# CITY OF MONESSEN
# WESTMORELAND COUNTY, PENNSYLVANIA

## FINANCIAL STATEMENTS

## Year Ended December 31, 2004

TABLE OF CONTENTS


| | Pages |
|---|---|
| **INDEPENDENT AUDITOR'S REPORT** | 1 - 2 |
| **BASIC FINANCIAL STATEMENTS:** | |
| **Government-wide Financial Statements:** | |
| Statement of Net Assets | 3 |
| Statement of Activities | 4 |
| **Fund Financial Statements:** | |
| Balance Sheet – Governmental Funds | 5 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | 6 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 7 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 8 - 9 |
| Statement of Net Assets – Proprietary Funds | 10 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds | 11 |
| Statement of Cash Flows – Proprietary Funds | 12 |
| Statement of Fiduciary Net Assets | 13 |
| Statement of Changes in Fiduciary Net Assets | 14 |
| Notes to Financial Statements | 15 - 33 |
| **REQUIRED SUPPLEMENTARY INFORMATION:** | |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund | 34 - 35 |
| Schedule of Funding Progress - Pension Trust Funds | 36 |
| Schedule of Contributions from Employers and Other Contributing Entities | 37 |

TABLE OF CONTENTS - CONTINUED


Pages

SUPPLEMENTARY INFORMATION:

COMBINING FUND FINANCIAL STATEMENTS:

Combining Balance Sheet – Nonmajor Governmental Funds ..... 38

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds ..... 39

Combining Statement of Fiduciary Net Assets ..... 40

Combining Statement of Changes in Fiduciary Fund Net Assets ..... 41

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 financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Monessen Pennsylvania, (the "City") as of and for the year ended December 31, 2004, 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City at December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the financial statements, the City adopted Governmental Accounting Standards Board Statements No. 34, 37 and 38 for the year ended December 31, 2004.

The budgetary comparison schedules on pages 34 and 35 and pension information on pages 36 and 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

The City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be 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's basic financial statements. The combining nonmajor fund and fiduciary fund financial statements on pages 38 through 41 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Herbein + Company, Inc.

Pittsburgh, Pennsylvania
January 28, 2005

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts Payable | $ 135,008 | $ 1,768 | $ 136,776 |
| Accrued Liabilities | 35,583 | 0 | 35,583 |
| Accrued Interest Payable | 9,101 | 0 | 9,101 |
| Current Portion of Notes Payable | 109,278 | 0 | 109,278 |
| Current Portion of Leases Payable | 34,366 | 0 | 34,366 |
| Deferred Revenue | 112,211 | 0 | 112,211 |
| **TOTAL CURRENT LIABILITIES** | 435,547 | 1,768 | 437,315 |
| **NONCURRENT LIABILITIES** | | | |
| Notes Payable | 311,314 | 0 | 311,314 |
| Leases Payable | 73,184 | 0 | 73,184 |
| Compensated Absences | 162,091 | 0 | 162,091 |
| **TOTAL NONCURRENT LIABILITIES** | 546,589 | 0 | 546,589 |
| **TOTAL LIABILITIES** | 982,136 | 1,768 | 983,904 |
| **NET ASSETS** | | | |
| Invested in Capital Assets, Net of Related Debt | 382,282 | 0 | 382,282 |
| Unrestricted | 1,454,706 | 678,248 | 2,132,954 |
| **TOTAL NET ASSETS** | 1,836,988 | 678,248 | 2,515,236 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 2,819,124 | $ 680,016 | $ 3,499,140 |

CITY OF MONESSEN

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

| Functions/Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants and Contributions | Program Revenue: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities | Net (Expense) Revenue and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | |
| General Government | $ 1,367,304 | $ 461,734 | $ 4,250 | $ 0 | $ (901,320) | $ 0 | $ (901,320) |
| Public Safety | 1,383,250 | 183,289 | 310,852 | 30,000 | (859,109) | 0 | (859,109) |
| Health and Welfare | 42,395 | 0 | 0 | 0 | (42,395) | 0 | (42,395) |
| Public Works - Sanitation | 340,393 | 0 | 225,625 | 0 | (114,768) | 0 | (114,768) |
| Public Works - Highways, Roads and Streets | 660,228 | 616,864 | 0 | 0 | (43,364) | 0 | (43,364) |
| Public Works - Other | 6,769 | 0 | 0 | 0 | (6,769) | 0 | (6,769) |
| Culture and Recreation | 237,539 | 2,220 | 0 | 0 | (235,319) | 0 | (235,319) |
| Conservation and Development | 440,160 | 0 | 362,102 | 0 | (78,058) | 0 | (78,058) |
| Interest on Long-Term Debt | 15,746 | 0 | 0 | 0 | (15,746) | 0 | (15,746) |
| Total Governmental Activities | 4,493,784 | 1,264,107 | 902,829 | 30,000 | (2,296,848) | 0 | (2,296,848) |
| **Business-Type Activities:** | | | | | | | |
| Redevelopment | 281,336 | 15,807 | 0 | 0 | 0 | (265,529) | (265,529) |
| Total Business-type Activities | 281,336 | 15,807 | 0 | 0 | 0 | (265,529) | (265,529) |
| **Total Primary Government** | $ 4,775,120 | $ 1,279,914 | $ 902,829 | $ 30,000 | (2,296,848) | (265,529) | (2,562,377) |
| | **General Revenues:** | | | | | | |
| | Real Estate Taxes | | | | 1,920,217 | 0 | 1,920,217 |
| | Earned Income and Other Taxes | | | | 631,838 | 0 | 631,838 |
| | Unrestricted Investment Earnings | | | | 13,459 | 1,763 | 15,222 |
| | Miscellaneous Income | | | | 71,862 | 15,476 | 87,338 |
| | Special item - donation from Monessen Parking Authority | | | | 50,344 | 0 | 50,344 |
| | **Total General Revenues** | | | | 2,687,720 | 17,239 | 2,704,959 |
| | **Change in Net Assets** | | | | 390,872 | (248,290) | 142,582 |
| | **Net Assets - Beginning** | | | | 1,446,116 | 926,538 | 2,372,654 |
| | **Net Assets - Ending** | | | | $ 1,836,988 | $ 678,248 | $ 2,515,236 |

