	497,468
Miscellaneous revenue	349,950	484,516	134,566	25,000	17,270	(7,730)	0	46,106	46,106	547,892	596,017
TOTAL REVENUE	3,561,024	3,526,700	(34,324)	426,974	378,256	(48,718)	54,900	102,712	47,812	4,007,668	3,890,060
EXPENDITURES											
General government	571,430	502,920	68,510	0	0	0	0	0	0	502,920	468,366
Public safety	931,987	946,044	(14,057)	0	0	0	0	0	0	946,044	1,045,345
Health and welfare	48,697	35,929	12,768	0	0	0	0	0	0	35,929	47,858
Public Works:											
Sanitation	298,000	285,963	12,037	0	0	0	0	0	0	285,963	291,023
Highways, roads, & streets	588,855	658,639	(69,784)	0	0	0	0	0	0	658,639	777,444
Other	18,950	18,775	175	0	0	0	0	0	0	18,775	6,917
Culture, recreation	149,262	131,746	17,516	65,000	65,000	0	0	0	0	196,746	205,083
Conservation and development	74,351	76,283	(1,932)	0	0	0	0	0	0	76,283	71,757
Debt service	0	201,467	(201,467)	0	0	0	54,900	101,000	(46,100)	302,467	91,956
Miscellaneous expenditures	1,065,882	1,167,541	(101,659)	1,000	1,645	(645)	0	0	0	1,169,186	1,097,300
Lease bond payments	0	0	0	13,400	13,400	0	0	0	0	13,400	26,800
Capital expenditures	0	0	0	163,184	4,000	159,184	0	0	0	4,000	95,056
TOTAL EXPENDITURES	3,747,414	4,025,307	(277,893)	242,584	84,045	158,539	54,900	101,000	(46,100)	4,210,352	4,224,905
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(186,390)	(498,607)	(312,217)	184,390	294,211	109,821	0	1,712	1,712	(202,684)	(334,845)

See accompanying notes.

CITY OF MONESSEN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL - ALL BUDGETED GOVERNMENTAL FUND TYPES - CONTINUED

Year Ended December 31

	General Fund			Special Revenue Funds			Debt Service			2003	2002
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)	Totals (Memorandum Only)	
EXCESS REVENUES OVER (UNDER) EXPENDITURES - CONTINUED	(186,390)	(498,607)	(312,217)	184,390	294,211	109,821	0	1,712	1,712	**(202,684)**	(334,845)
OTHER FINANCING SOURCES (USES)											
Proceeds from sale of fixed assets	2,000	500	(1,500)	0	0	0	0	0	0	**500**	0
Loan proceeds	0	200,000	200,000	0	0	0	0	0	0	**200,000**	120,000
Operating transfers - in	0	291,135	291,135	0	0	0	0	0	0	291,135	289,422
Operating transfers - out	0	0	0	0	(291,135)	(291,135)	0	0	0	(291,135)	(239,906)
TOTAL OTHER FINANCING SOURCES (USES)	2,000	491,635	489,635	0	(291,135)	(291,135)	0	0	0	**200,500**	169,516
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(184,390)	(6,972)	177,418	184,390	3,076	(181,314)	0	1,712	1,712	**(2,184)**	(165,329)
BUDGETED FUND BALANCES AT BEGINNING OF YEAR	37,089	37,089	0	5,613	5,613	0	289	289	0	**42,991**	208,757
BUDGETED FUND BALANCES AT END OF YEAR	$ (147,301)	$ 30,117	$ 177,418	$ 190,003	8,689	$ (181,314)	$ 289	$ 2,001	$ 1,712	$ **40,807**	$ 43,428
FUND BALANCES AT END OF YEAR OF NON-BUDGETED SPECIAL REVENUE FUNDS					986,341						
FUND BALANCES AT END OF YEAR OF SPECIAL REVENUE FUNDS					$ 995,030						

See accompanying notes.

CITY OF MONESSEN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES -

ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2003

	Proprietary Fund Types				
	Monessen Parking Authority	Mon Valley Refuse Disposal Authority	Redevelopment Authority of the City of Monessen	Monessen Civic Recreation Authority	Totals
OPERATING REVENUE					
Earnings on investments	$ 465	$ 2,008	$ 19,041	$ 59	$ 21,573
Charges for services	0	349,896	0	0	349,896
Intergovernmental revenue	0	2,691	175,000	22,500	200,191
Miscellaneous revenue	0	1,032	351	0	1,383
Rental income	26,800	0	0	29,638	56,438
TOTAL OPERATING REVENUE	27,265	355,627	194,392	52,197	629,481
OPERATING EXPENSES					
General government	8,808	31,950	197,658	0	238,416
Public Works:					
Sanitation	0	360,287	0	0	360,287
Debt service	18,000	0	0	0	18,000
Interest expense	468	0	0	0	468
Depreciation expense	15,192	0	0	1,932	17,124
Culture and recreation	0	0	0	63,202	63,202
TOTAL OPERATING EXPENSES	42,468	392,237	197,658	65,134	697,497
OPERATING INCOME (LOSS)	(15,203)	(36,610)	(3,266)	(12,937)	(68,016)
NONOPERATING INCOME					
Property donations	0	0	39,080	0	39,080
NONOPERATING INCOME	0	0	39,080	0	39,080
NET INCOME (LOSS)	(15,203)	(36,610)	35,814	(12,937)	(28,936)
RETAINED EARNINGS/FUND BALANCES AT BEGINNING OF YEAR	129,057	123,665	890,724	21,629	1,165,075
RETAINED EARNINGS/FUND BALANCES AT END OF YEAR	$ 113,854	$ 87,055	$ 926,538	$ 8,692	$ 1,136,139

See accompanying notes.

