CITY OF MONESSEN

WESTMORELAND COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

Year Ended December 31, 2007

File

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 Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	8 - 9
Statement of Fund Net Assets - Proprietary Fund	10
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	11
Statement of Cash Flows - Proprietary Fund	12
Statement of Fiduciary Net Assets - Fiduciary Funds	13
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	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
Notes to the Required Supplementary Information	38

TABLE OF CONTENTS - CONTINUED

Pages

SUPPLEMENTARY INFORMATION:

COMBINING FUND FINANCIAL STATEMENTS:

Combining Balance Sheet - Non-major Governmental Funds 39

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-major Governmental Funds 40

Schedule of Expenditures of Federal Awards 41

Note to Schedule of Expenditures of Federal Awards 42

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* ..... 43 - 44

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 ..... 45 - 46

SCHEDULE OF FINDINGS AND QUESTIONED COSTS ..... 47 - 51

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 52

HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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American Institute of Certified Public Accountants Div. of CPA Firms/SEC & Private Practice Sections
www.herbein.com

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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2007, 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 August 22, 2008, 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 important for assessing 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 to 38 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 the 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 and the Schedule of Expenditures of Federal Awards and other supplementary information 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
August 22, 2008

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	$ 199,328	$ 126,250	$ 325,578
Checks not yet drawn on cash	224,386	-	224,386
Accrued liabilities	31,301	-	31,301
Accrued interest payable	9,903	-	9,903
Current portion of notes payable	97,387	-	97,387
Current portion of leases payable	59,123	-	59,123
Deferred revenue	138,400	-	138,400
TOTAL CURRENT LIABILITIES	759,828	126,250	886,078
NONCURRENT LIABILITIES			
Notes payable	434,459	-	434,459
Leases payable	41,882	-	41,882
Compensated absences	204,002	-	204,002
TOTAL NONCURRENT LIABILITIES	680,343	-	680,343
TOTAL LIABILITIES	1,440,171	126,250	1,566,421
NET ASSETS			
Invested in capital assets, net of related debt	722,611	-	722,611
Unrestricted	1,403,669	638,670	2,042,339
TOTAL NET ASSETS	2,126,280	638,670	2,764,950
TOTAL LIABILITIES AND NET ASSETS	$ 3,566,451	$ 764,920	$ 4,331,371

CITY OF MONESSEN

Statement of Activities

Year Ended December 31, 2007

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	$ 1,313,734	$ 456,875	$ 4,350	$ -	$ (852,509)	$ -	$ (852,509)
Public safety	1,334,579	199,840	189,987	50,000	(894,752)	-	(894,752)
Health and welfare	94,660	-	-	-	(94,660)	-	(94,660)
Public Works - sanitation	319,276	-	224,242	-	(95,034)	-	(95,034)
Public Works - highways, roads and streets	717,008	592,319	25,000	-	(99,689)	-	(99,689)
Public Works - other	2,638	-	-	-	(2,638)	-	(2,638)
Culture and recreation	181,273	3,190	-	116,182	(61,901)	-	(61,901)
Conservation and development	3,327,970	-	3,188,934	-	(139,036)	-	(139,036)
Interest on long-term debt	35,572	-	-	-	(35,572)	-	(35,572)
Total Governmental Activities	7,326,710	1,252,224	3,632,513	166,182	(2,275,791)	-	(2,275,791)
Business-Type Activities:							
Redevelopment	692,145	29,885	744,169	-	-	81,909	81,909
Total Business-Type Activities	692,145	29,885	744,169	-	-	81,909	81,909
Total Primary Government	$ 8,018,855	$ 1,282,109	$ 4,376,682	$ 166,182	(2,275,791)	81,909	(2,193,882)
General Revenues:							
Real estate taxes					1,880,915	-	1,880,915
Earned income and other taxes					640,297	-	640,297
Unrestricted investment earnings					31,557	4,538	36,095
Loss on disposal of assets					(5,920)	-	(5,920)
Miscellaneous income					25,406	-	25,406
Total General Revenues					2,572,255	4,538	2,576,793
Change in Net Assets					296,464	86,447	382,911
Net Assets - Beginning					1,829,816	552,223	2,382,039
Net Assets - Ending					$ 2,126,280	$ 638,670	$ 2,764,950

See accompanying notes.

