CITY OF MONESSEN
WESTMORELAND COUNTY, PENNSYLVANIA

FINANCIAL AND COMPLIANCE AUDIT

Year Ended December 31, 2005

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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 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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2005 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 24, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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.

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 supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements of the City. The combining nonmajor fund financial statements, other supplementary information and the schedule of expenditures of federal awards 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
February 24, 2006

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	$ 159,569	$ 1,250	$ 160,819
Accrued liabilities	31,901	0	31,901
Accrued interest payable	7,327	0	7,327
Current portion of notes payable	89,551	0	89,551
Current portion of leases payable	79,297	0	79,297
Deferred revenue	146,601	18,700	165,301
TOTAL CURRENT LIABILITIES	514,246	19,950	534,196
NONCURRENT LIABILITIES			
Notes payable	221,763	0	221,763
Leases payable	164,458	0	164,458
Compensated absences	176,655	0	176,655
TOTAL NONCURRENT LIABILITIES	562,876	0	562,876
TOTAL LIABILITIES	1,077,122	19,950	1,097,072
NET ASSETS			
Invested in capital assets, net of related debt	531,641	0	531,641
Unrestricted	1,325,748	608,596	1,934,344
TOTAL NET ASSETS	1,857,389	608,596	2,465,985
TOTAL LIABILITIES AND NET ASSETS	$ 2,934,511	$ 628,546	$ 3,563,057

CITY OF MONESSEN

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

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	$ 1,397,422	$ 390,393	$ 4,400	$ 0	$ (1,002,629)	$ 0	$ (1,002,629)
Public safety	1,177,188	189,009	186,079	25,000	(777,100)	0	(777,100)
Health and welfare	41,498	0	0	0	(41,498)	0	(41,498)
Public Works - sanitation	363,888	0	330,284	0	(33,604)	0	(33,604)
Public Works - highways, roads and streets	716,347	643,224	0	0	(73,123)	0	(73,123)
Public Works - other	2,721	0	0	0	(2,721)	0	(2,721)
Culture and recreation	246,818	2,740	15,225	0	(228,853)	0	(228,853)
Conservation and development	835,806	0	705,206	0	(130,600)	0	(130,600)
Interest on long-term debt	21,763	0	0	0	(21,763)	0	(21,763)
Total Governmental Activities	4,803,451	1,225,366	1,241,194	25,000	(2,311,891)	0	(2,311,891)
Business-Type Activities:							
Redevelopment	154,645	15,662	66,393	0	0	(72,590)	(72,590)
Total Business-type Activities	154,645	15,662	66,393	0	0	(72,590)	(72,590)
Total Primary Government	$ 4,958,096	$ 1,241,028	$ 1,307,587	$ 25,000	(2,311,891)	(72,590)	(2,384,481)
	General Revenues:						
	Real estate taxes				1,691,307	0	1,691,307
	Earned income and other taxes				576,444	0	576,444
	Unrestricted investment earnings				17,480	2,442	19,922
	Miscellaneous income				47,061	496	47,557
	Total General Revenues				2,332,292	2,938	2,335,230
	Change in Net Assets				20,401	(69,652)	(49,251)
	Net Assets - Beginning				1,836,988	678,248	2,515,236
	Net Assets - Ending				$ 1,857,389	$ 608,596	$ 2,465,985

See accompanying notes.