See accompanying notes.

CITY OF MONESSEN

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2004

| | General | Small Communities Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | $ 47,932 | $ 70,150 | $ 18,274 | $ 136,356 |
| Receivables, Net of Allowance: | | | | |
| Taxes | 482,452 | 0 | 0 | 482,452 |
| Garbage Fees | 183,472 | 0 | | 183,472 |
| Loans Receivable, Recipients | 0 | 917,330 | 0 | 917,330 |
| Other | 34,000 | 0 | 0 | 34,000 |
| Interfund Receivables | 0 | 0 | 40,000 | 40,000 |
| Intergovernmental Receivables | 12,706 | 6,636 | 0 | 19,342 |
| Prepaid Expenses | 135,748 | 0 | 0 | 135,748 |
| TOTAL ASSETS | $ 896,310 | $ 994,116 | $ 58,274 | $ 1,948,700 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | $ 97,367 | $ 37,641 | $ 0 | $ 135,008 |
| Accrued Liabilities | 30,264 | 0 | 0 | 30,264 |
| Interfund Payables | 40,000 | 0 | 0 | 40,000 |
| Escrow Liability | 5,320 | 0 | 0 | 5,320 |
| Deferred Revenue | 778,135 | 0 | 0 | 778,135 |
| TOTAL LIABILITIES | 951,086 | 37,641 | 0 | 988,727 |
| FUND BALANCES | | | | |
| Reserved for Community Projects | 0 | 956,475 | 0 | 956,475 |
| Reserved for Future Grant Expenditures | 0 | 0 | 59 | 59 |
| Reserved for Capital Projects | 0 | 0 | 56,556 | 56,556 |
| Reserved for Library Expenditures | 0 | 0 | 663 | 663 |
| Reserved for Debt Service | 0 | 0 | 996 | 996 |
| Reserved for Prepaid Expenses | 135,748 | 0 | 0 | 135,748 |
| Unreserved, reported in: | | | | |
| General Fund | (190,524) | 0 | 0 | (190,524) |
| TOTAL FUND BALANCES | (54,776) | 956,475 | 58,274 | 959,973 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 896,310 | $ 994,116 | $ 58,274 | $ 1,948,700 |

See accompanying notes.

CITY OF MONESSEN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

December 31, 2004

| | | |
|---|---|---|
| **TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** | | $ 959,973 |
| **Amounts reported for governmental activities in the statement of net assets are different because:** | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $3,048,261 and the accumulated depreciation is $2,137,837. | | 910,424 |
| Taxes and garbage fees receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. | | 665,925 |
| Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | | |
| Notes Payable | $ (420,592) | |
| Accrued Interest on Notes | (9,101) | |
| Capital Leases | (107,550) | |
| Compensated Absences | (162,091) | (699,334) |
| **TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** | | $ 1,836,988 |

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2004

| | General | Small Communities Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 1,972,874 | $ 0 | $ 255,352 | $ **2,228,226** |
| Licenses and Permits | 260,274 | 0 | 0 | **260,274** |
| Fines and Forfeits | 53,630 | 0 | 0 | **53,630** |
| Interest, Rents and Royalties | 1,427 | 10,225 | 1,807 | **13,459** |
| Intergovernmental Revenue | 493,017 | 288,321 | 174,186 | **955,524** |
| Charges for Services | 883,423 | 0 | 0 | **883,423** |
| Miscellaneous Revenue | 71,862 | 0 | 0 | **71,862** |
| TOTAL REVENUES | 3,736,507 | 298,546 | 431,345 | **4,466,398** |
| **EXPENDITURES** | | | | |
| **Current:** | | | | |
| General Government | 1,355,494 | 0 | 0 | **1,355,494** |
| Public Safety | 1,388,285 | 0 | 0 | **1,388,285** |
| Health and Welfare | 41,530 | 0 | 0 | **41,530** |
| Public Works: | | | | **0** |
| Sanitation | 333,445 | 0 | 0 | **333,445** |
| Highways, Roads and Streets | 646,751 | 0 | 0 | **646,751** |
| Other | 2,550 | 4,081 | 0 | **6,631** |
| Culture and Recreation | 167,690 | 0 | 65,000 | **232,690** |
| Conservation and Development | 149,394 | 281,781 | 0 | **431,175** |
| **Debt Service** | | | | |
| Principal | 0 | 0 | 88,257 | **88,257** |
| Interest | 2,110 | 0 | 9,187 | **11,297** |
| **Capital Outlay** | 64,225 | 0 | 273,835 | **338,060** |
| TOTAL EXPENDITURES | 4,151,474 | 285,862 | 436,279 | **4,873,615** |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (414,967) | 12,684 | (4,934) | **(407,217)** |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds of Capital Leases | 40,042 | 0 | 0 | **40,042** |
| Loan Proceeds | 0 | 0 | 300,000 | **300,000** |
| Operating Transfers In | 290,032 | 0 | 42,550 | **332,582** |
| Operating Transfers Out | 0 | (42,550) | (290,032) | **(332,582)** |
| TOTAL OTHER FINANCING SOURCES (USES) | 330,074 | (42,550) | 52,518 | **340,042** |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | (84,893) | (29,866) | 47,584 | **(67,175)** |
| **FUND BALANCES - BEGINNING** | 30,117 | 986,341 | 10,690 | **1,027,148** |
| FUND BALANCES - ENDING | $ (54,776) | $ 956,475 | $ 58,274 | $ **959,973** |