CITY OF MONESSEN

Balance Sheet - Governmental Funds

December 31, 2007

	General	Small Communities Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 37,940	$ 85,024	$ 10,513	$ 133,477
Receivables, net of allowance:				
Taxes	649,461	-	-	649,461
Garbage fees	165,653	-		165,653
Loans receivable, recipients	-	812,381	-	812,381
Interfund receivable	18,223			18,223
Other	141,682	-	-	141,682
Intergovernmental receivables	-	187,689	-	187,689
Prepaid expenses	120,646	-	-	120,646
TOTAL ASSETS	$ 1,133,605	$ 1,085,094	$ 10,513	$ 2,229,212
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 29,862	$ 169,466	$ -	$ 199,328
Checks not yet drawn on cash	224,386	-	-	224,386
Accrued liabilities	28,551	-	-	28,551
Escrow liabilities	2,750	-	-	2,750
Interfund payable	-	18,223	-	18,223
Deferred revenue	953,514	-	-	953,514
TOTAL LIABILITIES	1,239,063	187,689	-	1,426,752
FUND BALANCES				
Reserved for community projects	-	897,405	-	897,405
Reserved for capital projects	-	-	6,581	6,581
Reserved for library expenditures	-	-	1	1
Reserved for canine expenditures	-	-	3,928	3,928
Reserved for debt service	-	-	3	3
Reserved for prepaid expenses	120,646	-	-	120,646
Unreserved, reported in:				
General Fund	(226,104)	-	-	(226,104)
TOTAL FUND BALANCES	(105,458)	897,405	10,513	802,460
TOTAL LIABILITIES AND FUND BALANCES	$ 1,133,605	$ 1,085,094	$ 10,513	$ 2,229,212

See accompanying notes.

CITY OF MONESSEN

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

December 31, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 802,460
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 $3,575,706 and the accumulated depreciation is $2,220,244.		1,355,462
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.		815,114
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	$ (531,846)	
Accrued interest on notes	(9,903)	
Capital leases	(101,005)	
Compensated absences	(204,002)	(846,756)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 2,126,280

CITY OF MONESSEN

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

	Year Ended December 31, 2007			
	General	Small Communities Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 2,210,418	$ -	$ 214,998	$ 2,425,416
Licenses and permits	250,210	-	-	250,210
Fines and forfeits	79,512	-	-	79,512
Interest, rents and royalties	20,311	5,798	5,448	31,557
Intergovernmental revenue	461,949	3,141,883	198,929	3,802,761
Charges for services	921,975	-	-	921,975
Miscellaneous revenue	12,698	713	11,995	25,406
TOTAL REVENUES	3,957,073	3,148,394	431,370	7,536,837
EXPENDITURES				
Current:				
General government	1,247,354	-	-	1,247,354
Public safety	1,291,413	-	8,074	1,299,487
Health and welfare	93,174	-	-	93,174
Public Works:				
Sanitation	308,608	-	-	308,608
Highways, roads and streets	730,754	-	88,019	818,773
Other	2,550	-	-	2,550
Culture and recreation	411,132	-	60,000	471,132
Conservation and development	126,375	3,218,240	-	3,344,615
Debt Service				
Principal	-	-	82,917	82,917
Interest	13,527	-	23,232	36,759
Capital Outlay	-	-	14,190	14,190
TOTAL EXPENDITURES	4,224,887	3,218,240	276,432	7,719,559
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(267,814)	(69,846)	154,938	(182,722)
OTHER FINANCING SOURCES (USES)				
Proceeds of loan	58,000	-	-	58,000
Operating transfers in	144,700	-	-	144,700
Operating transfers out	-	-	(144,700)	(144,700)
TOTAL OTHER FINANCING SOURCES (USES)	202,700	-	(144,700)	58,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(65,114)	(69,846)	10,238	(124,722)
FUND BALANCES - BEGINNING	(40,344)	967,251	275	927,182
FUND BALANCES - ENDING	$ (105,458)	$ 897,405	$ 10,513	$ 802,460

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

Year Ended December 31, 2007

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ (124,722)
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	$ 407,325	
Less: Loss on disposal of assets	(5,920)	
Less: Depreciation expense	(143,303)	258,102
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.		92,257
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 loans	(58,000)	
Principal payments on capital leases	63,452	
Repayment of note principal	82,917	88,369
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.		1,187

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

Year Ended December 31, 2007

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.	(18,729)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 296,464

See accompanying notes.

CITY OF MONESSEN

Statement of Fund Net Assets
Proprietary Fund

December 31, 2007

	Business-type Activities Enterprise Fund Redevelopment Authority of the City of Monessen
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 173,867
NONCURRENT ASSETS	
Loans receivable, net of allowance	591,053
TOTAL ASSETS	$ 764,920
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	$ 126,250
NET ASSETS	
Unrestricted	638,670
TOTAL LIABILITIES AND NET ASSETS	$ 764,920

See accompanying notes.

