

CITY OF MONESSEN
WESTMORELAND COUNTY, PENNSYLVANIA

FINANCIAL AND COMPLIANCE REPORT

Year Ended December 31, 2011

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HERBEIN+COMPANY, INC.
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INDEPENDENT AUDITOR'S REPORT

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

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, 2011, 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 as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the City of Monessen adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, beginning with the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2012, 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 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule - General Fund, Schedules of Funding Progress and Employer Contributions - Pension Trust Funds, and Schedule of Funding Progress and Employer Contributions - Post Employment Benefit Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The combining nonmajor governmental fund and combining fiduciary fund statements are presented for purposes of additional analysis and are 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. The combining nonmajor governmental fund and fiduciary fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Herbein + Company, Inc.

Reading, Pennsylvania
July 16, 2012

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CITY OF MONESSEN

STATEMENT OF NET ASSETS

December 31, 2011

ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and investments	$ 1,838,335	$ 143,378	$ 1,981,713
Taxes receivable, net of allowance	822,218	-	822,218
Intergovernmental receivables	655,487	-	655,487
Garbage fees	282,691	-	282,691
Other receivables	40,949	21,164	62,113
Prepaid expenses	101,112	9,216	110,328
TOTAL CURRENT ASSETS	3,740,792	173,758	3,914,550
NONCURRENT ASSETS			
Loans receivable	702,622	259,370	961,992
Land and land improvements, net of depreciation	1,299,430	42,803	1,342,233
Infrastructure, net of depreciation	1,258,300	-	1,258,300
Building and building improvements, net of depreciation	160,578	1,582,893	1,743,471
Fixtures and equipment, net of depreciation	177,413	50,812	228,225
Vehicles, net of depreciation	220,797	-	220,797
Construction in progress	6,611,728	-	6,611,728
TOTAL NONCURRENT ASSETS	10,430,868	1,935,878	12,366,746
OTHER ASSETS			
Bond issue costs, net of amortization	137,746	-	137,746
TOTAL ASSETS	$ 14,309,406	$ 2,109,636	$ 16,419,042

See accompanying notes.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT LIABILITIES			
Accounts payable	$ 1,528,400	$ 136,294	$ 1,664,694
Accrued liabilities	89,226	16,953	106,179
Accrued interest payable	11,467	-	11,467
Current portion of long-term liabilities	128,839	-	128,839
Current portion of leases payable	15,168	-	15,168
Deferred revenue	1,134,609	-	1,134,609
TOTAL CURRENT LIABILITIES	2,907,709	153,247	3,060,956
NONCURRENT LIABILITIES			
Long-term liabilities	5,111,134	-	5,111,134
Leases payable	32,645	-	32,645
Bond discount, net of amortization	(56,630)	-	(56,630)
Compensated absences	171,177	-	171,177
Other post employment benefits	1,049,216	-	1,049,216
TOTAL NONCURRENT LIABILITIES	6,307,542	-	6,307,542
TOTAL LIABILITIES	9,215,251	153,247	9,368,498
NET ASSETS			
Invested in capital assets, net of related debt	5,143,082	1,676,508	6,819,590
Restricted	380,156	-	380,156
Unrestricted	(429,083)	279,881	(149,202)
TOTAL NET ASSETS	5,094,155	1,956,389	7,050,544
TOTAL LIABILITIES AND NET ASSETS	$ 14,309,406	$ 2,109,636	$ 16,419,042

CITY OF MONESSEN

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions
Governmental Activities:				
General government	$ 1,850,367	$ 333,753	$ 3,900	$ 22,921
Public safety	1,501,184	183,905	302,129	11,919
Health and welfare	56,687	-	-	-
Public works - sanitation	437,648	609,187	229,317	3,638,944
Public works - highways, roads, and streets	1,130,024	269,167	233,769	-
Public works - other	47,934	-	-	-
Culture and recreation	304,709	6,410	50,616	-
Conservation and development	2,797,379	26,951	2,641,450	-
Interest on long-term debt	30,394	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	8,156,326	1,429,373	3,461,181	3,673,784
Business-Type Activities:				
Redevelopment	65,162	4,020	-	-
Health and welfare	364,406	274,897	-	-
Total business-type activities	429,568	278,917	-	-
TOTAL	$ 8,585,894	$ 1,708,290	$ 3,461,181	$ 3,673,784
General Revenues				
Real estate taxes				
Earned income and other taxes				
Investment earnings				
Miscellaneous income				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

See accompanying notes.