See accompanying notes.

CITY OF MONESSEN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

| | | |
|---|---|---|
| NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS | | $ (67,175) |
| **Amounts reported for governmental activities in the statement of activities are different because:** | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period: | | |
| Capital Outlays | $ 338,060 | |
| Donation of parking garage facilities | 50,344 | |
| Less: Depreciation Expense | (91,407) | 296,997 |
| Because some taxes and garbage fees will not be collected for several months after the City's year end, they are not considered as "available" revenues in the governmental funds. Deferred revenues increased (decreased) by this amount during the year. | | 367,914 |
| Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net assets. Repayment of principal is not an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The effect of these transactions in the statement of activities is shown below: | | |
| Issuance of notes | (300,000) | |
| Issuance of capital leases | (40,042) | |
| Principal payments on capital leases | 49,365 | |
| Repayment of bond principal | 88,257 | (202,420) |
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The interest accrued in the statement of activities less the amount due is shown here. | | (4,449) |

See accompanying notes.

CITY OF MONESSEN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - CONTINUED

For the Year Ended December 31, 2004

| | | |
|---|---|---|
| In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. | | 5 |
| **CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** | $ | 390,872 |

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

December 31, 2004

| | Business-type Activities Enterprise Funds Redevelopment Authority of the City of Monessen |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS** | |
| Cash and Cash Equivalents | $ 156,355 |
| **NONCURRENT ASSETS** | |
| Loans Receivable, Net of Allowance | 523,661 |
| **TOTAL ASSETS** | $ 680,016 |
| **LIABILITIES AND NET ASSETS** | |
| **LIABILITIES** | |
| Accounts Payable | $ 1,768 |
| **NET ASSETS** | |
| Unrestricted | 678,248 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 680,016 |

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended December 31, 2004

| | Business-type Activities Enterprise Funds Redevelopment Authority of the City of Monessen |
|---|---|
| **OPERATING REVENUES** | |
| Interest income on loans | $ 15,628 |
| Miscellaneous income | 179 |
| **TOTAL OPERATING REVENUES** | 15,807 |
| **OPERATING EXPENSES** | |
| Administration | 45,347 |
| Professional services | 20,759 |
| Other operating expenses | 6,083 |
| **TOTAL OPERATING EXPENSES** | 72,189 |
| **OPERATING INCOME (LOSS)** | (56,382) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| Earnings on investments | 1,763 |
| Change in net realizable value of land held for redevelopment | (209,147) |
| Gain on property disposition | 15,476 |
| **TOTAL NONOPERATING REVENUE (EXPENSES)** | (191,908) |
| **CHANGE IN NET ASSETS** | (248,290) |
| **NET ASSETS AT BEGINNING OF YEAR** | 926,538 |
| **NET ASSETS AT END OF YEAR** | $ 678,248 |

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended December 31, 2004

| | Business-type Activities Enterprise Funds Redevelopment Authority of the City of Monessen |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Interest payments on loans | $ 15,628 |
| Payments to service providers | (20,759) |
| Payments to employees | (45,946) |
| Other operating payments | (5,793) |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | (56,870) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Principal payments on loans | 58,801 |
| Loans issued | (100,000) |
| Proceeds from disposition of property | 15,476 |
| Interest income | 1,763 |
| **NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES** | (23,960) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (80,830) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 237,185 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 156,355 |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:** | |
| Operating loss | $ (56,382) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | |
| Decrease in accounts payable | (488) |
| **NET CASH USED BY OPERATING ACTIVITIES** | $ (56,870) |

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

December 31, 2004

| | Pension Trust Funds |
|---|---|
| **ASSETS** | |
| Cash Equivalents | $ 200,130 |
| Mutual Fund Investments at Fair Value | 4,254,797 |
| Interest Receivable | 16,249 |
| **TOTAL ASSETS** | $ 4,471,176 |
| **NET ASSETS** | |
| Held in Trust for Employee Pension Benefits | $ 4,471,176 |
| **TOTAL NET ASSETS** | $ 4,471,176 |

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

For the Year Ended December 31, 2004

| | Pension Trust Funds |
|---|---|
| **ADDITIONS** | |
| Contributions - Employer | $ 329,357 |
| Contributions - Employee | 59,169 |
| Interest and Dividends | 73,116 |
| Net Increase in Fair Value of Investments | 410,864 |
| **TOTAL ADDITIONS** | 872,506 |
| **DEDUCTIONS** | |
| Administration | 38,568 |
| Benefits | 303,518 |
| **TOTAL DEDUCTIONS** | 342,086 |
| **CHANGE IN NET ASSETS** | 530,420 |
| **NET ASSETS AT BEGINNING OF YEAR** | 3,940,756 |
| **NET ASSETS AT END OF YEAR** | $ 4,471,176 |

See accompanying notes.