CITY OF MONESSEN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

AND PENSION TRUST FUNDS

Year Ended December 31, 2003

	Nonexpendable Trust Funds			
	Police Pension Fund	Fire Truck Drivers' Pension Fund	Nonuniformed Pension Fund	Totals
REVENUE				
Earnings on investments	$ 371,158	$ 118,325	$ 148,076	$ 637,559
Contributions	272,807	29,625	93,517	395,949
TOTAL REVENUE	643,965	147,950	241,593	1,033,508
EXPENSES				
Administration	37,066	14,974	0	52,040
Benefits	186,480	57,493	9,915	253,888
TOTAL EXPENSES	223,546	72,467	9,915	305,928
NET INCOME	420,419	75,483	231,678	727,580
FUND BALANCES AT BEGINNING OF YEAR	1,842,842	587,651	782,683	3,213,176
FUND BALANCES AT END OF YEAR	$ 2,263,261	$ 663,134	$ 1,014,361	$ 3,940,756

See accompanying notes.

CITY OF MONESSEN

COMBINING STATEMENT OF CASH FLOWS -

ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2003

	Proprietary Fund Types				
	Monessen Parking Authority	Mon Valley Refuse Disposal Authority	Redevelopment Authority of the City of Monessen	Monessen Civic Recreation Authority	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$ (15,203)	$ (36,610)	$ 35,814	$ (12,937)	$ (28,936)
Adjustment to reconcile excess revenue over (under) expenses to net cash provided by operating activities:					
Depreciation expense	15,192	0	0	1,932	17,124
Donated property	0	0	(39,080)	0	(39,080)
Changes in:					
Loans receivable	0	0	99,962	0	99,962
Accounts receivable	0	0	0	(887)	(887)
Accounts payable	0	0	(3,388)	3,000	(388)
Bank overdraft	0	0	0	193	193
Accrued payroll taxes	0	(6)	0	0	(6)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(11)	(36,616)	93,308	(8,699)	47,982
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investments, net	561	37,025	0	0	37,586
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	561	37,025	0	0	37,586
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of fixed assets	0	0	0	(3,540)	(3,540)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	0	0	0	(3,540)	(3,540)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	550	409	93,308	(12,239)	82,028
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	742	16,369	143,877	12,239	173,227
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,292	$ 16,778	$ 237,185	$ 0	$ 255,255
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Interest	$ 468	$ 0	$ 0	$ 0	$ 468

See accompanying notes.

CITY OF MONESSEN

COMBINING STATEMENT OF CASH FLOWS -

PENSION TRUST FUNDS

Year Ended December 31, 2003

	Nonexpendable Trust Funds			
	Police Pension Fund	Fire Truck Drivers' Pension Fund	Nonuniformed Pension Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 420,419	$ 75,483	$ 231,678	$ 727,580
Adjustment to reconcile excess revenue over (under) expenses to net cash provided by operating activities:				
Changes in:				
Accounts receivable	0	0	(21,587)	(21,587)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	420,419	75,483	210,091	705,993
CASH FLOWS FROM INVESTING ACTIVITIES				
Redemption (purchase) of investments, net	(190,391)	(58,976)	(210,091)	(459,458)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(190,391)	(58,976)	(210,091)	(459,458)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	230,028	16,507	0	246,535
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	0	0	0	0
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 230,028	$ 16,507	$ 0	$ 246,535

See accompanying notes.

CITY OF MONESSEN

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

The City of Monessen, Westmoreland County, Pennsylvania, (the "City") was incorporated September 16, 1921, under the provisions of Third Class City Code, as amended. The City operates under a Council form of government and provides the following services, as authorized by its charter: Public Safety, Highways and Streets, Sanitation, Health and Social Services, Culture-Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies and practices of the City:

Reporting Entity:
As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity should include those of the City (the primary government) and its component units.

The City used guidance contained in GASB Statement No. 14, "The Financial Reporting Entity," to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.

- Legally separate organizations if City officials appoint a voting majority of the organizations' governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City as defined below:

  Impose its Will - If the City can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

  Financial benefit or burden - exists if the City (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the City.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Based on the foregoing criteria, the reporting entity has been defined to include all the fund types and account groups for which the City is financially accountable or for which there is another significant relationship. The criteria of GASB, Codification Section 2100, have been examined as to the relationship of the City to the Redevelopment Authority of the City of Monessen, the Monessen Parking Authority, Monessen Civic Recreation Authority and the Mon Valley Refuse Disposal Authority. It has been determined that these four entities are component units of the City. The component units are blended as Proprietary Fund Types for reporting purposes. The Redevelopment Authority grants low interest loans to citizens and business owners located in the City of Monessen for the purpose of redeveloping areas which have become blighted. The City Council of Monessen appoints Parking Authority members. All obligations of the Parking Authority are guaranteed by the full faith and taxing power of the City. The Monessen Civic Recreation Authority was formed by the City of Monessen and the Monessen School District, both of which appoint members of the Authority Board. The City Council of Monessen allocates a portion of the City budget to the Recreation Authority each year. The Mon Valley Refuse Disposal Authority was formed by the City of Monessen and the Borough of North Belle Vernon, both of which have voting members on the Authority Board. Four members are from Monessen and three members are from North Belle Vernon. Separate financial statements of the component units may be obtained by contacting their offices.

Fund Accounting:
The accounts of the City are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The funds are grouped into three fund types. The following funds and group of accounts are used by the City.