CITY OF MONESSEN

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2005

	General	Small Communities Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ (1,060)	$ 23,663	$ 9,790	$ **32,393**
Receivables, net of allowance:				
Taxes	514,516	0	0	**514,516**
Garbage fees	190,060	0		**190,060**
Loans receivable, recipients	0	914,857	0	**914,857**
Other	41,086	0	0	**41,086**
Intergovernmental receivables	0	18,230	0	**18,230**
Prepaid expenses	136,659	0	0	**136,659**
TOTAL ASSETS	$ 881,261	$ 956,750	$ 9,790	$ **1,847,801**
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 153,839	$ 5,730	$ 0	$ **159,569**
Accrued liabilities	31,901	0	0	**31,901**
Deferred revenue	851,177	0	0	**851,177**
TOTAL LIABILITIES	1,036,917	5,730	0	**1,042,647**
FUND BALANCES				
Reserved for community projects	0	951,020	0	**951,020**
Reserved for future grant expenditures	0	0	30	**30**
Reserved for capital projects	0	0	4,320	**4,320**
Reserved for library expenditures	0	0	290	**290**
Reserved for debt service	0	0	5,150	**5,150**
Reserved for prepaid expenses	136,659	0	0	**136,659**
Unreserved, reported in:				
General Fund	(292,315)	0	0	**(292,315)**
TOTAL FUND BALANCES	(155,656)	951,020	9,790	**805,154**
TOTAL LIABILITIES AND FUND BALANCES	$ 881,261	$ 956,750	$ 9,790	$ **1,847,801**

See accompanying notes.

CITY OF MONESSEN

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

December 31, 2005

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 805,154
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 $3,269,848 and the accumulated depreciation is $2,183,138.		1,086,710
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.		704,576
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	$ (311,314)	
Accrued Interest on Notes	(7,327)	
Capital Leases	(243,755)	
Compensated Absences	(176,655)	(739,051)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 1,857,389

See accompanying notes.

CITY OF MONESSEN

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

For the Year Ended December 31, 2005

	General	Small Communities Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 1,966,215	$ 0	$ 262,326	$ 2,228,541
Licenses and permits	248,516	0	0	248,516
Fines and forfeits	64,743	0	0	64,743
Interest, rents and royalties	6,351	6,566	4,563	17,480
Intergovernmental revenue	483,780	611,456	178,105	1,273,341
Charges for services	905,519	0	0	905,519
Miscellaneous revenue	46,596	465	0	47,061
TOTAL REVENUES	3,721,720	618,487	444,994	4,785,201
EXPENDITURES				
Current:				
General government	1,348,339	0	0	1,348,339
Public safety	1,192,034	0	0	1,192,034
Health and welfare	40,428	0	0	40,428
Public Works:				
Sanitation	355,294	0	0	355,294
Highways, roads and streets	723,317	0	35,620	758,937
Other	2,550	0	0	2,550
Culture and recreation	175,821	0	65,000	240,821
Conservation and development	221,980	602,714	0	824,694
Debt Service				
Principal	0	0	109,278	109,278
Interest	7,582	0	15,955	23,537
Capital Outlay	220,201	0	44,108	264,309
TOTAL EXPENDITURES	4,287,546	602,714	269,961	5,160,221
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(565,826)	15,773	175,033	(375,020)
OTHER FINANCING SOURCES (USES)				
Proceeds of capital leases	220,201	0	0	220,201
Operating transfers in	244,745	0	21,228	265,973
Operating transfers out	0	(21,228)	(244,745)	(265,973)
TOTAL OTHER FINANCING SOURCES (USES)	464,946	(21,228)	(223,517)	220,201
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(100,880)	(5,455)	(48,484)	(154,819)
FUND BALANCES - BEGINNING	(54,776)	956,475	58,274	959,973
FUND BALANCES - ENDING	$ (155,656)	$ 951,020	$ 9,790	$ 805,154

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, 2005

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ (154,819)
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	$ 289,339	
Less: Depreciation Expense	(113,053)	176,286
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.		38,651
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 capital leases	(220,201)	
Principal payments on capital leases	83,996	
Repayment of bond principal	109,278	(26,927)
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.		1,774

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, 2005

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.	(14,564)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 20,401

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

December 31, 2005

	Business-type Activities Enterprise Funds Redevelopment Authority of the City of Monessen
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 170,317
NONCURRENT ASSETS	
Loans receivable, net of allowance	458,229
TOTAL ASSETS	$ 628,546
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	$ 1,250
Deferred revenue	18,700
TOTAL CURRENT LIABILITIES	19,950
NET ASSETS	
Unrestricted	608,596
TOTAL LIABILITIES AND NET ASSETS	$ 628,546

See accompanying notes.