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: Public Safety, Highways and Streets, Sanitation, Health and Social Services, Culture and Recreation, Public Improvements, Planning and Zoning, and General Administrative Services. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the government's operations.

## 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 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 component units 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 only the Redevelopment Authority of the City of Monessen is a component unit of the City. The component unit is blended as a Proprietary Fund for reporting purposes.

Although City Council of Monessen appoints Parking Authority Board members, it was dissolved in 2004 and its assets transferred to the City. Its activity for 2004 is not material to the City of Monessen's financial statements. 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. Its activities are not material to the City of Monessen's financial statements. 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. However, the City cannot impose its will on the Refuse Authority, a financial benefit or burden does not exist, nor is the Refuse Authority fiscally dependent on the City.

Separate financial statements from the entities above may be obtained by contacting their offices.

Government-wide and fund financial statements

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

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

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

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement focus, basis of accounting and financial statement presentation

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

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

Those revenues susceptible to accrual are charges for services and interest revenues associated with the current fiscal period and so have been recognized as revenues of the current fiscal period. Fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports the following major governmental funds:

*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.

*Small Communities Projects Fund:*
This fund was established to account for the City's activities related to its federal Community Development Block Grant program.

The City also uses the following nonmajor funds: Liquid Fuels (to account for the City's Liquid Fuels grant activity), Off-street Parking (to account for off-street parking receipts), Capital Reserve (to account for the City's capital activity), Library (to account for real estate taxes levied for and grants to the Library) and Debt Service (to account for the City's real estate taxes levied for payments for debt service).

The City reports the following enterprise fund, which is a major fund:

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*Redevelopment Authority of the City of Monessen:*
This fund accounts for the grants received and loans made in connection with the City's redevelopment efforts. 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.

Additionally, the City reports the following fiduciary funds:

*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).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Redevelopment Authority is loan interest. Operating expenses include the cost of services and administrative expenses in conjunction with the Authority's loan program. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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 Fund on the cash basis (non-GAAP Basis). The primary differences between GAAP and the budgetary basis are:

1. Revenues are recognized when susceptible to accrual (GAAP basis), as opposed to when received in cash (budgetary basis).

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Expenditures are recognized when the liability for services is incurred (GAAP basis), as opposed to when cash is disbursed (budgetary basis).

Adjustments necessary to convert results of operations at the end of the year on a budgetary basis to a GAAP basis are as follows:

| | | |
|---|---|---|
| Deficiency of revenues over expenditures and other financing uses (budgetary basis) | $ | (65,665) |
| Adjustments to revenues for accruals | | 58,225 |
| Adjustments to expenditures for accruals | | (77,453) |
| Deficiency of Revenues Over Expenditures And Other Financing Uses (GAAP Basis) | $ | (84,893) |

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 fund level.

Cash and Cash Equivalents:
Cash and cash equivalents include cash on hand, demand deposits, investments in money market funds and highly liquid debt instruments with original maturities of three months or less from the date of acquisition.

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 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. Investments are reported at fair value.

Interfund Receivables/Payables:
Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund payables and receivables." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Fixed Assets:
Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Total interest incurred by the City's Enterprise Fund during the current year was $0.

Property plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Buildings | 50 |
| Building improvements | 20 |
| Infrastructure | 50 |
| Vehicles | 5-10 |
| Office equipment | 20 |
| Computer equipment | 5 |

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. A liability for these amounts is reported only if they have matured as a result of resignations or retirements.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-Term Obligations:
In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Bond issue costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issues are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances, if any, are established to indicate tentative plans for future financial resource utilization.

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.

Changes in Accounting Principles:
For the year ended December 31, 2004, the City has implemented GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,*" Statement No. 37, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*", and Statement No. 38, "*Certain Financial Statement Note Disclosures.*"

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide financial statements split the City's programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the Enterprise Fund from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balance:
The transition from governmental fund types fund balance to net assets of the governmental activities is as follows:

| | |
|---|---|
| Adjusted Fund Balance December 31, 2003 | $ 1,027,148 |
| GASB 34 Adjustments: | |
| Capital assets | 613,427 |
| Taxes and garbage fees receivable | 298,011 |
| Long-term liabilities | (492,470) |
| Governmental Activities Net Assets December 31, 2003 | $ 1,446,116 |

## NOTE B - CASH AND INVESTMENTS

Deposits:
Following is a summary of the City's deposits that were either insured by the Federal Depository Insurance Company (Category 1), or not insured or collateralized in the City's name but, collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name (Category 3):

The following is a schedule of the City's deposits at December 31, 2004 categorized by risk:

| | Category 1 | Category 2 | Category 3 | Carrying Amount |
|---|---|---|---|---|
| Deposits | $ 235,675 | $ 0 | $ 360,356 | $ 292,711 |

## NOTE B - CASH AND INVESTMENTS - CONTINUED

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.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the entity or by its agent in the City's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

The aggregate investments in the Pension Trust Funds consist of the following at December 31, 2004 (uncategorized):

| | Market (Carrying Value) |
|---|---|
| Total Mutual Fund Investments | $ 4,454,927 |

The pension investments in mutual funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. At December 31, 2004, all Pension Trust Fund investments are presented at fair value. These investments include $200,130 that are considered to be cash equivalents but not deposits.