GOVERNMENTAL FUND TYPES:
These fund types are used to account for most of the existing governmental functions. This category is as follows:

General Fund:
This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Special Revenue Funds:
These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the City are as follows:

Liquid Fuels
Off-Street Parking
Capital Reserve Fund
Small Communities Projects
Library Fund

Debt Service Fund:
This fund is established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from other funds.

Capital Project Funds:
These funds are established to account for major capital expenditures not financed by Enterprise Funds, Internal Service Funds, or Trust Funds.

PROPRIETARY FUND TYPES -
These funds account for operations that are organized to be self-supporting through user charges. The Proprietary Fund Types are as follows:

Monessen Parking Authority
Mon Valley Refuse Disposal Authority
Redevelopment Authority of the City of Monessen
Monessen Civic Recreation Authority

FIDUCIARY FUND TYPES -
These funds account for assets held by the City in a trustee capacity or as agent for individuals, other governments and other funds. These funds are as follows:

Pension Trust Funds:
Funds established to provide pension benefits for City employees. The principal revenue source for these funds is employer and employee contributions (includes Police, Fire Truck Drivers and Nonuniformed Pension Funds).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Account Groups:
In addition to the three broad types of Governmental Funds, the City also maintains account groups as described below:

General Long-Term Debt Account Group:
This is not a fund but rather an account group that is used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in Proprietary Funds.

General Fixed Assets Account Group:
This is not a fund but rather an account group that is used to account for the General Fixed Assets not reported in Proprietary Funds.

Basis of Accounting and Measurement Focus:
The basis of accounting determines when transactions and economic events are recognized in financial statements, and measurement focus identifies which transactions and events should be recorded.

Governmental Fund Types use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available (often referred to as susceptible to accrual). Revenues are measurable when they are subject to reasonable estimation, which the available criterion is satisfied when revenues are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Those revenues susceptible to accrual are property taxes, charges for services and interest revenues. Fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash. Grants, entitlements, and shared revenues are recognized as revenue when they are susceptible to accrual. Expenditure-based grants are recognized as revenue when the conditions of the grants are satisfied. Property tax revenues are recognized when they are levied with proper allowances made for estimated uncollectible accounts and delinquent accounts. Expenditures, if measurable, are recognized when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recognized when due.

Proprietary Funds and Fiduciary (Pension Trust) Funds use the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the City applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgets and Budgetary Accounting:
The budgetary data reflected in the general purpose financial statements is based on the annual operating budget adopted by City Council for the fiscal year beginning January 1. This legally ordained operating budget includes estimated receipts and proposed disbursements for the General, certain Special Revenues (Liquid Fuels Fund, Capital Reserve Fund and Off-Street Parking Fund) and Debt Service Funds on the modified accrual basis (GAAP Basis).

Within 31 days subsequent to the legal adoption of the budget, the Finance Director files a copy of the budget with the Department of Community and Economic Development of the Commonwealth of Pennsylvania. Should supplemental budget appropriations be required, the City Council may, within statutory limitations, authorize the transfer of funds between line items by means of a resolution approved at a regularly scheduled Council meeting. Expenditures may not legally exceed budgeted amounts at the line item level (see Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Budgeted Governmental Fund Types).

The City does not budget all Special Revenue Funds and, accordingly, the applicable columns of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual exclude amounts relating to the unbudgeted funds.

Compensated Absences:
The City's vacation policy varies among city departments, but generally provides for accumulation of between 0 and 20 days of vacation.

The policy, with respect to the accumulation of sick leave, varies among city departments, but generally provides for accumulation of 125 days of sick leave.

As of December 31, 2003, the liability for accrued sick and compensatory leave is $162,096 and is recorded in the General Long-Term Debt Account Group. The amount expected to be paid from current resources is not significant.

Investments:
For funds other than Pension Trust Funds, State law allows the City to invest in obligations of the United States of America, the Commonwealth of Pennsylvania or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the City to invest in certificates of deposit of banks, savings and loan associations and savings banks both within and outside the Commonwealth of Pennsylvania provided such amounts are insured by the FDIC or other like insurance and that deposits in excess of such insurance are collateralized by the depository. The State also imposes limitations with respect to the amount of investments in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan association or savings bank's net assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The law provides that the City's Pension Trust Funds may be invested in any form or type of investment or financial instrument when determined by the City to be prudent.

Temporary cash investments and investments for all funds, except the Pension Trust Funds, are stated at market value. Investments of the Pension Trust Funds are stated at fair value, in accordance with the provisions of Statement 25 of the Governmental Accounting Standards Board.

The calculation of realized gains or losses is independent of a calculation of the net change in the fair value of investments. Realized gains or losses on investments that have been held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in the prior year(s) and in the current year.

Receivables:
All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory:
The cost of inventory is recorded as an expenditure at the time individual inventory items are purchased.

Fixed Assets:
Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in Governmental Funds. No depreciation has been provided on such fixed assets. Depreciation on fixed assets in Proprietary Fund Types is computed on the straight-line basis over their estimated useful lives of 5 - 39 years.

All fixed assets reported in the General Fixed Assets Group of accounts are stated at appraised value as determined by an independent appraisal service. Donated property, plant, and equipment are valued at their estimated fair value on the date donated. See Note D.

The City has adopted the accounting policy of not capitalizing "infrastructure" general fixed assets (roads, bridges, curbs and gutters, streets and sidewalks, lighting systems, and similar assets that are immovable and of value only to the City).

The City capitalized net interest costs and interest earned as part of the cost of construction of various fixed assets when material. The amount of interest capitalized during the year was $0.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-Term Obligations:
Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligation is reported in the General Long-Term Debt Account Group.