CITY OF MONESSEN

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

	Year Ended December 31, 2007
	Business-type Activities Enterprise Fund
	Redevelopment Authority of the City of Monessen
OPERATING REVENUES	
Interest income on loans	$ 11,885
Gain on property disposition	18,000
TOTAL OPERATING REVENUES	29,885
OPERATING EXPENSES	
Administration	40,817
Professional services	25,639
Other operating expenses	6,520
TOTAL OPERATING EXPENSES	72,976
OPERATING LOSS	(43,091)
NON-OPERATING REVENUES (EXPENSES)	
Earnings on investments	4,538
Grant income	744,169
Grant pass through expense	(494,169)
Development contingency	(125,000)
TOTAL NON-OPERATING REVENUE (EXPENSES)	129,538
CHANGE IN NET ASSETS	86,447
NET ASSETS AT BEGINNING OF YEAR	552,223
NET ASSETS AT END OF YEAR	$ 638,670

See accompanying notes.

CITY OF MONESSEN

Statement of Cash Flows
Proprietary Fund

	Year Ended December 31, 2007
	Business-type Activities Enterprise Fund
	Redevelopment Authority of the City of Monessen
CASH FLOWS FROM OPERATING ACTIVITIES	
Interest payments on loans	$ 29,885
Payments to employees	(40,817)
Other operating payments	(32,159)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(43,091)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Cash received from grants	744,169
Pass through grant payments	(494,169)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	250,000
CASH FLOWS FROM INVESTING ACTIVITIES	
New loans issued	(268,000)
Principal payments on loans	66,612
Interest income	4,538
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(196,850)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,059
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	163,808
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 173,867
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	$ (43,091)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (43,091)

See accompanying notes.

CITY OF MONESSEN

Statement of Fiduciary Net Assets
Fiduciary Funds

	December 31, 2007			
	Police Pension Fund	Fire Truck Drivers' Pension Fund	Non-uniformed Pension Fund	Total Pension Trust Funds
ASSETS				
Cash equivalents	$ 306,172	$ 1,461	$ -	$ 307,633
Mutual fund investments	3,194,737	640,209	1,631,993	5,466,939
Interest receivable	721	-	-	721
TOTAL ASSETS	$ 3,501,630	$ 641,670	$ 1,631,993	$ 5,775,293
NET ASSETS				
Held in trust for employee pension benefits	$ 3,501,630	$ 641,670	$ 1,631,993	$ 5,775,293
TOTAL NET ASSETS	$ 3,501,630	$ 641,670	$ 1,631,993	$ 5,775,293

See accompanying notes.

CITY OF MONESSEN

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year Ended December 31, 2007

	Police Pension Fund	Fire Truck Drivers' Pension Fund	Non-uniformed Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions - employer	$ 287,370	$ -	$ 62,398	$ 349,768
Contributions - employee	26,047	-	42,495	68,542
Interest and dividends	91,824	19,769	10,275	121,868
Net increase in fair value of investments	196,777	40,362	51,198	288,337
TOTAL ADDITIONS	602,018	60,131	166,366	828,515
DEDUCTIONS				
Administration	45,205	11,798	8,719	65,722
Benefits	263,921	54,557	126,953	445,431
TOTAL DEDUCTIONS	309,126	66,355	135,672	511,153
CHANGE IN NET ASSETS	292,892	(6,224)	30,694	317,362
NET ASSETS AT BEGINNING OF YEAR	3,208,738	647,894	1,601,299	5,457,931
NET ASSETS AT END OF YEAR	$ 3,501,630	$ 641,670	$ 1,631,993	$ 5,775,293

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 1 - 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 1 - 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 (the "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.

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. During 2007, the City paid $5,000 to the Recreation Authority. 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. During 2007, the City paid $308,608 to the Refuse Authority.

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 1 - 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 special revenue 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 non-major funds: Liquid Fuels (to account for the City's Liquid Fuels grant activity), Capital Reserve (to account for real estate taxes levied for the City's capital activity), Canine Fund (to account for contributions to support the City's police dog), 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 1 - 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 Non-uniformed 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.

Proprietary Funds distinguish operating revenues and expenses from non-operating 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 non-operating 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 they are both measurable and available (GAAP basis), as opposed to when received in cash (budgetary basis).

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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)	$	(149,663)
Adjustments to revenues for accruals		79,603
Adjustments to expenditures for accruals		4,946
Excess of Revenues Over Expenditures and Other Financing Uses (GAAP Basis)	$	(65,114)

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 spending in 2008 as well as a 2008 budget line item for a $40,000 reserve for debt reduction.

City Council approves the annual application for its Small Communities Project Fund that is submitted to a state and federal grantor. Any amendments to the budget must be approved by the grantors. As City Council has limited control of the budget, a budget to actual statement has not been presented.