CITY OF MONESSEN

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

For the Year Ended December 31, 2005

	Business-type Activities Enterprise Funds Redevelopment Authority of the City of Monessen
OPERATING REVENUES	
Interest income on loans	$ 15,662
Grant income	66,393
TOTAL OPERATING REVENUES	82,055
OPERATING EXPENSES	
Administration	38,653
Professional services	30,539
Other operating expenses	85,453
TOTAL OPERATING EXPENSES	154,645
OPERATING INCOME (LOSS)	(72,590)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	2,442
Gain on property disposition	496
TOTAL NONOPERATING REVENUE (EXPENSES)	2,938
CHANGE IN NET ASSETS	(69,652)
NET ASSETS AT BEGINNING OF YEAR	678,248
NET ASSETS AT END OF YEAR	$ 608,596

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2005

		Business-type Activities Enterprise Funds Redevelopment Authority of the City of Monessen
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest payments on loans	$	15,662
Cash received from grants		85,093
Payments to employees		(38,653)
Other operating payments		(116,511)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		(54,409)
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal payments on loans		65,432
Proceeds from disposition of property		496
Interest income		2,442
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		68,370
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,961
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		156,356
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	170,317
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	$	(72,590)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Decrease in accounts payable		(519)
Increase in deferred revenue		18,700
NET CASH USED BY OPERATING ACTIVITIES	$	(54,409)

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

December 31, 2005

	Pension Trust Funds
ASSETS	
Cash equivalents	$ 159,826
Mutual fund investments	4,501,841
Interest receivable	582
TOTAL ASSETS	$ 4,662,249
NET ASSETS	
Held in trust for employee pension benefits	$ 4,662,249
TOTAL NET ASSETS	$ 4,662,249

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

For the Year Ended December 31, 2005

		Pension Trust Funds
ADDITIONS		
Contributions - employer	$	318,696
Contributions - employee		60,590
Interest and dividends		113,685
Net increase in fair value of investments		60,914
TOTAL ADDITIONS		553,885
DEDUCTIONS		
Administration		58,606
Benefits		304,206
TOTAL DEDUCTIONS		362,812
CHANGE IN NET ASSETS		191,073
NET ASSETS AT BEGINNING OF YEAR		4,471,176
NET ASSETS AT END OF YEAR	$	4,662,249

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 organization's 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, has been examined as to the relationship of the City to the Redevelopment Authority of the City of Monessen, 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.

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 and the Refuse Authority is not 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 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 has elected not to recognize tax revenue received in the subsequent period, even if received within 60 days and related to the year reported.

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), 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).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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.

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)	$	(164,788)
Adjustments to revenues for accruals		134,218
Adjustments to expenditures for accruals		(70,310)
Deficiency of Revenues Over Expenditures and Other Financing Uses (GAAP Basis)	$	(100,880)

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. The City's General Fund currently has a deficit fund balance. The City plans to fund the deficit through control of expenditures and an increase in the General Fund millage in 2006.

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 based on quoted market prices.

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. The City has elected not to retroactively report infrastructure assets. 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.

Restricted Resources:
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.

NOTE B - CASH AND INVESTMENTS

The City's investment authority for all funds, except Fiduciary Funds, is set by state statute to include: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities and shares of any investment company which invests only in the above or certificates of deposit. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

Custodial Credit Risk - Deposits:
Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2005, $100,212 of the City's bank balance of $486,777 was exposed to custodial credit risk as it was uninsured and the collateral was held by the pledging bank's trust department and was not in the City's name. $60,677 was uninsured as it was invested in the Pennsylvania Local Government Investment Trust ("PLGIT"). PLGIT is not SEC registered but is subject to oversight by the Commonwealth of Pennsylvania.