Fund Balances:
Reserves are those portions of fund balances that are not appropriate for expenditure or legally segregated for a specific future use. Designated fund balances, if any, are established to indicate tentative plans for future financial resource utilization.

Transfers:
Operating transfers between fund types are reported as other financing sources (uses) in each respective fund. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

Revenue from State and Federal Sources:
Revenues from federal and state agencies designated for payment of specific City expenditures are recognized in the General Fund when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year-end is recorded as deferred revenue or a receivable, respectively.

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.

Cash and Cash Equivalents:
Cash and cash equivalents include investments in money market funds and highly liquid debt instruments with original maturities of three months or less.

Total Columns on Combined Statements:
Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Interfund eliminations have not been made in the aggregation of data.

NOTE B - CASH AND INVESTMENTS

Deposits:
At December 31, 2003, the book balance of the City's restricted and unrestricted deposits was $378,811 and the bank balance was $441,123. These amounts do not include the bank balances of the Mon Valley Refuse Disposal Authority, Monessen Civic Recreation Authority, Monessen Parking Authority, or the Redevelopment Authority of the City of Monessen whose collateralization information is included in separately issued financial statements at December 31, 2003. Of the bank balance, $194,588 was covered by Federal Depository Insurance (Category 1) and $246,535 was covered by collateral held by the City's agent in the agent's name (Category 3).

Deposit categories of credit risk are as follows:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized.

The following is a schedule of the City's deposits at December 31, 2002 categorized by risk:

Deposits	Category 1	Category 2	Category 3	Bank Balance
Cash	$194,588	$0	$246,535	$441,123

Investments:
The City is allowed to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the Commonwealth of Pennsylvania or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the Commonwealth of Pennsylvania or the United States; (4) obligations of states, agencies, counties, cities and other political subdivisions of any state that have been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent; and (5) fully collateralized direct repurchase agreements having a defined termination date.

The following amounts do not include the balances of the Mon Valley Refuse Disposal Authority or Monessen Parking Authority whose collateralization information is included in separately issued financial statements at December 31, 2003.

NOTE B - CASH AND INVESTMENTS - CONTINUED

The aggregate investments in the Pension Trust Funds consist of the following at December 31, 2003 (Category 2):

		Market (Carrying Value)
Mutual funds:		
Fixed income:		
Bond portfolio		$ 136,773
Equity portfolios		3,535,861
	Total	$ 3,672,634

NOTE C - PROPERTY TAXES

Property taxes levied for 2003 and unpaid are recorded as receivables, net of estimated uncollectibles. The net receivables available to fund 2003 expenditures are recognized as revenue in 2003. The term "available" means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Net receivables estimated to be subsequently collectible are reflected as deferred revenues. Prior year levies have been recorded using these same principles and remaining receivables are evaluated annually.

The City's real estate tax is levied on the assessed value listed as of the prior December 31 by the County Assessment Board for all property located in the City. Assessed values are established by the County Assessment Board at approximately 100% of estimated market value beginning in year 1973. The last valuation was completed as of December 31, 1972. The non-exempt assessed value (land and building) upon which the 2003 levy was based was $60,508,280, compared to the 2002 value of $61,797,860.

Real estate tax bills are rendered by the City in March of each year. Taxes are due by June 30 of each year with a 2% discount awarded for payments made in March and April. Taxes are collected directly by the City.

A 10% penalty is assessed for payments made subsequent to June 30. Taxes still uncollected as of January 1 of the following year become delinquent. Delinquent taxes are considered fully collectible and, therefore, no allowances for uncollectible taxes are provided.

NOTE D - GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is comprised of the following:

	Building	Equipment	Total
Municipal Building	$ 1,322,752	$ 266,733	$ 1,589,485
Hilltop Fire Station	264,963	12,660	277,623
City Garage	415,680	347,445	763,125
Civic Center	737,710	30,707	768,417
Monessen Elementary Center	0	13,090	13,090
City Park	213,583	14,538	228,121
City Park - Comfort Station and Storage Building	93,988	9,564	103,552
City Park - Storage Shed	2,353	0	2,353
City Park - Shelter #1	5,245	0	5,245
City Park - Shelter #2	12,420	0	12,420
City Park - Shelter #3	6,722	0	6,722
City Park - Footbridge	3,603	0	3,603
City Park - Veterans Memorial	200,000	0	200,000
City Park - Shawnee Park	2,513	1,580	4,093
Police Radio Tower	0	10,625	10,625
TOTAL	$ 3,281,532	$ 706,942	$ 3,988,474

A summary of changes in General Fixed Assets for the year ended December 31, 2003 is as follows:

	Balance January 1, 2003	Additions	Disposals	Balance December 31, 2003
Building	$ 3,281,532	$ 0	$ 0	$ 3,281,532
Equipment	583,367	123,575	0	706,942
TOTAL	$ 3,864,899	$ 123,575	$ 0	$ 3,988,474

NOTE E - ACCOUNTS RECEIVABLE, OTHER

Accounts receivable, other, at December 31, 2003, consists of the following:

	General	Proprietary	Fiduciary
Sanitation Collection Fees Receivable - City of Monessen	$ 168,358	$ 0	$ 0
Sanitation Collection Fees Receivable - Mon Valley Refuse Disposal Authority	0	23,618	0
IRS Refund - Monessen Civic Recreation Authority	0	887	0
Pension Contribution Receivable - Pension Trust Fund	0	0	21,587
TOTAL	$ 168,358	$ 24,505	$ 21,587