Cash and Cash Equivalents:
Cash and cash equivalents include cash on hand, demand deposits and investments in money market funds 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 1 - 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 1 - 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 2 - 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, 2007, $59,107 of the City's bank balance of $415,123 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. $32,328 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	$	59,107
Uninsured and uncollateralized - PLGIT		32,328
Plus: Insured amount		323,688
Less: Outstanding checks		(332,165)
Carrying Amount - Cash Balances	$	82,958
Cash and cash equivalents	$	307,344
Less: cash overdraft		(224,386)
Net Carrying Amount - Cash Balances	$	82,958

At December 31, 2007, the City had the following investments in its Fiduciary Funds:

Investments in cash equivalents	$	307,633
Investments in mutual funds		5,466,939
Carrying Amount - Investment Balances	$	5,774,572

NOTE 2 - 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, 2007, the City's investments in PIMCO Real Return Fund ($366,291) were rated AAA by Standard and Poor's ("S&P"). The City's investments in PIMCO Developing Local Markets ($247,698) were rated AA by S&P. The City's investments in Templeton Global Bond ($122,555) were rated A by S&P. The City's investments in PIMCO Floating Income ($423) and Franklin Income ($275,317) were rated BB by S&P. The City's investments in the Ariel Appreciation Fund ($4,791), Lou Holland Growth Fund ($3,363), Vanguard Long-term Investment Grade Fund ($45,692) and Vanguard Windsor II ($3,694) were all rated A++ 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, 2007, 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 3 - PROPERTY TAXES

Property taxes levied for 2007 and unpaid are recorded as receivables, net of estimated uncollectible amounts. The net receivables available to fund 2007 expenditures have not been recognized as revenue in 2007. 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 3 - 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 2007 levy was based was $60,232,060.

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 by January 15. Delinquent taxes are then liened, however, an allowance for uncollectible taxes has been provided in the amount of $53,919.

NOTE 4 - CAPITAL ASSETS

	Beginning Balance	Additions	Disposals	Ending Balance
Land and land improvements	$ 704,052	$ -	$ -	$ 704,052
Infrastructure	255,000	147,993	-	402,993
Buildings and improvements	1,139,088	-	-	1,139,088
Fixtures and equipment	597,414	100,115	32,475	665,054
Vehicles	710,021	159,217	204,719	664,519
Totals at Historical Cost	3,405,575	407,325	237,194	3,575,706
Less accumulated depreciation for:				
Land improvements	435,937	13,856	-	449,793
Infrastructure	17,100	7,061	-	24,161
Buildings and improvements	936,881	16,085	-	952,966
Fixtures and equipment	475,112	43,017	32,475	485,654
Vehicles	443,185	63,284	198,799	307,670
Total Accumulated Depreciation	2,308,215	143,303	231,274	2,220,244
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	1,097,360	264,022	5,920	1,355,462
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 1,097,360	$ 264,022	$ 5,920	$ 1,355,462

NOTE 4 - CAPITAL ASSETS - CONTINUED

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

General government	$	47,655
Public safety		41,840
Health and welfare		1,486
Public Works - sanitation		10,668
Public Works - highways, roads and streets		22,021
Public Works - other		88
Culture and recreation		7,247
Conservation and development		12,298
Total Depreciation Expense - Governmental Activities	$	143,303

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

NOTE 5 - LOANS RECEIVABLE, RECIPIENTS

Loans receivable, recipients, at December 31, 2007 consists of the following:

		Small Communities Projects		Proprietary
Rehabilitation Loans - Small Communities Projects	$	812,381	$	-
Enterprise Development Zone Program Loans - Redevelopment Authority of the City of Monessen		-		591,053
Total	$	812,381	$	591,053

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 6 - 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. Tax receivables that are not yet available are also deferred. Deferred revenue at December 31, 2007 consists of the following:

General Fund:		
Real estate taxes	$	485,453
Earned income taxes		164,008
Deferred grant funds		24,174
Delinquent garbage fees		165,653
2008 garbage fees collected in 2007		114,226
Total	$	953,514

NOTE 7 - 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, 2007 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 5.15%, payable in annual installments of $13,283 through April 15, 2012. (A)	$ -	$ 58,000	$ -	$ 58,000	$ 11,065
General obligation term loan, interest at 4.59%, payable in annual installments of $57,037 through October 17, 2013. (F)	335,000	-	41,661	293,339	43,573
General obligation note, interest at 3.62%, payable in annual installments of $49,283 through June 1, 2011. (B)	221,763	-	41,256	180,507	42,749

NOTE 7 - 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. (C)	37,173	-	18,205	18,968	18,968
Equipment capital lease, interest at 5.85%, payable in three annual installments of $7,142 through July 2007. (D)	6,748	-	6,748	-	-
Equipment capital lease, interest at 4.3%, payable in five annual installments of $43,682 through April 2009. (E)	120,536	-	38,499	82,037	40,155
TOTAL	$ 721,220	$ 58,000	$ 146,369	$ 632,851	$ 156,510

(A) The loan was obtained July 19, 2007 for the purchase of a street sweeper. The City is required to make five equal annual payments through 2012.

(B) 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.

(C) 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.