Net (Expense) Revenue and Change in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (1,489,793)	$ -	$ (1,489,793)
(1,003,231)	-	(1,003,231)
(56,687)	-	(56,687)
4,039,800	-	4,039,800
(627,088)	-	(627,088)
(47,934)	-	(47,934)
(247,683)	-	(247,683)
(128,978)	-	(128,978)
(30,394)	-	(30,394)
408,012	-	408,012
-	(61,142)	(61,142)
-	(89,509)	(89,509)
-	(150,651)	(150,651)
408,012	(150,651)	257,361
1,770,121	-	1,770,121
689,342	-	689,342
13,842	201	14,043
39,920	3,898	43,818
2,513,225	4,099	2,517,324
2,921,237	(146,552)	2,774,685
2,172,918	2,102,941	4,275,859
$ 5,094,155	$ 1,956,389	$ 7,050,544

CITY OF MONESSEN

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2011

	General	Small Communities Projects	Line Fee Fund	Capital Projects Fund
ASSETS				
Cash and investments	$ 214,806	$ 1,006,950	$ 323,910	$ 271,633
Receivables, net of allowance where applicable:				
Taxes	895,353	-	-	-
Garbage fees	282,691	-	-	-
Loans receivable, recipients	-	702,622	-	-
Interfund receivable	-	-	-	-
Other	40,949	-	-	-
Intergovernmental receivables	-	-	605,487	50,000
Prepaid expenses	101,112	-	-	-
TOTAL ASSETS	$ 1,534,911	$ 1,709,572	$ 929,397	$ 321,633
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 28,571	$ 7,576	$ 549,241	$ 941,863
Accrued liabilities	64,575	-	-	-
Escrow liabilities	24,651	-	-	-
Interfund payable	8,100	-	-	-
Deferred revenue	1,314,729	1,700,546	-	-
TOTAL LIABILITIES	1,440,626	1,708,122	549,241	941,863
FUND BALANCES				
Nonspendable fund balance	101,112	-	-	-
Restricted fund balance	-	1,450	380,156	-
Unassigned fund balance	(6,827)	-	-	(620,230)
TOTAL FUND BALANCES	94,285	1,450	380,156	(620,230)
TOTAL LIABILITIES AND FUND BALANCES	$ 1,534,911	$ 1,709,572	$ 929,397	$ 321,633

See accompanying notes.

Nonmajor Governmental Funds	Total Governmental Funds
$ 21,036	$ 1,838,335
-	895,353
-	282,691
-	702,622
8,100	8,100
-	40,949
-	655,487
-	101,112
$ 29,136	$ 4,524,649
$ 1,149	$ 1,528,400
-	64,575
-	24,651
-	8,100
-	3,015,275
1,149	4,641,001
-	101,112
27,987	409,593
-	(627,057)
27,987	(116,352)
$ 29,136	$ 4,524,649

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CITY OF MONESSEN

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

December 31, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ (116,352)
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 $12,544,465 and the accumulated depreciation is $2,816,219.		9,728,246
Taxes, loans, and garbage fees receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		1,807,531
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	$ (5,239,973)	
Accrued interest on notes	(11,467)	
Capital leases	(47,813)	
Bond issue costs, net of amortization	137,746	
Bond discount, net of amortization	56,630	
Other post employment benefits	(1,049,216)	
Compensated absences	(171,177)	(6,325,270)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 5,094,155

See accompanying notes.

CITY OF MONESSEN

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

Year Ended December 31, 2011

	General	Small Communities Projects	Line Fee Fund	Capital Projects Fund
REVENUES				
Taxes	$ 2,114,698	$ -	$ -	$ -
Licenses and permits	329,318	-	-	-
Fines and forfeits	63,391	-	-	-
Interest, rents, and royalties	140	2,626	183	10,748
Intergovernmental revenue	374,631	2,668,401	3,868,261	50,616
Charges for services	988,843	26,951	-	-
Miscellaneous revenue	25,180	-	-	-
TOTAL REVENUES	3,896,201	2,697,978	3,868,444	61,364
EXPENDITURES				
Current				
General government	1,457,511	-	-	138,150
Public safety	1,257,434	10,965	-	1,434,854
Health and welfare	47,219	-	-	-
Public works:				
Sanitation	420,448	-	-	-
Highways, roads, and streets	573,327	-	-	277,169
Other	5,358	-	-	-
Culture and recreation	14,128	-	-	2,140,442
Conservation and development	47,312	2,687,699	-	50,072
Debt Service				
Principal	-	-	-	27,188
Interest	6,687	-	-	163,395
Capital Outlay	-	-	3,811,923	-
TOTAL EXPENDITURES	3,829,424	2,698,664	3,811,923	4,231,270
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	66,777	(686)	56,521	(4,169,906)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	(5,618)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(5,618)	-	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	61,159	(686)	56,521	(4,169,906)
FUND BALANCES - BEGINNING	33,126	2,136	323,635	3,549,676
FUND BALANCES - ENDING	$ 94,285	$ 1,450	$ 380,156	$ (620,230)

See accompanying notes.