Reconciliation to Financial Statements:

Collateral held by pledging bank's trust department not in the City's name	$	100,212
Uninsured and uncollateralized - PLGIT		60,677
Plus: Insured amount		325,888
Less: Outstanding checks		(284,067)
Carrying Amount - Cash Balances	$	202,710

At December 31, 2005, the City had the following investments in its Fiduciary Funds:

Investments in cash equivalents	$	159,826
Investments in mutual funds		4,501,841
Carrying Amount - Investment Balances	$	4,661,667

NOTE B - CASH AND INVESTMENTS - CONTINUED

Interest Rate Risk:
The City does not have a formal policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:
The City has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2005, the City's investments in PIMCO Real Return Fund ($126,223) were rated AAA by Morningstar. The City's investments in Templeton Global Bond ($225,884) and Vanguard Short-term Investment ($96,537) were rated AA by Morningstar. The City's investments in PIMCO Emerging Market Bond Fund Class ($94,891) and PIMCO Floating Income Fund ($290,257) were rated A by Morningstar. The City's investments in Sun America High Yield Bond Fund ($129,476) were rated BB by Morningstar. No rating was available for the remainder of the City's investments.

Concentration of Credit Risk:
The City places no limit on the amount the City may invest in any one issuer. As of December 31, 2005, the City has no investments subject to concentration of credit risk.

Custodial Credit Risk:
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City's investments are held in an omnibus account in the name of the RSGroup Trust Company.

NOTE C - PROPERTY TAXES

Property taxes levied for 2005 and unpaid are recorded as receivables, net of estimated uncollectible amounts. The net receivables available to fund 2005 expenditures have not been recognized as revenue in 2005. 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 for collectibility.

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 2005 levy was based was $60,369,010, compared to the 2004 value of $60,483,530.

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 then liened, however, an allowance for uncollectible taxes has been provided in the amount of $39,971.

NOTE D – CAPITAL ASSETS

	Beginning Balance	Additions	Disposals	Ending Balance
Land and land improvements	$ 704,052	$ 0	$ 0	$ 704,052
Buildings and improvements	1,242,084	45,000	0	1,287,084
Fixtures and equipment	564,948	24,138	0	589,086
Vehicles	537,177	220,201	(67,752)	689,626
Totals at Historical Cost	3,048,261	289,339	(67,752)	3,269,848
Less accumulated depreciation for:				
Land improvements	401,799	17,069	0	418,868
Buildings and improvements	915,095	19,110	0	934,205
Fixtures and equipment	407,904	32,004	0	439,908
Vehicles	413,039	44,870	(67,752)	390,157
Total Accumulated Depreciation	2,137,837	113,053	(67,752)	2,183,138
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	910,424	176,286	0	1,086,710
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 910,424	$ 176,286	$ 0	$ 1,086,710

NOTE D - CAPITAL ASSETS - CONTINUED

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

General government	$	34,519
Public safety		34,922
Health and welfare		1,070
Public Works - sanitation		8,594
Public Works - highways, roads and streets		16,668
Public Works - other		171
Culture and recreation		5,997
Conservation and development		11,112
Total Depreciation Expense - Governmental Activities	$	113,053

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

NOTE E - LOANS RECEIVABLE, RECIPIENTS

Loans receivable, recipients, at December 31, 2005 consists of the following:

		Small Communities Projects		Proprietary
Rehabilitation Loans - Small Communities Projects	$	914,857	$	0
Enterprise Development Zone Program Loans - Redevelopment Authority of the City of Monessen		0		458,229
Total	$	914,857	$	458,229

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, 2005 consists of the following:

General Fund:		
Real estate taxes	$	359,739
Earned income taxes		154,777
Deferred grant funds		52,633
Delinquent garbage fees		190,060
2006 garbage fees collected in 2005		93,968
Total	$	851,177