## NOTE C - PROPERTY TAXES

Property taxes levied for 2004 and unpaid are recorded as receivables, net of estimated uncollectibles. The net receivables available to fund 2004 expenditures have not been recognized as revenue in 2004. 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.

## NOTE C - PROPERTY TAXES - CONTINUED

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 2004 levy was based was $60,483,530, compared to the 2003 value of $60,508,280.

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. 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 and are turned over to the County's Tax Claim Bureau. Delinquent taxes are liened, however, an allowance for uncollectible taxes has been provided in the amount of $37,318.

## NOTE D – CAPITAL ASSETS

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|---|---|---|---|
| Land and land improvements | $ 644,248 | $ 59,804 | $ 0 | $ 704,052 |
| Buildings and improvements | 1,012,084 | 230,000 | 0 | 1,242,084 |
| Fixtures and equipment | 508,748 | 56,200 | 0 | 564,948 |
| Vehicles | 562,277 | 42,400 | (67,500) | 537,177 |
| Totals at Historical Cost | 2,727,357 | 388,404 | (67,500) | 3,048,261 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 385,357 | 16,442 | 0 | 401,799 |
| Buildings and improvements | 896,616 | 18,479 | 0 | 915,095 |
| Fixtures and equipment | 375,048 | 32,856 | 0 | 407,904 |
| Vehicles | 456,909 | 23,630 | (67,500) | 413,039 |
| Total Accumulated Depreciation | 2,113,930 | 91,407 | (67,500) | 2,137,837 |
| **TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET** | 613,427 | 296,997 | 0 | 910,424 |
| **GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET** | $ 613,427 | $ 296,997 | $ 0 | $ 910,424 |

## NOTE D – CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs of the primary government as follows:

| | | |
|---|---|---|
| General Government | $ | 27,910 |
| Public Safety | | 28,235 |
| Health and Welfare | | 865 |
| Public Works - Sanitation | | 6,948 |
| Public Works - Highways, Roads and Streets | | 13,477 |
| Public Works - Other | | 138 |
| Culture and Recreation | | 4,849 |
| Conservation and Development | | 8,985 |
| Total Depreciation Expense - Governmental Activities | $ | 91,407 |

An immaterial amount of land has been included in "Land and Land Improvements."

## NOTE E - LOANS RECEIVABLE, RECIPIENTS

Loans receivable, recipients, at December 31, 2004 consists of the following:

| | | Small Communities Projects | | Proprietary |
|---|---|---|---|---|
| Rehabilitation Loans - Small Communities Projects | $ | 917,330 | $ | 0 |
| Enterprise Development Zone Program Loans - Redevelopment Authority of the City of Monessen | | 0 | | 523,661 |
| Total | $ | 917,330 | $ | 523,661 |

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 recipient's 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. The loans are secured by mortgages on the properties or security interests in equipment and thus, management has determined that no allowance for loan losses is necessary.

## NOTE F - 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 is 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, 2004 consists of the following:

| | | |
|---|---|---|
| General Fund: | | |
| Real estate taxes | $ | 335,857 |
| Earned income taxes | | 146,595 |
| Deferred grant funds | | 22,519 |
| Delinquent garbage fees | | 183,472 |
| 2005 Garbage fees collected in 2004 | | 89,692 |
| Total | $ | 778,135 |

## NOTE G - LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions with respect to notes and capital lease obligations for the year ended December 31, 2004 of the governmental funds:

| | Balance at Beginning of Year | New Loans | Principal Payments | Balance at End of Year | Due in One Year |
|---|---|---|---|---|---|
| *Notes Payable:* | | | | | |
| General obligation term loan, interest at 5.20%, payable in annual installments of $24,991 through June 1, 2006. (A) | $ 66,751 | $ 0 | $ 21,412 | $ 45,339 | $ 22,550 |
| General obligation term loan, interest at 4.62%, payable in annual installments of $29,903 through May 1, 2006. (B) | 80,291 | 0 | 26,056 | 54,235 | 27,287 |
| General obligation term loan, interest at 4.07%, payable in monthly installments of $3,547 through July 2, 2005. | 61,807 | 0 | 40,789 | 21,018 | 21,018 |
| General obligation note, interest at 3.62%, payable in annual installments of $49,283 through June 1, 2011. (C) | 0 | 300,000 | 0 | 300,000 | 38,423 |

## NOTE G - LONG-TERM LIABILITIES - CONTINUED

| | Balance at Beginning of Year | New Loans | Principal Payments | Balance at End of Year | Due in One Year |
|---|---|---|---|---|---|
| *Capital Leases Payable:* | | | | | |
| Equipment capital lease, interest at 6.55%, payable in three annual installments of $7,349 through May 2004. (D) | 6,898 | 0 | 6,898 | 0 | 0 |
| Equipment capital lease, interest at 4.11%, payable in five annual installments of $19,762 through June 2008. (E) | 87,510 | 0 | 16,095 | 71,415 | 16,770 |
| 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) | 22,465 | 0 | 9,786 | 12,679 | 6,154 |
| Equipment capital lease, interest at 5.0%, payable in one annual installment of $10,000 and two annual installments of $5,515 through December 2006. (G) | 0 | 20,021 | 9,767 | 10,254 | 5,002 |
| Equipment capital lease, interest at 5.0%, payable in three annual installments of $7,100 through December 2006. (H) | 0 | 20,021 | 6,819 | 13,202 | 6,440 |
| TOTAL | $ 325,722 | $ 340,042 | $ 137,622 | $ 528,142 | $ 143,644 |

(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 note was obtained May 8, 2004 for acquiring, constructing, improving or renovating the building, facilities or physical plant, purchasing or obtaining the equipment and/or otherwise acquiring capital items. The City will make seven annual payments through 2011.