NOTE F - LOANS RECEIVABLE, RECIPIENTS

Loans receivable, recipients, at December 31, 2003 consists of the following:

	Special Revenues	Proprietary
Rehabilitation Loans - Small Communities Projects	$ 935,285	$ 0
Enterprise Development Zone Program Loans - Redevelopment Authority of the City of Monessen	0	482,462
TOTAL	$ 935,285	$ 482,462

Loans granted through the Small Communities Projects Fund are for the rehabilitation of owner occupied properties in need of repair. Interest rates vary from interest free to 4% based on the recipients income and family size. The loans have a twenty-year term and are collateralized by the recipient's property. Loans granted under the City of Monessen Enterprise Development Zone Program are to small businesses and industries. They can be used for the start-up of new businesses or to improve or expand the facilities of an existing business. The loans have a 5% interest rate and a five-year term that can be extended to ten years. The loans are collateralized by land, buildings and/or equipment.

NOTE G - PREPAID EXPENSES

Prepaid expenses at December 31, 2003 consists of the following:

Prepaid employee benefits - health insurance	$	38,322
Insurance - Workers' Compensation		44,506
Insurance - life		1,302
Police professional		24,605
Public Dishonesty Bond		2,887
Equipment		30,022
TOTAL	$	141,644

NOTE H - DEFERRED REVENUE

The City receives lump sum distributions through various grant programs administered by the Pennsylvania Department of Community and Economic Development. The funds received are for operation of various programs as authorized by the grant contracts. The unexpended balance of these funds are recorded as deferred revenue. The deferred revenue will be recognized as it is expended throughout the term of the program. Deferred revenue, at December 31, 2003 consists of the following:

General Fund:		
Real estate taxes	$	181,319
Deferred grant money		8,898
Delinquent garbage		116,692
2003 Garbage fees collected in 2002		63,998
TOTAL	$	370,907

NOTE I - LONG-TERM DEBT

The following is a summary of long-term debt transactions with respect to notes, bonds and capital lease obligations for the year ended December 31, 2003:

General Long-Term Debt Account Group:

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Notes Payable:				
General obligation term loan, interest at 5.20%, payable in annual installments of $24,991 through June 1, 2006. (A)	$ 87,683	$ 0	$ 20,932	$ 66,751
General obligation term loan, interest at 4.62%, payable in annual installments of $29,903 through May 1, 2006. (B)	105,290	0	24,999	80,291
General obligation term loan, interest at 4.07%, payable in monthly installments of $3,547 through July 2, 2005. (C)	104,195	0	42,388	61,807
Capital Leases Payable:				
Equipment capital lease, interest at 6.55%, payable in three annual installments of $7,349 through May 2004. (D)	13,371	0	6,473	6,898
Equipment capital lease, interest at 4.11%, payable in five annual installments of $19,762 through June 2008. (E)	0	87,510	0	87,510
Equipment capital lease, interest at 5.9%, payable in one annual installment of $10,000 and two annual installments of $6,915 through February 2006. (F)	0	22,465	0	22,465
TOTAL	$ 310,539	$ 109,975	$ 94,792	$ 325,722

NOTE I - LONG-TERM DEBT - CONTINUED

The City also borrowed and repaid $200,000 under a tax anticipation note in 2003 at an interest rate of 1.81%.

(A) The loan was obtained May 15, 1997 for equipment purchases. The City will make ten equal annual payments through 2006.

(B) The loan was obtained during 1999 for the Scenery Blvd. Capital Project. The City will make seven equal annual payments through 2006.

(C) The loan was obtained July 2, 2002 for the 9th Street Park Project. The Redevelopment Authority of the City of Monessen will make the monthly payments through July 2, 2005.

(D) During 2002, the City entered into a lease agreement with Laurel Capital Corporation for a Chevy Impala police car. The City will make three equal annual payments through 2004.

(E) During 2003, the City entered into a lease agreement with Dollar Bank Leasing Corp. for a dump truck. The City will make five equal annual payments through 2008.

(F) During 2003, the City entered into a lease agreement with Ford Motor Company for a Ford Explorer. The City will make three annual payments through 2006.

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2003, is as follows:

	General Long-Term Debt Account Group	
	Principal	Interest
2004	$ 121,035	$ 13,529
2005	93,780	9,071
2006	73,734	5,643
2007	18,205	1,558
2008	18,968	795
Total	$ 325,722	$ 30,596

In addition to the debt summarized above, the City is a 60% guarantor of sewer revenue bonds issued by the Mon Valley Sewage Authority for the advance refunding of serial revenue bonds in the original amount of $4,305,000. The outstanding balance on the bonds at November 30, 2003 was $3,375,000, of which the City guarantees $2,025,000.

NOTE J - CITY OF MONESSEN RETIREMENT PLANS

The City sponsors and administers two contributory defined benefit pension plans and one defined contribution pension plan covering substantially all the City's employees. These three plans are known as the Paid Fire Truck Drivers' Pension Plan, Police Pension Plan and Monessen Employees' Pension Plan. The financial statements of these plans are included as Fiduciary Trust Funds in the City's annual general purpose financial statements.

The City follows the requirements of Act 205 of 1984. Under the Act, the City is eligible to receive state aid to fund the amortization of its unfunded accrued actuarial liability over a 40 year period.

Summary of Significant Accounting Policies:

Basis of Accounting:
The City's financial statements are prepared using the accrual basis of accounting. Plan participant contributions are recognized in the period the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contribution. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Method Used to Value Investments:
Investments are stated 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.