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

(E) 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.

(F) During 2006, the City borrowed $335,000 from PNC Bank for emergency repairs and other capital projects. The City will make seven annual payments through 2013.

No short-term debt was outstanding at January 1, 2007. During 2007, the City borrowed and repaid $500,000 under a tax anticipation note for cash flow purposes in 2007 at an interest rate of 4.25%. On January 2, 2008, another tax anticipation note of $500,000 was obtained with similar terms to be repaid by December 31, 2008.

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term notes outstanding at December 31, 2007 are as follows:

	Principal	Interest
2008	$ 97,387	$ 22,216
2009	100,734	18,868
2010	104,990	14,613
2011	109,429	10,176
2012	64,772	5,548
2013	54,534	2,503
	$ 531,846	$ 73,924

The annual requirements related to capital leases at December 31, 2007 are as follows:

Fiscal Year:	
2008	$ 63,445
2009	43,682
Minimum lease payments	107,127
Less amount representing interest	(6,122)
Present Value of Minimum Lease Payments	$ 101,005

The gross amount of assets in the Balance Sheet recorded under capital leases and the accumulated amortization of vehicles at December 31, 2007 was $220,201 and $72,978, respectively. Amortization expense on the related assets has been included in the City's depreciation expense.

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, 2007 was $2,990,000, of which the City guarantees $1,794,000.

Changes in the City's obligation for compensated absences during 2007 are as follows:

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due in One Year
Compensated absences	$185,273	$25,729	$7,000	$204,002	$ -

NOTE 8 - 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.

Plan Descriptions and Contribution Information:

Membership of each plan consisted of the following as of January 1, 2007, the date of the latest actuarial valuation:

	Police	Fire	Non-uniformed
Retirees and beneficiaries receiving benefits	23	3	-
Terminated plan members entitled to but not yet receiving benefits	-	-	1
Active plan members	12	-	22
Total	35	3	23

NOTE 8 - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

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 4.5% 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 2007 was $287,370.

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 2007 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 $1,464,015 and the City's contributions were based on a payroll of $779,975. The City and covered employees made the required contributions of $62,398 and $42,495, respectively.

NOTE 9 - INTERFUND ACTIVITY

The City had operating transfers in and out for the following amounts for its governmental activities during the year ended December 31, 2007:

	Operating Transfers In	Operating Transfers Out
Major Funds:		
General	$ 144,700	$ -
Non-major Funds:	-	144,700
TOTAL	$ 144,700	$ 144,700

Transfers between funds are substantially for the purpose of reimbursement for expenditures, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. At December 31, 2007, the General Fund is owed $18,223 from the Small Communities Fund, a major fund, as reimbursement of expenditures made under a grant.

NOTE 10 - 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 $96,000 in fiscal 2007 for 23 eligible retirees.

NOTE 11 - 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. On one open lawsuit, the City's solicitor has indicated that a gain contingency of $55,000 may be received from the City in 2008.

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 and there has been no reduction in insurance coverage.

NOTE 11 - COMMITMENTS AND CONTINGENCIES - CONTINUED

The City has outstanding construction commitments at December 31, 2007. They include city-wide inlet replacement for $24,300 and Jefferson Drive sewer rehabilitation of $19,810.

The City has a 60-month lease for copy equipment for $387 per month. Commitments under this lease are $4,641 for 2008, 2009, 2010 and $3,868 in 2011. Expense for 2007 was $4,641.

The Authority is involved in a pending lawsuit. The potential loss is estimated at $125,000. An accrual has been recorded in these financial statements for the loss.

NOTE 12 - CONDIUT DEBT

During 2007, the City, through its Small Communities Fund, was party to a conduit debt transaction in the amount of $2 million between the U.S. Department of Housing and Urban Development ("HUD") and a local business. In the transaction, HUD loaned $2 million to the City, which the City in turned loaned to the local business for use in its Riverfront Industrial Park project. Principal payments are due in the amount of $100,000 each August 1 through August 1, 2027 and the loan bears interest at LIBOR plus 20 basis points. Interest is due semi-annually each February 1 and August 1. The loan payments are due from the local developer.

As security for the loan, the City obtained a first priority lien in the subject property and also a right to any leases covering the property. The City has pledged as security for this loan future Community Development Block Grant funds and the incremental tax revenues received from growth in the assessed value of the project property. However, the Commonwealth of Pennsylvania has guaranteed repayment in the event of default by the local business. In exchange for the Commonwealth's guarantee, the City assigned its rights in the local business' collateral to the Commonwealth.

NOTE 13 - 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*, both of which are effective in future years. These statements require the City to address estimated post-employment liabilities and their respective accounting treatment. The City is required to implement Statement Nos. 43 and 45 by the year ended December 31, 2009. The City has not yet determined the full impact that adoption of GASB Statement Nos. 43 and 45 will have on the financial statements.