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, 2005 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)	$ 45,339	$ 0	$ 22,550	$ 22,789	$ 22,789
General obligation term loan, interest at 4.62%, payable in annual installments of $29,903 through May 1, 2006. (B)	54,235	0	27,287	26,948	26,948
General obligation term loan, interest at 4.07%, payable in monthly installments of $3,547 through July 2, 2005.	21,018	0	21,018	0	0
General obligation note, interest at 3.62%, payable in annual installments of $49,283 through June 1, 2011. (C)	300,000	0	38,423	261,577	39,814

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 4.11%, payable in five annual installments of $19,762 through June 2008. (D)	71,415	0	16,770	54,645	17,472
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. (E)	12,679	0	6,154	6,525	6,525
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. (F)	10,254	0	5,002	5,252	5,252
Equipment capital lease, interest at 5.0%, payable in three annual installments of $7,100 through December 2006. (G)	13,202	0	6,440	6,762	6,762
Equipment capital lease, interest at 5.85%, payable in three annual installments of $7,142 through July 2007. (H)	0	20,265	7,142	13,123	6,375
Equipment capital lease, interest at 4.3%, payable in five annual installments of $43,682 through April 2009. (I)	0	199,936	42,488	157,448	36,911
TOTAL	$ 528,142	$ 220,201	$ 193,274	$ 555,069	$ 168,848

(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.

NOTE G – LONG-TERM LIABILITIES- CONTINUED

(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.

(D) 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.

(E) 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.

(F) 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.

(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 2005, the City entered into a lease agreement with Ford Motor Company for a Ford Crown Victoria. The City will make three annual payments through 2007.

(I) During 2005, the City entered into a lease agreement with Ford Motor Company for three Ford F-550 trucks plus equipment and one Ford F-350 with equipment. The City will make five equal annual payments through 2009.

The City also borrowed and repaid $300,000 under a tax anticipation note for cash flow purposes in 2005 at an interest rate of 3.17%. Another tax anticipation note of $300,000 has been obtained for 2006 with similar terms.

The annual requirements to pay principal and interest on all long-term notes outstanding at December 31, 2005 are as follows:

	Principal	Interest
2006	$ 89,551	$ 12,452
2007	41,256	8,068
2008	42,749	6,534
2009	44,296	4,987
2010	45,900	3,383
2011-2015	47,562	1,722
	$ 311,314	$ 37,146

NOTE G – LONG-TERM LIABILITIES - CONTINUED

The annual requirements related to capital leases at December 31, 2005 are as follows:

Fiscal Year:		
2006	$	90,116
2007		70,587
2008		63,445
2009		43,682
Minimum lease payments		267,830
Less amount representing interest		(24,075)
Present Value of Minimum Lease Payments	$	243,755

The gross amount of assets in the balance sheet recorded under capital leases and the accumulated amortization of vehicles at December 31, 2005 was $339,601 and $74,322, 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 advanced refunding of serial revenue bonds in the original amount of $4,305,000. The outstanding balance on the bonds at December 31, 2005 was $3,230,000, of which the City guarantees $1,938,000.

Changes in the City's obligation for compensated absences during 2005 are as follows:

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due in One Year
Compensated absences	$162,091	$14,564	$0	$176,655	$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.

NOTE H - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

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.

Plan Descriptions and Contribution Information:

Membership of each plan consisted of the following as of January 1, 2005, 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	0	3
Active plan members	12	0	22
Total	35	3	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 2005 was $259,756.

NOTE H - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

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 2005 was $0.