## NOTE G – LONG-TERM LIABILITIES- CONTINUED

(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.

(G) During 2004, the City entered into a lease agreement with Ford Motor Company for a Ford Crown Victoria. The City will make three annual payments through 2006.

(H) During 2004, the City entered into a lease agreement with Ford Motor Company for a Ford Crown Victoria. The City will make three annual payments through 2006.

The City also borrowed and repaid $300,000 under a tax anticipation note for cash flow purposes in 2004 at an interest rate of 1.85%.

The annual requirements to pay principal and interest on all long-term notes outstanding at December 31, 2004, are as follows:

| | Principal | Interest |
|---|---|---|
| 2005 | $ 109,278 | $ 15,374 |
| 2006 | 89,551 | 12,452 |
| 2007 | 41,256 | 8,068 |
| 2008 | 42,749 | 6,534 |
| 2009 | 44,296 | 4,987 |
| 2010-2014 | 93,462 | 5,105 |
| | $ 420,592 | $ 52,520 |

The annual requirements related to capital leases at December 31, 2004 are as follows:

| Fiscal Year: | |
|---|---|
| 2005 | $ 39,292 |
| 2006 | 39,293 |
| 2007 | 19,763 |
| 2009 | 19,763 |
| Minimum lease payments | 118,111 |
| Less amount representing interest | (10,561) |
| Present Value of Minimum Lease Payments | $ 107,550 |

## NOTE G – LONG-TERM LIABILITIES - CONTINUED

The gross amount of assets in the balance sheet recorded under capital leases and the accumulated amortization of vehicles at December 31, 2004 was $106,728 and $21,755, respectively.

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 December 31, 2004 was $3,230,000, of which the City guarantees $1,938,000.

Changes in the City's obligation for compensated absences during 2004 are as follows:

| | Balance at Beginning of Year | Additions | Deductions | Balance at End of Year | Due in One Year |
|---|---|---|---|---|---|
| Compensated Absences | $162,096 | $0 | $5 | $162,091 | $0 |

## NOTE H - 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 Funds in the City's financial statements. No other financial statements are issued for the plans.

Plan provisions are established by ordinance with the authority for contributions required by Act 205 of 1984 of the Commonwealth of Pennsylvania. 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. Administrative costs, including investment, custodial trustee and actuarial services are charged to the appropriate plan and funded from investment earnings.

Method Used to Value Investments:
Investments are stated at fair value. Short-term investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

## NOTE H - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

**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.

*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 2004 was $268,329.

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 2004 was $0.

## NOTE H - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

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 $1,489,466 and the City's contributions were based on a payroll of $762,850. The City and covered employees made the required contributions of $61,028 and $37,575, respectively.

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 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 Closed | Level Dollar Open |
| Remaining Amortization Period | 10 Years | 17 Years |
| Asset Valuation Method | 4 Year Smoothing | 4 Year Smoothing |
| Actuarial Assumptions: | | |
| Investment rate of return | 7.5% | 7.5% |
| Projected salary increases | 5% | 5% |
| Inflation rate | 3% | 3% |

## NOTE H - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

| Plan | Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| Police Pension Plan: | December 31, 2002 | $245,009 | 100% | 0 |
| | December 31, 2003 | 247,841 | 100% | 0 |
| | December 31, 2004 | 268,329 | 100% | 0 |
| Fire Truck Drivers' Pension: | December 31, 2002 | 22,428 | 100% | 0 |
| | December 31, 2003 | 29,486 | 100% | 0 |
| | December 31, 2004 | 0 | 100% | 0 |

## NOTE I – INTERFUND ACTIVITY

The City had interfund receivable and payable balances for the following accounts at December 31, 2004:

| | Interfund Receivables | Interfund Payables |
|---|---|---|
| Governmental Activities | | |
| Major Funds | | |
| General | $ 0 | $ 40,000 |
| Non-major Funds | 40,000 | 0 |
| TOTAL | $ 40,000 | $ 40,000 |

The City had operating transfers in and out for the following amounts during the year ended December 31, 2004:

| | Operating Transfers In | Operating Transfers Out |
|---|---|---|
| Governmental Activities | | |
| Major Funds: | | |
| General | $ 290,032 | $ 0 |
| Small Communities | 0 | 42,550 |
| Non-major Funds: | 42,550 | 290,032 |
| TOTAL | $ 332,582 | $ 332,582 |

## NOTE I – INTERFUND ACTIVITY - CONTINUED

Interfund receivables and payables represent a temporary borrowing to provide the General Fund cash flow near year-end.

Transfers between funds are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis.

## NOTE J - 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. Settlements have not exceeded insurance coverage for any of the past three years.

The City has entered into a lease for copying equipment. Lease expense for 2004 was $5,502. Payments required in 2005, 2006 and 2007 are $5,502 for each year.