The Government Accounting Standards Board has issued Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and 27*, which is effective in 2008. The potential impact from implementation of this standard has not yet been determined.

NOTE 13 - NEW ACCOUNTING STANDARDS - CONTINUED

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective in 2010. The potential impact from implementation of this standard has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund

Year Ended December 31, 2007

	GAAP Basis Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Original Budget	Final Budget	Variance with Final Budget
REVENUES						
Taxes	$ 2,210,418	$ -	$ 2,210,418	$ 2,409,737	$ 2,409,737	$ (199,319)
Licenses and permits	250,210	1,500	248,710	214,500	214,500	34,210
Fines and forfeits	79,512	-	79,512	66,000	66,000	13,512
Interest, rents and royalties	20,311	-	20,311	10,000	10,000	10,311
Intergovernmental revenue	461,949	108,996	352,953	412,100	412,100	(59,147)
Charges for services	921,975	(30,893)	952,868	883,300	883,300	69,568
Miscellaneous revenue	12,698	(58,000)	70,698	7,000	7,000	63,698
TOTAL REVENUES	3,957,073	21,603	3,935,470	4,002,637	4,002,637	(67,167)
EXPENDITURES						
Current:						
General Government	1,247,354	(11,184)	1,236,170	1,432,108	1,432,108	195,938
Public safety	1,291,413	(61,512)	1,229,901	1,281,869	1,281,869	51,968
Health and welfare	93,174	-	93,174	98,216	98,216	5,042
Public Works:						
Sanitation	308,608	-	308,608	320,000	320,000	11,392
Highways, roads and streets	730,754	(2,510)	728,244	654,884	654,884	(73,360)
Other	2,550	-	2,550	2,550	2,550	-
Culture and recreation	411,132	80,152	491,284	169,991	169,991	(321,293)
Conservation and development	126,375	-	126,375	130,019	130,019	3,644
Debt Service:						
Principal	-	-	-	-	-	-
Interest	13,527	-	13,527	5,000	5,000	(8,527)
Capital Outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	4,224,887	4,946	4,229,833	4,094,637	4,094,637	(135,196)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(267,814)	(26,549)	(294,363)	(92,000)	(92,000)	(202,363)

CITY OF MONESSEN

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund - Continued

Year Ended December 31, 2007

	GAAP Basis Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Original Budget	Final Budget	Variance with Final Budget
EXCESS REVENUES OVER (UNDER) EXPENDITURES - CONTINUED	(267,814)	(26,549)	(294,363)	(92,000)	(92,000)	(202,363)
OTHER FINANCING SOURCES (USES)						
Proceeds from loan	58,000	(58,000)	-	-	-	-
Operating transfers in	144,700	-	144,700	190,000	190,000	(45,300)
TOTAL OTHER FINANCING SOURCES (USES)	202,700	(58,000)	144,700	190,000	190,000	(45,300)
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (65,114)	$ (84,549)	$ (149,663)	$ 98,000	$ 98,000	$ (247,663)

CITY OF MONESSEN

Schedule of Funding Progress - Pension Trust Funds

December 31, 2007

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, 2003	$ 2,211,410	$ 3,656,445	$ 1,445,035	60.5	$ 692,681	$ 209
January 1, 2005	2,462,959	3,968,856	1,505,897	62.1	661,830	228
January 1, 2007	3,055,743	4,281,003	1,225,260	71.4	654,911	187
Firefighter's Retirement Plan						
January 1, 2003	$ 696,590	$ 670,007	$ (26,583)	104.0	$ -	$ -
January 1, 2005	617,790	512,985	(104,805)	120.4	-	-
January 1, 2007	609,514	491,421	(118,093)	124.0	-	-

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, 2007

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, 2002	$ 245,009	101%	$ -
	December 31, 2003	247,841	100%	-
	December 31, 2004	268,329	100%	-
	December 31, 2005	259,883	100%	-
	December 31, 2006	288,149	100%	-
	December 31, 2007	287,370	100%	-
Fire Truck Drivers' Pension:	December 31, 2002	$ 22,428	100%	$ -
	December 31, 2003	29,486	100%	-
	December 31, 2004	-	100%	-
	December 31, 2005	-	100%	-
	December 31, 2006	-	100%	-
	December 31, 2007	-	100%	-

Information presented in the required supplemental schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest valuation date (January 1, 2007) is as follows:

Actuarial Information:	Police	Fire
Valuation Date	01/01/07	01/01/07
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level Dollar Closed	Level Dollar Open
Remaining Amortization Period	9 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%

Notes to Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

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 2007 in various departments. This is due in part to the spending of the note proceeds received in 2006 on some projects that were not started until 2007.

A legally adopted budget is not prepared for the Small Communities Fund, a major special revenue fund.

SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

Combining Balance Sheet - Non-major Governmental Funds

December 31, 2007

	Special Revenue Funds					
	Liquid Fuels	Capital Reserve Fund	Canine Fund	Library Fund	Debt Service Fund	Non-major Governmental Funds Total
ASSETS						
Cash and cash equivalents	$ -	$ 6,581	$ 3,928	$ 1	$ 3	$ 10,513
LIABILITIES AND FUND BALANCES						
LIABILITIES						
FUND BALANCES						
Reserved for capital projects	$ -	$ 6,581	$ -	$ -	$ -	$ 6,581
Reserved for library expenditures	-	-	-	1	-	1
Reserved for canine expenditures	-	-	3,928	-	-	3,928
Reserved for debt service	-	-	-	-	3	3
TOTAL FUND BALANCES	-	6,581	3,928	1	3	10,513
TOTAL LIABILITIES AND FUND BALANCES	$ -	$ 6,581	$ 3,928	$ 1	$ 3	$ 10,513

CITY OF MONESSEN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds

Year Ended December 31, 2007

	Special Revenue Funds					
	Liquid Fuels	Capital Reserve Fund	Canine Fund	Library Fund	Debt Service Fund	Non-major Governmental Funds Total
REVENUES						
Taxes	$ -	$ 48,166	$ -	$ 59,802	$ 107,030	$ 214,998
Interest, rents and royalties	3,561	810	7	199	871	5,448
Intergovernmental revenue	198,929	-	-	-	-	198,929
Miscellaneous revenue	-	-	11,995	-	-	11,995
TOTAL REVENUES	202,490	48,976	12,002	60,001	107,901	431,370
EXPENDITURES						
Current:						
Public safety	-	-	8,074	-	-	8,074
Public Works:						
Highways, roads and streets	88,019	-	-	-	-	88,019
Culture and recreation	-	-	-	60,000	-	60,000
Debt Service:						
Principal	-	-	-	-	82,917	82,917
Interest	-	-	-	-	23,232	23,232
Capital Outlay	-	14,190	-	-	-	14,190
TOTAL EXPENDITURES	88,019	14,190	8,074	60,000	106,149	276,432
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	114,471	34,786	3,928	1	1,752	154,938
OTHER FINANCING SOURCES (USES)						
Interfund transfers out	(114,471)	(28,400)	-	-	(1,829)	(144,700)
TOTAL OTHER FINANCING USES	(114,471)	(28,400)	-	-	(1,829)	(144,700)
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	6,386	3,928	1	(77)	10,238
FUND BALANCES AT BEGINNING OF YEAR	-	195	-	-	80	275
FUND BALANCES AT END OF YEAR	$ -	$ 6,581	$ 3,928	$ 1	$ 3	$ 10,513

CITY OF MONESSEN

Schedule of Expenditures of Federal Awards

December 31, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
HUD Section 108 Loan	14.248	$ 1,999,930
Passed Through the PA Department of Community and Economic Development:		
Community Development Block Grant:		
State's program	14.228	468,067
Passed Through Westmoreland County:		
HOME Investment Partnerships Program (2002)	14.239	4,973
U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Assistance		
Byrne Formula Grant Program	16.579	25,000
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 2,497,970

CITY OF MONESSEN

Note to the Schedule of Expenditures of Federal Awards

December 31, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Monessen and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

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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 City Council
City of Monessen
Monessen, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Monessen (the "City"), Pennsylvania, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control, specifically findings 2007-1, 2007-2, 2007-3, 2007-4 and 2007-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 2007-1, 2007-2 and 2007-3 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.*

We noted certain other matters that we reported to management of the City in a separate letter dated August 22, 2008.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

August 22, 2008
Pittsburgh, Pennsylvania

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

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

Compliance

We have audited the compliance of the City of Monessen (the "City"), Pennsylvania, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. 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 the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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 June 30, 2007.

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

August 22, 2008
Pittsburgh, Pennsylvania

CITY OF MONESSEN

Schedule of Findings and Questioned Costs

Year Ended December 31, 2007

Section I - Summary of Auditor's Results	Results
Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	X yes ____ no
Significant deficiencies identified not considered to be material weaknesses?	X yes ____ none reported
Noncompliance material to financial statements noted?	____ yes X no
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	____ yes X no
Significant deficiencies identified not considered to be material weaknesses?	____ yes X none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____ yes X no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program
14.248	Section 108 Loan

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

07-1 SEGREGATION OF DUTIES IN THE CASH RECEIPTS CYCLE

Criteria:
The City must provide an effective internal control structure for cash receipts and be consistent in following the procedures.

Condition/Cause:
Mail is opened in the Treasurer's Office by two employees who also post receipts to individual's tax accounts and prepare the daily deposits. One of these employees also prepares the delinquent tax list that is turned over for collection. Lastly, customer complaints are investigated primarily by the Treasurer's Office staff.