Nonmajor Governmental Funds	Total Governmental Funds
$ 452,153	$ 2,566,851
-	329,318
-	63,391
145	13,842
207,300	7,169,209
6,410	1,022,204
14,740	39,920
680,748	11,204,735
-	1,595,661
13,091	2,716,344
-	47,219
-	420,448
207,345	1,057,841
-	5,358
277,760	2,432,330
-	2,785,083
132,108	159,296
60,969	231,051
-	3,811,923
691,273	15,262,554
(10,525)	(4,057,819)
5,619	5,619
(1)	(5,619)
5,618	-
(4,907)	(4,057,819)
32,894	3,941,467
$ 27,987	$ (116,352)

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, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ (4,057,819)
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	$ 7,309,724	
Interest capitalized in construction in progress	206,738	
Less: Depreciation expense	(199,716)	7,316,746
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.		(127,172)
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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. 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:		
Proceeds from long-term debt	(14,666)	
Proceeds from capital lease	(64,900)	
Principal payments on capital leases	17,087	
Repayment of note principal	159,296	
Amortization of bond discount	(2,360)	
Amortization of bond issuance costs	(5,739)	88,718

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, 2011

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.	2,018
Post employment benefits are recognized when they are paid on the fund statements. With the implementation of GASB No. 45, an estimated liability for future benefits due will be phased in over several years. This amount represents the difference between the estimated annual cost and the amount paid.	(317,727)
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.	16,473
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 2,921,237

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS

December 31, 2011

	Business-type Activities Enterprise Fund Redevelopment Authority of the City of Monessen	Business-type Activities Enterprise Fund Mon Valley Health & Welfare	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 108,779	$ 34,599	$ 143,378
Other receivables	-	21,164	21,164
Prepaid expenses	-	9,216	9,216
TOTAL CURRENT ASSETS	108,779	64,979	173,758
NONCURRENT ASSETS			
Loans receivable, net of allowance	259,370	-	259,370
Capital assets:			
Land	-	42,803	42,803
Buildings and building improvements	-	1,815,921	1,815,921
Equipment	-	104,423	104,423
Less accumulated depreciation	-	(286,639)	(286,639)
Total (capital assets, net of depreciation)	-	1,676,508	1,676,508
TOTAL NONCURRENT ASSETS	259,370	1,676,508	1,935,878
TOTAL ASSETS	$ 368,149	$ 1,741,487	$ 2,109,636
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 126,399	$ 9,895	$ 136,294
Accrued expenses	-	16,953	16,953
TOTAL CURRENT LIABILITIES	126,399	26,848	153,247
NET ASSETS			
Invested in capital, net of related debt	-	1,676,508	1,676,508
Unrestricted	241,750	38,131	279,881
TOTAL NET ASSETS	241,750	1,714,639	1,956,389
TOTAL LIABILITIES AND NET ASSETS	$ 368,149	$ 1,741,487	$ 2,109,636

See accompanying notes.

CITY OF MONESSEN

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

Year Ended December 31, 2011

	Business-type Activities Enterprise Fund Redevelopment Authority of the City of Monessen	Business-type Activities Enterprise Fund Mon Valley Health & Welfare	Totals
OPERATING REVENUES			
Rentals	$ -	$ 259,171	$ 259,171
Interest income on loans	4,020	-	4,020
Telephone equipment rental	-	1,950	1,950
Miscellaneous	-	13,776	13,776
TOTAL OPERATING REVENUES	4,020	274,897	278,917
OPERATING EXPENSES			
Administration	27,801	-	27,801
Personnel services	-	69,723	69,723
Occupancy	-	150,749	150,749
Communications and copying	-	13,306	13,306
Supplies and equipment	-	30,007	30,007
Contract services	28,941	6,295	35,236
Other operating expenses	8,420	2,268	10,688
Depreciation	-	92,058	92,058
TOTAL OPERATING EXPENSES	65,162	364,406	429,568
OPERATING LOSS	(61,142)	(89,509)	(150,651)
NONOPERATING REVENUES (EXPENSES)			
Other income	3,898	-	3,898
Earnings on investments	174	27	201
TOTAL NONOPERATING REVENUE (EXPENSES)	4,072	27	4,099
CHANGE IN NET ASSETS	(57,070)	(89,482)	(146,552)
NET ASSETS AT BEGINNING OF YEAR	298,820	1,804,121	2,102,941
NET ASSETS AT END OF YEAR	$ 241,750	$ 1,714,639	$ 1,956,389

See accompanying notes.