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 $1,517,161 and the City's contributions were based on a payroll of $736,750. The City and covered employees made the required contributions of $58,940 and $36,838, 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	01/01/05	01/01/05
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, 2003	$247,841	100%	0
	December 31, 2004	268,329	100%	0
	December 31, 2005	259,883	100%	0
Fire Truck Drivers' Pension:	December 31, 2003	$29,486	100%	0
	December 31, 2004	0	100%	0
	December 31, 2005	0	100%	0

NOTE I – INTERFUND ACTIVITY

The City had operating transfers in and out for the following amounts for its governmental activities during the year ended December 31, 2005:

	Operating Transfers In	Operating Transfers Out
Major Funds:		
General	$ 244,745	$ 0
Small Communities	0	21,228
Non-major Funds:	21,228	244,745
TOTAL	$ 265,973	$ 265,973

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 – POST RETIREMENT BENEFITS OTHER THAN PENSIONS

The City provides certain healthcare benefits for employees who retire. Full-time employees may be eligible under their respective labor contracts for benefits if actively employed by the City immediately prior to retirement. The benefits cover the retiree, their spouse and any dependents and cease when an employee dies. The cost of post-employment benefits is not accrued but is recognized as an expenditure at the time paid. These post retirement benefits paid totaled approximately $84,000 in fiscal 2005 for approximately 25 eligible retirees.

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. 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 2005 was $5,502. Payments required in 2006 and 2007 are $5,502 for each year.

As of December 31, 2005, the Redevelopment Authority had entered into a construction contract with an unpaid balance of $190,748. It is expected that this will be paid in 2006. The Redevelopment Authority has obtained a state grant to fund the expenses.

NOTE L – NEW ACCOUNTING STANDARDS

The Government Accounting Standards Board has issued Statement No. 43, Financial Reporting for Post-Employment Benefit Plans other than Pension Plans and Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefit Plans other than Pension Plans and Statement No. 47, Accounting for Termination Benefits, 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. 47 in 2007 and No. 43 and 45 by the year ended December 31, 2008. The City has not yet determined the full impact that adoption of GASB Statement No. 43, 45 and 47 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, 2005

	GAAP Basis Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Original Budget	Final Budget	Variance with Final Budget
REVENUES						
Taxes	$ 1,966,215	$ 0	$ 1,966,215	$ 2,074,377	$ 2,074,377	$ (108,162)
Licenses and permits	248,516	0	248,516	236,000	236,000	12,516
Fines and forfeits	64,743	0	64,743	56,000	56,000	8,743
Interest, rents and royalties	6,351	0	6,351	2,000	2,000	4,351
Intergovernmental revenue	483,780	(35,000)	518,780	359,500	359,500	159,280
Charges for services	905,519	(41,633)	947,152	1,002,300	1,002,300	(55,148)
Miscellaneous revenue	46,596	(24,350)	70,946	7,000	7,000	63,946
TOTAL REVENUES	3,721,720	(100,983)	3,822,703	3,737,177	3,737,177	85,526
EXPENDITURES						
Current:						
General Government	1,348,339	4,919	1,353,258	1,395,233	1,395,233	41,975
Public safety	1,192,034	(5,618)	1,186,416	1,183,781	1,183,781	(2,635)
Health and welfare	40,428	(18)	40,410	40,898	40,898	488
Public Works:						
Sanitation	355,294	(39,897)	315,397	320,000	320,000	4,603
Highways, roads and streets	723,317	(530)	722,787	649,403	649,403	(73,384)
Other	2,550	0	2,550	2,550	2,550	0
Culture and recreation	175,821	189,719	365,540	253,571	253,571	(111,969)
Conservation and development	221,980	1,316	223,296	71,651	71,651	(151,645)
Debt Service						
Principal	0	0	0	0	0	0
Interest	7,582	0	7,582	0	0	(7,582)
Capital Outlay	220,201	(220,201)	0	0	0	0
TOTAL EXPENDITURES	4,287,546	(70,310)	4,217,236	3,917,087	3,917,087	(300,149)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(565,826)	171,293	(394,533)	(179,910)	(179,910)	(214,623)

CITY OF MONESSEN

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

For the Year Ended December 31, 2005

	Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Original Budget	Final Budget	Variance with Final Budget
EXCESS REVENUES OVER (UNDER) EXPENDITURES - CONTINUED	(565,826)	171,293	(394,533)	(179,910)	(179,910)	(214,623)
OTHER FINANCING SOURCES (USES)						
Proceeds from capital lease	220,201	(220,201)	0	0	0	0
Operating transfers in	244,745	(15,000)	229,745	179,910	179,910	49,835
TOTAL OTHER FINANCING SOURCES (USES)	464,946	(235,201)	229,745	179,910	179,910	49,835
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (100,880)	$ (63,908)	$ (164,788)	$ 0	$ 0	$ (164,788)

Notes 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.