Plan Descriptions and Contribution Information:

Membership of each plan consisted of the following as of January 1, 2003, the date of the latest actuarial valuation:

	Police	Fire	Nonuniformed
Retirees and beneficiaries receiving benefits	22	3	0
Terminated plan members entitled to but not yet receiving benefits	1	1	3
Active plan members	14	0	22
Total	37	4	25

Police Pension Plan:
Plan Description: The Plan is a contributory single-employer defined benefit pension plan that covers all full-time members of the Police Force. Normal retirement, disability and death benefits are provided by ordinance. PA Act 205 and City Council ordinances assign the authority to establish and amend the benefit provisions of the Plan.

NOTE J - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

Contributions: Plan members are required to contribute 4% of base pay plus $1.00 per month. Required total contributions to the Plan are amounts equal to the Minimum Municipal Obligation under PA Act 205. This obligation may be met by contributions provided by state aid, the City or employee contributions. The total amount required for 2003 is $247,841.

Paid Fire Truck Drivers' Plan:

Plan Description: The Plan is a contributory single-employer defined benefit pension plan that covers all full-time members of the Bureau of Fire. Normal retirement, disability and death benefits are provided by ordinance. PA Act 205 and City Council ordinances assign the authority to establish and amend the benefit provisions of the Plan.

Contributions: Plan members are required to contribute 4% of base pay plus $1.00 per month. Required total contributions to the Plan are at least equal to the Minimum Municipal Obligation under PA Act 205. This obligation may be met by contributions provided by state aid, the City or employee contributions. The total amount required for 2003 is $29,486.

Monessen Employees' Pension Plan:

Plan Description: The Plan is a contributory single-employer defined contribution pension plan that covers all non-uniform officers and employees that are eligible for membership. Normal retirement, early disability and death benefits are provided by ordinance. PA Act 205 and City Council ordinances assign the authority to establish and amend the benefit provisions of the Plan.

Contributions: Plan members are required to contribute 5% of their base pay. The City is required to contribute 8% of the participant's base pay. The City's total payroll for the current year was $1,536,970 and the City's contributions were based on a payroll of $719,300. The City and covered employees made the required contributions of $57,552 and $35,965, respectively.

Schedule of Funding Progress and Employer Contributions can be found on pages 34 - 35

NOTE J - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

Information presented in the required supplemental schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest valuation date (January 1, 2003) is as follows:

Actuarial Information:	Police	Fire
Valuation Date	01/01/03	01/01/03
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level Dollar	Level Dollar
Remaining Amortization Period	10 Years	17 Years
Asset Valuation Method	Fair Value	Fair Value
Actuarial Assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5%	5%

Actuarial Information:		Police		Fire
Unfunded (overfunded) actuarial accrued liability (unaudited):				
Total actuarial accrued liability	$	3,656,445	$	670,007
Less net assets available for benefits, at fair value (per actuarial report)		2,211,410		696,590
Unfunded (overfunded) actuarial accrued liability (January 1, 2003)	$	1,445,035	$	(26,583)
Unfunded (overfunded) actuarial accrued liability (January 1, 2001)	$	1,364,171	$	(45,159)

NOTE K - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the City is subject to various contingent liabilities arising from litigation. The City does not anticipate future losses, if any, as a result of these transactions to be material to the City's financial statements.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes such disallowances, if any, will be immaterial.

The City is exposed to various risks of losses related to torts, theft, damage, destruction of assets, errors and omissions; injuries to employees, and natural disasters. The City manages these risks through coverage from commercial insurance companies.

NOTE L - MONESSEN PARKING AUTHORITY: FUTURE LEASE RENTALS RECEIVABLE AND BONDS OUTSTANDING

The Authority issued parking revenue bonds, Series of 1965, to provide the principal funds to acquire certain additional tracts of land in Monessen and to develop the same as additional off-street parking facilities (herein called the "Capital Addition No. 1"), and to refund the old bonds, Series of 1965. The aggregate principal amount of the Series of 1965 Bonds was $478,000.

The lease in effect for the year ended December 31, 2003, provides that the City of Monessen shall pay to the Monessen Parking Authority, as rentals hereunder, the sum of $13,400 on March 15 and September 15, thereafter to and including September 15, 2004. Such rentals shall be payable only out of the current revenues of the City for each year during the term of this agreement. The City shall assume the payment of and shall punctually and faithfully pay, as if the City were primarily liable for the same, all taxes and assessments against the Authority.

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2003:

Debt outstanding January 1, 2003	$	18,000
Less: Retirements and repayments		(18,000)
Debt outstanding December 31, 2003	$	0

NOTE L - MONESSEN PARKING AUTHORITY: FUTURE LEASE RENTALS RECEIVABLE - AND BONDS OUTSTANDING - CONTINUED

Interest on the Series of 1965 Bonds, was payable semi-annually at a rate ranging from 3.125 percent to 3.90 percent. The principal was due semi-annually on May 1 and November 1. The bonds were paid in full November 1, 2003 and, accordingly, the lease rentals receivable was zero at December 31, 2003.

NOTE M - FUND EQUITY

Reservations of fund balance of Governmental Funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures. Specific reservation of the fund balance accounts are summarized below:

Reserve for Specific Purposes:
Reserve for specific purposes includes amounts that have been reserved in the Debt Service and Enterprise Funds.

Reserve for Retirement System:
The reserve for retirement system was created to restrict the use of all resources contributed to or earned by the Pension Trust Funds. State statues require that such a fund balance be fully reserved.