## NOTE K – NEW ACCOUNTING STANDARDS

The Government Accounting Standards Board has issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans and Statement No. 45, Accounting and Financial Reporting by Employees for Post-Employment Benefit Plans Other than Pension Plans all of which are effective in future years. These statements require the City to address impaired assets and estimated post-employment liabilities and their respective accounting treatment. The City is required to implement Statement No. 42 in 2006 and No. 43 and 45 by the year ended June 30, 2008. The City has not yet determined the full impact that adoption of FASB Statement No. 42, 43 and 45 will have on the financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2004

| | GAAP Basis Actual | Adjustments to Budgetary Basis | Actual on a Budgetary Basis | Original Budget | Final Budget | Variance with Final Budget |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Taxes | $ 1,972,874 | $ 0 | $ 1,972,874 | $ 2,107,377 | $ 2,107,377 | $ (134,503) |
| Licenses and Permits | 260,274 | 24,000 | 236,274 | 238,000 | 238,000 | (1,726) |
| Fines and Forfeits | 53,630 | 0 | 53,630 | 56,000 | 56,000 | (2,370) |
| Interest, Rents and Royalties | 1,427 | 0 | 1,427 | 2,000 | 2,000 | (573) |
| Intergovernmental Revenue | 493,017 | (161,935) | 654,952 | 554,885 | 554,885 | 100,067 |
| Charges for Services | 883,423 | 370,777 | 512,646 | 594,000 | 594,000 | (81,354) |
| Miscellaneous Revenue | 71,862 | (174,617) | 246,479 | 152,000 | 152,000 | 94,479 |
| **TOTAL REVENUES** | 3,736,507 | 58,225 | 3,678,282 | 3,704,262 | 3,704,262 | (25,980) |
| **EXPENDITURES** | | | | | | |
| **Current:** | | | | | | |
| General Government | 1,355,494 | 255,196 | 1,610,690 | 1,478,794 | 1,478,794 | (131,896) |
| Public Safety | 1,388,285 | (181,372) | 1,206,913 | 1,238,610 | 1,238,610 | 31,697 |
| Health and Welfare | 41,530 | (558) | 40,972 | 48,613 | 48,613 | 7,641 |
| Public Works: | | | | | | |
| Sanitation | 333,445 | (8,965) | 324,480 | 313,500 | 313,500 | (10,980) |
| Highways, Roads and Streets | 646,751 | (16,034) | 630,717 | 608,345 | 608,345 | (22,372) |
| Other | 2,550 | 2,286 | 4,836 | 18,950 | 18,950 | 14,114 |
| Culture and Recreation | 167,690 | (26,778) | 140,912 | 141,393 | 141,393 | 481 |
| Conservation and Development | 149,394 | (74,935) | 74,459 | 73,857 | 73,857 | (602) |
| **Debt Service** | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest | 2,110 | (2,110) | 0 | 0 | 0 | 0 |
| **Capital Outlay** | 64,225 | (24,183) | 40,042 | 0 | 0 | (40,042) |
| **TOTAL EXPENDITURES** | 4,151,474 | (77,453) | 4,074,021 | 3,922,062 | 3,922,062 | (151,959) |
| **EXCESS REVENUES OVER (UNDER) EXPENDITURES** | (414,967) | 19,228 | (395,739) | (217,800) | (217,800) | (177,939) |

CITY OF MONESSEN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND - CONTINUED

For the Year Ended December 31, 2004

| | Actual | Adjustments to Budgetary Basis | Actual on a Budgetary Basis | Original Budget | Final Budget | Variance with Final Budget |
|---|---|---|---|---|---|---|
| EXCESS REVENUES OVER (UNDER) EXPENDITURES - CONTINUED | (414,967) | 19,228 | (395,739) | (217,800) | (217,800) | (177,939) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from Capital Lease | 40,042 | 0 | 40,042 | 0 | 0 | 40,042 |
| Operating Transfers In | 290,032 | 0 | 290,032 | 0 | 0 | 290,032 |
| TOTAL OTHER FINANCING SOURCES (USES) | 330,074 | 0 | 330,074 | 0 | 0 | 330,074 |
| EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | $ (84,893) | $ 19,228 | $ (65,665) | $ (217,800) | $ (217,800) | $ 152,135 |

**Note to Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund:**
The budgetary comparison schedule for the General Fund has been prepared on the cash basis of accounting.

CITY OF MONESSEN

SCHEDULE OF FUNDING PROGRESS - PENSION TRUST FUNDS

December 31, 2004

| 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, 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, 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: State law requires biennial valuations on the odd-numbered years.

CITY OF MONESSEN

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

**December 31, 2004**

The following 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.

| Plan | Year Ending | | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|---|
| Police Pension Plan: | 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 | 101% | 0 |
| | December 31, 2003 | | 247,841 | 100% | 0 |
| | December 31, 2004 | | 268,329 | 100% | 0 |
| Fire Truck Drivers' Pension: | 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 |
| | December 31, 2003 | | 29,486 | 100% | 0 |
| | December 31, 2004 | | 0 | 100% | 0 |

# SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2004

| | Special Revenue Funds | | | | Debt Service Fund | Nonmajor Governmental Funds Total |
|---|---|---|---|---|---|---|
| | Liquid Fuels | Off-Street Parking | Capital Reserve Fund | Library Fund | | |
| ASSETS | | | | | | |
| Cash and Cash Equivalents | $ 59 | $ 0 | $ 16,556 | $ 663 | $ 996 | $ 18,274 |
| Interfund Receivables | 0 | 0 | 40,000 | 0 | 0 | 40,000 |
| TOTAL ASSETS | $ 59 | $ 0 | $ 56,556 | $ 663 | $ 996 | $ 58,274 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| LIABILITIES | | | | | | |
| FUND BALANCES | | | | | | |
| Reserved for Future Grant Expenditures | $ 59 | $ 0 | $ 0 | $ 0 | $ 0 | $ 59 |
| Reserved for Capital Projects | 0 | 0 | 56,556 | 0 | 0 | 56,556 |
| Reserved for Library Expenditures | 0 | 0 | 0 | 663 | 0 | 663 |
| Reserved for Debt Service | 0 | 0 | 0 | 0 | 996 | 996 |
| TOTAL FUND BALANCES | 59 | 0 | 56,556 | 663 | 996 | 58,274 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 59 | $ 0 | $ 56,556 | $ 663 | $ 996 | $ 58,274 |

CITY OF MONESSEN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended December 31, 2004

| | Special Revenue Funds | | | | | |
|---|---|---|---|---|---|---|
| | Liquid Fuels | Off-Street Parking | Capital Reserve Fund | Library Fund | Debt Service Fund | **Nonmajor Governmental Funds Total** |
| **REVENUES** | | | | | | |
| Taxes | $ 0 | $ 0 | $ 136,072 | $ 65,435 | $ 53,845 | $ **255,352** |
| Interest, Rents and Royalties | 956 | 0 | 757 | 50 | 44 | **1,807** |
| Intergovernmental Revenue | 174,186 | 0 | 0 | 0 | 0 | **174,186** |
| TOTAL REVENUES | 175,142 | 0 | 136,829 | 65,485 | 53,889 | **431,345** |
| **EXPENDITURES** | | | | | | |
| **Current:** | | | | | | |
| Culture and Recreation | 0 | 0 | 0 | 65,000 | 0 | **65,000** |
| **Debt Service** | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 88,257 | **88,257** |
| Interest | 0 | 0 | 0 | 0 | 9,187 | **9,187** |
| **Capital Outlay** | 0 | 0 | 273,835 | 0 | 0 | **273,835** |
| TOTAL EXPENDITURES | 0 | 0 | 273,835 | 65,000 | 97,444 | **436,279** |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 175,142 | 0 | (137,006) | 485 | (43,555) | **(4,934)** |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Interfund transfers in | 0 | 0 | 0 | 0 | 42,550 | **42,550** |
| Interfund transfers out | (175,093) | (7,836) | (107,103) | 0 | 0 | **(290,032)** |
| Loan proceeds | 0 | 0 | 300,000 | 0 | 0 | **300,000** |
| TOTAL OTHER FINANCING USES | (175,093) | (7,836) | 192,897 | 0 | 42,550 | **52,518** |
| EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 49 | (7,836) | 55,891 | 485 | (1,005) | **47,584** |
| FUND BALANCES AT BEGINNING OF YEAR | 10 | 7,836 | 665 | 178 | 2,001 | **10,690** |
| FUND BALANCES AT END OF YEAR | $ 59 | $ 0 | $ 56,556 | $ 663 | $ 996 | $ **58,274** |

CITY OF MONESSEN

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

December 31, 2004

| | Police Pension Fund | Fire Truck Drivers' Pension Fund | Nonuniformed Pension Fund | Total Pension Trust Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash Equivalents | $ 183,775 | $ 16,355 | $ 0 | $ 200,130 |
| Mutual Fund Investments at Fair Value | 2,393,861 | 659,689 | 1,201,247 | 4,254,797 |
| Interest Receivable | 12,613 | 3,636 | 0 | 16,249 |
| TOTAL ASSETS | $ 2,590,249 | $ 679,680 | $ 1,201,247 | $ 4,471,176 |
| **NET ASSETS** | | | | |
| Held in Trust for Employee Pension Benefits | $ 2,590,249 | $ 679,680 | $ 1,201,247 | $ 4,471,176 |
| TOTAL NET ASSETS | $ 2,590,249 | $ 679,680 | $ 1,201,247 | $ 4,471,176 |

CITY OF MONESSEN

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

For the Year Ended December 31, 2004

| | Police Pension Fund | Fire Truck Drivers' Pension Fund | Nonuniformed Pension Fund | Total Pension Trust Funds+I40 |
|---|---|---|---|---|
| **ADDITIONS** | | | | |
| Contributions - Employer | $ 268,329 | $ 0 | $ 61,028 | $ 329,357 |
| Contributions - Employee | 21,594 | 0 | 37,575 | 59,169 |
| Interest and dividends | 50,496 | 13,994 | 8,626 | 73,116 |
| Net Increase in Fair Value of Investments | 239,920 | 71,074 | 99,870 | 410,864 |
| **TOTAL ADDITIONS** | 580,339 | 85,068 | 207,099 | 872,506 |
| **DEDUCTIONS** | | | | |
| Administration | 29,150 | 9,418 | 0 | 38,568 |
| Benefits | 224,201 | 59,104 | 20,213 | 303,518 |
| **TOTAL DEDUCTIONS** | 253,351 | 68,522 | 20,213 | 342,086 |
| **CHANGE IN NET ASSETS** | 326,988 | 16,546 | 186,886 | 530,420 |
| **NET ASSETS AT BEGINNING OF YEAR** | 2,263,261 | 663,134 | 1,014,361 | 3,940,756 |
| **NET ASSETS AT END OF YEAR** | $ 2,590,249 | $ 679,680 | $ 1,201,247 | $ 4,471,176 |