The General Fund had an excess of expenditures over appropriations during 2005.

CITY OF MONESSEN

SCHEDULE OF FUNDING PROGRESS - PENSION TRUST FUNDS

December 31, 2005

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, 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
January 1, 2005	2,462,959	3,968,856	1,505,897	62.1	661,830	227.5
Firefighter's Retirement Plan						
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
January 1, 2005	617,790	512,985	(104,805)	120.4	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, 2005

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, 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
	December 31, 2005		259,883	100%	0
Fire Truck Drivers' Pension:	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
	December 31, 2005		0	100%	0

SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2005

	Special Revenue Funds			Debt Service Fund	Nonmajor Governmental Funds Total
	Liquid Fuels	Capital Reserve Fund	Library Fund		
ASSETS					
Cash and cash equivalents	$ 30	$ 4,320	$ 290	$ 5,150	$ **9,790**
LIABILITIES AND FUND BALANCES					
LIABILITIES					
FUND BALANCES					
Reserved for future grant expenditures	$ 30	$ 0	$ 0	$ 0	$ **30**
Reserved for capital projects	0	4,320	0	0	**4,320**
Reserved for library expenditures	0	0	290	0	**290**
Reserved for debt service	0	0	0	5,150	**5,150**
TOTAL FUND BALANCES	30	4,320	290	5,150	**9,790**
TOTAL LIABILITIES AND FUND BALANCES	$ 30	$ 4,320	$ 290	$ 5,150	$ **9,790**

CITY OF MONESSEN

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

For the Year Ended December 31, 2005

	Special Revenue Funds				Nonmajor Governmental Funds Total
	Liquid Fuels	Capital Reserve Fund	Library Fund	Debt Service Fund	
REVENUES					
Taxes	$ 0	$ 90,311	$ 64,500	$ 107,515	$ 262,326
Interest, rents and royalties	2,231	1,561	127	644	4,563
Intergovernmental revenue	178,105	0	0	0	178,105
TOTAL REVENUES	180,336	91,872	64,627	108,159	444,994
EXPENDITURES					
Current:					
Public Works:					
Highways, roads and streets	35,620	0	0	0	35,620
Culture and recreation	0	0	65,000	0	65,000
Debt Service					
Principal	0	0	0	109,278	109,278
Interest	0	0	0	15,955	15,955
Capital Outlay	0	44,108	0	0	44,108
TOTAL EXPENDITURES	35,620	44,108	65,000	125,233	269,961
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	144,716	47,764	(373)	(17,074)	175,033
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	0	0	0	21,228	21,228
Interfund transfers out	(144,745)	(100,000)	0	0	(244,745)
TOTAL OTHER FINANCING USES	(144,745)	(100,000)	0	21,228	(223,517)
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(29)	(52,236)	(373)	4,154	(48,484)
FUND BALANCES AT BEGINNING OF YEAR	59	56,556	663	996	58,274
FUND BALANCES AT END OF YEAR	$ 30	$ 4,320	$ 290	$ 5,150	$ 9,790

CITY OF MONESSEN

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

December 31, 2005

	Police Pension Fund	Fire Truck Drivers' Pension Fund	Nonuniformed Pension Fund	Total Pension Trust Funds
ASSETS				
Cash equivalents	$ 155,881	$ 3,945	$ 0	$ 159,826
Mutual fund investments	2,498,851	624,892	1,378,098	4,501,841
Interest receivable	557	25	0	582
TOTAL ASSETS	$ 2,655,289	$ 628,862	$ 1,378,098	$ 4,662,249
NET ASSETS				
Held in trust for employee pension benefits	$ 2,655,289	$ 628,862	$ 1,378,098	$ 4,662,249
TOTAL NET ASSETS	$ 2,655,289	$ 628,862	$ 1,378,098	$ 4,662,249