NOTE N - NEW REPORTING STANDARDS

In June 1999, the Government Accounting Standards Board ("GASB") issued Statement 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*" This statement established new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments presented in the past. Comparability with reports issued in prior years will be affected. The City is required to implement this standard for the fiscal year ending December 31, 2004. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

ALL SPECIAL REVENUE FUNDS

Year Ended December 31, 2003

	Liquid Fuels	Off-Street Parking	Capital Reserve Fund	Small Communities Projects	Library Fund	Total
REVENUE						
Taxes	$ 170,261	$ 0	$ 124,142	$ 0	$ 65,000	$ 359,403
Interest, rents and royalties	860	116	468	6,836	139	8,419
Intergovernmental revenue	0	0	0	382,388	0	382,388
Miscellaneous	0	17,270	0	16,140	0	33,410
TOTAL REVENUE	171,121	17,386	124,610	405,364	65,139	783,620
EXPENDITURES						
Community Redevelopment	0	0	0	388,726	0	388,726
Public Works:						
Sanitation	0	0	0	42,559	0	42,559
Culture, recreation	0	0	0	0	65,000	65,000
Miscellaneous expense	0	1,645	0	0	0	1,645
Lease bond payments	0	13,400	0	0	0	13,400
Capital expenditures	0	0	4,000	0	0	4,000
TOTAL EXPENDITURES	0	15,045	4,000	431,285	65,000	515,330
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	171,121	2,341	120,610	(25,921)	139	268,290
OTHER FINANCING USES						
Operating transfers - out	(171,135)	0	(120,000)	0	0	(291,135)
TOTAL OTHER FINANCING USES	(171,135)	0	(120,000)	0	0	(291,135)
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(14)	2,341	610	(25,921)	139	(22,845)
FUND BALANCES AT BEGINNING OF YEAR	24	5,495	55	1,012,262	39	1,017,875
FUND BALANCES AT END OF YEAR	$ 10	$ 7,836	$ 665	$ 986,341	$ 178	$ 995,030

See accompanying notes.

CITY OF MONESSEN

COMBINING BALANCE SHEET -

ALL PROPRIETARY FUND TYPES

December 31, 2003

	Monessen Parking Authority	Mon Valley Refuse Disposal Authority	Redevelopment Authority of the City of Monessen	Monessen Civic Recreation Authority	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,292	$ 16,778	$ 237,185	$ 0	$ 255,255
Investments	47,026	77,000	0	0	124,026
Accounts receivable	0	23,618	0	887	24,505
Future lease rentals receivable	0	0	0	0	0
TOTAL CURRENT ASSETS	48,318	117,396	237,185	887	403,786
NONCURRENT ASSETS					
Loans receivable	0	0	482,462	0	482,462
Property held for redevelopment	0	0	209,147	0	209,147
TOTAL NONCURRENT ASSETS	0	0	691,609	0	691,609
FIXED ASSETS	607,669	60,759	0	21,706	690,134
Less: Accumulated depreciation	(542,133)	(60,759)	0	(10,708)	(613,600)
NET FIXED ASSETS	65,536	0	0	10,998	76,534
TOTAL ASSETS	$ 113,854	$ 117,396	$ 928,794	$ 11,885	$ 1,171,929
LIABILITIES AND RETAINED EARNINGS					
LIABILITIES					
Bank overdraft	$ 0	$ 0	$ 0	$ 193	$ 193
Accounts payable	0	30,024	2,256	3,000	35,280
Accrued liabilities	0	317	0	0	317
Parking Revenue Bonds, Series of 1965	0	0	0	0	0
TOTAL LIABILITIES	0	30,341	2,256	3,193	35,790
RETAINED EARNINGS					
Unreserved	0	87,055	926,538	8,692	1,022,285
Reserved by Parking Authority Trust Indenture	113,854	0	0	0	113,854
TOTAL RETAINED EARNINGS	113,854	87,055	926,538	8,692	1,136,139
TOTAL LIABILITIES AND RETAINED EARNINGS	$ 113,854	$ 117,396	$ 928,794	$ 11,885	$ 1,171,929

See accompanying notes.

CITY OF MONESSEN

COMBINING BALANCE SHEET -

ALL FIDUCIARY FUND TYPES - PENSION TRUST FUNDS

December 31, 2003

	Police Pension Fund	Fire Truck Drivers' Pension Fund	Nonuniformed Pension Fund	Total
ASSETS				
Cash	$ 230,028	$ 16,507	$ 0	$ 246,535
Investments	2,033,233	646,627	992,774	3,672,634
Contribution receivable	0	0	21,587	21,587
TOTAL ASSETS	2,263,261	663,134	1,014,361	3,940,756
FUND BALANCE				
Reserved for employee pension benefits	2,263,261	663,134	1,014,361	3,940,756
TOTAL FUND BALANCE	2,263,261	663,134	1,014,361	3,940,756
TOTAL LIABILITIES AND FUND BALANCE	$ 2,263,261	$ 663,134	$ 1,014,361	$ 3,940,756

See accompanying notes.

CITY OF MONESSEN

HISTORICAL TREND AND FUNDING PROGRESS INFORMATION - PENSION TRUST FUNDS (UNAUDITED)

December 31, 2003

The following five-year historical trend and funding progress information is designed to provide information about the progress of the various plans in accumulating sufficient assets to pay benefits when due and is required disclosure.