Effect:
The current cash receipts internal control structure provides an opportunity for errors or irregularities to occur and not be detected.

Recommendation:
We recommend that a list of receipts be prepared when the mail is opened, by someone who does not otherwise participate in the receipt process or post activity to taxpayer or other customer accounts. Once the list is made and the checks have been restrictively endorsed, the checks should be given to an individual to prepare the deposit and take it to the bank. Once this has been done, an employee not involved in the other two processes should receive the list of cash receipts, post to individual accounts and the general ledger and compare the amounts posted to the deposit slip received from the bank. Further, we recommend that the City consider no longer accepting cash, only checks and money orders. We also recommend that customer complaints be required to be handled by an employee who does not have access to customer accounts.

Benefit:
An effective internal control system contains several checks and balances to reduce the risk of misappropriation of the City's assets.

07-2 MODIFIED ACCRUAL BASIS FINANCIAL INFORMATION

Criteria:
Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause:
The Accounting Department does not post appropriate journal entries prior to audit fieldwork to report financial information in accordance with generally accepted accounting principles. The City reports its internal financial information on the cash basis of accounting. The conversion of the records from the cash basis to the modified accrual basis or full accrual basis, as appropriate, is outsourced to the auditors.

Effect:
Numerous journal entries were posted during audit fieldwork to adjust the financial information to the appropriate basis of accounting. These entries ideally should be recorded prior to audit fieldwork.

Recommendation:
The Accounting Department should be responsible for preparing and posting all journal entries to bring financial information into compliance with generally accepted accounting principles prior to the audit.

Benefit:
City financial information would be prepared and presented in accordance with applicable standards and provide an improved reporting mechanism for decision-making purposes.

07-3 ALLOCATION OF TAX RECEIPTS

Criteria:
The City levies real estate taxes for a variety of purposes besides general purposes, such as debt service, capital and library funding.

Condition/Cause:
When the tax bills are paid by individuals, all amounts are initially recorded in the General Fund. When there is enough money collected, the City Clerk transfers funds from the General Fund to the individual funds established for the debt service, capital and library tax receipts and expenditures and the remainder stays in the General Fund. However, the amounts transferred to the individual funds do not exactly match the receipts taken in for those purposes.

Effect:
By employing this informal allocation method, the City is increasing its risk of not distributing the taxes collected in the manner in which the levy was established, which is legally binding.

Recommendation:
In order to ensure that taxes are allocated in accordance with the levy that has been set by Council ordinance, we recommend that the City track its tax receipts daily and identify the portions to be deposited into each fund and that such transfers be made to each individual bank account at the end of each month, or more often if necessary.

Benefit:
The City would reduce its risk that taxes are not collected in the manner in which the levy was set.

07-4 INTERNAL CONTROL PROCESS - PAYROLL

Criteria:
The District must provide an effective internal control structure for payroll and be consistent in following the procedures.

Condition/Cause:
During the audit, we tested a sample of payroll transactions. We noted fifteen instances out of a sample of forty items that were not appropriately authorized and reviewed consistently with internal control procedures as discussed with management. These fifteen timecards/timesheets were signed only by the employee and contained no supervisor signature.

Effect:
It is ineffective to have a system of controls in place if the procedures are not consistently followed.

Recommendation:
In order to ensure that only hours actually worked are paid, we recommend that the City consider implementing a policy in which time cards will not be processed without appropriate signatures. We recommend that after the City implements appropriate procedures and controls, it is imperative that these procedures are consistently applied and communicated.

Benefit:
An effective internal control system contains several checks and balances to reduce the risk of misappropriation of assets. In this case, it would ensure that only hours worked and approved are paid.

07-5 ESTABLISH AND IMPLEMENT ACCOUNTING POLICIES AND PROCEDURES

Criteria:
Implementing and consistently applying effective accounting policies and procedures is essential for any good system of internal control.

Condition/Cause:
During the audit, we noted that over the past few years, the City has experienced some turnover. As a result, well defined accounting policies and procedures have not been established.

Effect:
In the event of turnover in the Accounting Department or other areas affected by accounting, the impact of any employee departure would be less if effective policies and procedures were in place for new employees to follow.

Recommendation:
At a minimum, we suggest developing policies and procedures for the following significant areas: the posting and reconciliation of cash receipts and revenue accounts, cash disbursement and expenses, capturing and recording activity between funds and payroll and related benefit expenditures.

Benefit:
The establishment of a formal accounting policy and procedure manual, which should be developed, documented and distributed to all applicable employees, will be very helpful in ensuring that proper procedures and related internal controls are in place and consistently followed.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

CITY OF MONESSEN

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2007

There were no prior year audit findings. A single audit was not performed in 2006.