CITY OF MONESSEN

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

For the Year Ended December 31, 2005

	Police Pension Fund	Fire Truck Drivers' Pension Fund	Nonuniformed Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions - employer	$ 259,756	$ 0	$ 58,940	$ 318,696
Contributions - employee	23,752	0	36,838	60,590
Interest and dividends	83,706	21,208	8,771	113,685
Net increase in fair value of investments	(40,359)	20,027	81,246	60,914
TOTAL ADDITIONS	326,855	41,235	185,795	553,885
DEDUCTIONS				
Administration	41,037	12,295	5,274	58,606
Benefits	220,778	79,758	3,670	304,206
TOTAL DEDUCTIONS	261,815	92,053	8,944	362,812
CHANGE IN NET ASSETS	65,040	(50,818)	176,851	191,073
NET ASSETS AT BEGINNING OF YEAR	2,590,249	679,680	1,201,247	4,471,176
NET ASSETS AT END OF YEAR	$ 2,655,289	$ 628,862	$ 1,378,098	$ 4,662,249

CITY OF MONESSEN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Program or Award Amount	Expenditures
U.S. Department of Housing and Urban Development					
Passed Through the PA Department of Community and Economic Development:					
Community Development Block Grant:					
State's program	I	14.228	S-00-E06-52 (2000)	$ 422,262	$ 4,627
State's program	I	14.228	S-02-E06-52 (FY-2002)	414,912	3,090
State's program	I	14.228	S-03-E06-52 (2003)	418,686	181,688
State's program	I	14.228	S-04-E-96-5-2 (2004)	425,690	265,506
State's program	I	14.228	S-05-E-96-5-2 (2005)	397,809	12,955
Total Passed Through the PA Department of Community and Economic Development					467,866
Passed Through Westmoreland County:					
HOME Investment Partnerships Program (2000)	I	14.239	N/A	158,920	38,350
HOME Investment Partnerships Program (2001)	I	14.239	N/A	108,000	89,755
HOME Investment Partnerships Program (2002)	I	14.239	N/A	130,000	15,485
Total Passed Through Westmoreland County					143,590
U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Assistance:					
Byrne Formula Grant Program	D	16.579	2004-DD-BX-1374	15,000	15,000
Total Expenditures of Federal Awards					$ 626,456

CITY OF MONESSEN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2005

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.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monessen (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* However, we noted certain matters that we reported to management of the City in a separate letter dated February 24, 2006.

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
February 24, 2006

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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 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, 2005. 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 programs is the responsibility of 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 05-1.

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

This report is intended solely for 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 is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Pittsburgh, Pennsylvania
February 24, 2006

CITY OF MONESSEN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2005

Section 1 – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Reportable condition(s) identified not considered to be material weaknesses?	____ Yes	X No
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 No
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)?	X Yes	____ 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

Finding 05-1:

Condition: As part of testing the City's compliance with laws and regulations, we noted that required reporting of information mandated by the Commonwealth of Pennsylvania was not met.

Criteria: The Commonwealth of Pennsylvania Department of Community and Economic Development requires that the City file its Grantee Performance and Evaluation Report by January 15th of the following year. As of August 25, 2006, this report was not filed.

Effect: Required reports for the Commonwealth of Pennsylvania Department of Community and Economic Development were not completed and filed in a timely manner.

Cause: It appeared that the City staff was aware of the deadlines and that the necessary reports were late due to human error.

Recommendation: We recommend that the City monitor reporting due dates for required reporting and establish policies and procedures to ensure the accurate and timely reporting with required deadlines.

Section III - Federal Award Finding and Questioned Costs

None