Five-Year Trend Information

Plan	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Police Pension Plan:	December 31, 1998	$ 214,188	100%	0
	December 31, 1999	235,441	100%	0
	December 31, 2000	238,237	101%	2,492
	December 31, 2001	241,408	99.9%	(2,397)
	December 31, 2002	245,009	99.9%	(2,295)
Fire Truck Drivers' Pension:	December 31, 1998	$ 58,264	100%	0
	December 31, 1999	56,820	100%	0
	December 31, 2000	46,055	100%	0
	December 31, 2001	45,088	100%	0
	December 31, 2002	22,428	100%	0

CITY OF MONESSEN

SCHEDULE OF FUNDING PROGRESS - PENSION TRUST FUNDS
(UNAUDITED) - CONTINUED

December 31, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Overfunded) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded (Overfunded) Actuarial Liability as a Percentage of Covered Payroll (b-a/c)
Police Retirement Plan						
January 1, 1997	$ 1,359,915	$ 3,041,346	$ 16,811,431	44.7	$ 486,350	345.7
January 1, 1999	1,796,306	3,229,554	1,433,248	55.6	514,223	278.7
January 1, 2001	2,090,735	3,454,906	1,364,171	60.5	596,265	228.8
January 1, 2003	2,211,410	3,656,445	1,445,035	60.5	692,681	208.6
Firefighter's Retirement Plan						
January 1, 1997	$ 501,599	$ 792,693	$ 291,094	63.3	$ 112,248	259.3
January 1, 1999	700,471	889,472	189,001	78.8	108,811	173.7
January 1, 2001	778,023	732,864	(45,159)	106.2	98,383	(45.9)
January 1, 2003	696,590	670,007	(26,583)	104.0	0	0

Note: Actuarial valuation required and performed on a two-year interval.

See accountants' report.

CITY OF MONESSEN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Program or Award Amounts	Total Received for Year	Accrued or (Deferred) Revenue at December 1, 2002	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at December 31, 2003
U.S. Department of Housing and Urban Development:										
Passed Through the PA Department of Community and Economic Development										
Community Development Block Grant:										
Contract Number C000003196	I/F	14.228	S-01-E96-52	06/16/03-06/15/08	$ 418,686	$ 56,074	$ 0	$ 57,941	$ 57,941	$ 1,867
Contract Number 22-762-0137	I/F	14.228	S-01-E96-52	07/26/02-07/25/07	414,912	66,317	1,215	65,102	65,102	0
Contract Number 21-762-0065	I/F	14.228	S-01-E96-52	04/09/01-08/08/06	439,635	54,300	0	54,300	54,300	0
Contract Number 20-762-0090	I/F	14.228	S-00-E06-52	05/10/00-05/09/05	422,262	184,003	0	184,003	184,003	0
Total Passed Through the PA Department of Community and Economic Development					1,695,495	360,694	1,215	361,346	361,346	1,867
Passed Through Westmoreland County										
HOME Investment Partnership Program	I/F	14.239	N/A	2002-2007	96,500	21,142	0	21,142	21,142	0
Total U.S. Department of Housing and Urban Development					1,791,995	381,836	1,215	382,488	382,488	1,867
U.S. Department of Justice:										
Local Law Enforcement Block Grant	D/F	16.592	N/A	10/01/02-09/30/04	12,606	0	(8,680)	8,680	8,680	0
Local Law Enforcement Block Grant	D/F	16.592	N/A	10/01/02-09/30/04	10,914	10,914	0	2,016	2,016	(8,898)
Total U.S. Department of Justice					23,520	10,914	(8,680)	10,696	10,696	(8,898)
Federal Emergency Management Agency:										
Passed Through the Pennsylvania Emergency Management Agency										
Public Assistance Grants	I/F	83.544	N/A	N/A	10,260	10,260	0	10,260	10,260	0
TOTAL FEDERAL FINANCIAL ASSISTANCE					$ 1,825,775	$ 403,010	$ (7,465)	$ 403,444	$ 403,444	$ (7,031)

See accountants' report.

CITY OF MONESSEN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2003

NOTE A - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting which recognizes income in the period it is earned and expenses in the period they are incurred.

HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and
Members of City Council
of the City of Monessen
Monessen Pennsylvania

We have audited the general purpose financial statements of the City of Monessen, (the "City") as of and for the year ended December 31, 2003, and have issued our report thereon dated May 14, 2004, which is qualified because as discussed in Note A to the financial statements, the City of Monessen has consistently valued the assets in the General Fixed Assets Account Group at appraised value rather than at historical cost, as prescribed by 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statements 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 that are required to be reported under *Government Auditing Standards.*

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 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 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.

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This report is intended solely for your information and use and for the information and use of management, the Department of Housing and Urban Development and officials of 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.

Herbein & Company, Inc.

Pittsburgh, Pennsylvania
May 14, 2004

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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 Mayor and
Members of City Council
of the City of Monessen
Monessen, Pennsylvania

Compliance

We have audited the compliance of the City of Monessen (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 its major federal programs for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Monessen's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control over Compliance

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

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

This report is intended solely for your information and use and for the information and use of management, the Department of Housing and Urban Development and officials of federal awarding agencies and pass-through entities, as appropriate, and it is not intended to be and should not be used by anyone other than these specified parties.

Herbein & Company, Inc.

Pittsburgh, Pennsylvania
May 14, 2004

CITY OF MONESSEN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2003

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified because fixed assets are stated at appraised value rather than at historical cost as prescribed by accounting principles generally accepted in the United States of America.

Internal control over financial reporting:

Material weakness(es) identified? ____ yes X no

Reportable condition(s) identified not considered to be material weaknesses? ____ yes X none reported

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? ____ yes X no

Reportable condition(s) identified not considered to be material weaknesses? ____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? ____ yes X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant Awards

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

Auditee qualified as low-risk auditee? ____ yes X no

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs.

CITY OF MONESSEN

STATUS OF PRIOR YEAR FINDINGS

Year Ended December 31, 2003

There were no prior year findings.