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CITY OF MONESSEN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended December 31, 2011

	Business-type Activities Enterprise Fund Redevelopment Authority of the City of Monessen	Business-type Activities Enterprise Fund Mon Valley Health & Welfare	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from tenants	$ -	$ 263,918	$ 263,918
Cash received from customers	4,020	-	4,020
Cash payments to employees for services	(27,801)	(69,723)	(97,524)
Other operating payments	(38,668)	(183,993)	(222,661)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(62,449)	10,202	(52,247)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Other receipts	3,898	-	3,898
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	3,898	-	3,898
CASH FLOWS FROM INVESTING ACTIVITIES			
Principal payments on loans	23,623	-	23,623
Earnings on investments	174	27	201
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	23,797	27	23,824
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(34,754)	10,229	(24,525)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	143,533	24,370	167,903
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 108,779	$ 34,599	$ 143,378
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:			
OPERATING LOSS	$ (61,142)	$ (89,509)	$ (150,651)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED (USED) BY NET OPERATING ACTIVITIES			
Depreciation	-	92,058	92,058
CHANGES IN ASSETS AND LIABILITIES			
Accounts receivable	-	(10,979)	(10,979)
Accounts payable	(1,307)	8,162	6,855
Accrued expenses	-	10,470	10,470
TOTAL ADJUSTMENTS	(1,307)	99,711	98,404
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (62,449)	$ 10,202	$ (52,247)

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF NET ASSETS -
FIDUCIARY FUNDS

December 31, 2011

	Total Trust Funds
ASSETS	
Cash and investments	$ 4,844,321
TOTAL ASSETS	$ 4,844,321
NET ASSETS HELD IN TRUST FOR EMPLOYEE PENSION BENEFITS	$ 4,844,321
TOTAL NET ASSETS HELD IN TRUST FOR EMPLOYEE PENSION BENEFITS	$ 4,844,321

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS

Year Ended December 31, 2011

	Total Trust Funds
ADDITIONS	
Contributions - employer	$ 313,080
Contributions - employee	68,597
Interest and dividends	105,050
Net increase (decrease) in fair value of investments	(302,213)
TOTAL ADDITIONS	184,514
DEDUCTIONS	
Administration	69,178
Benefits	310,991
TOTAL DEDUCTIONS	380,169
CHANGE IN NET ASSETS	(195,655)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	5,039,976
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	$ 4,844,321

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 blended 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 issued by the Government Accounting Standards Board ("GASB") 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"), the Mon Valley Refuse Disposal Authority, and the Mon Valley Sewage Authority. It has been determined that 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 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 2011, the City paid $420,448 to the Refuse Authority for services. The operations of Mon Valley Refuse Disposal Authority are not included in the financial statements of the City.

Separate financial statements from the Refuse Authority may be obtained by contacting their offices.

The Mon Valley Sewage Authority is a joint venture between the City and the Borough of Donora, both of which have voting members on the Authority board. Three members are from the City and two members are from the Borough of Donora. The Mon Valley Sewage Authority was created for the purpose of collection, treatment, and disposal of sewage and other industrial wastes within the City of Monessen and the Borough of Donora. The Mon Valley Sewage Authority owns and operates its own sewage treatment facility and provides sewage treatment service for the owners of property in both the City and the Borough of Donora. The City owns, operates, and maintains the sanitary sewers and other appurtenances located throughout the City.

The operations of the Mon Valley Sewage Authority are not included in the financial statements of the City. As part of the agreement with the Mon Valley Sewage Authority, the Authority has agreed to collect and distribute a line usage fee on behalf of the City. The purpose of the line usage fee is to offset the City's expenses with respect to the continued maintenance and repair of the sewer system. During the year ended December 31, 2011, the Mon Valley Sewage Authority collected and distributed to the City $226,557 of line usage fees.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Summary financial information as of November 30, 2011 is as follows:

Mon Valley Sewage Authority	
Total Assets	$ 31,520,559
Total Liabilities	18,679,875
Net Assets	
Invested in capital assets, net of debt	$ 7,862,048
Restricted for capital improvements	1,396,546
Unrestricted	3,582,090
	$ 12,840,684

Separate financial statements of the Mon Valley Sewage Authority have been prepared and may be obtained by contacting their offices.

Government-Wide and Fund Financial Statements

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The **government-wide financial statements** (i.e., the statement of net assets and the statement of activities) 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, would be reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUND FINANCIAL STATEMENTS

Fund financial statements are also provided in the report for all of the governmental funds, proprietary funds and the fiduciary funds of the City. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are rentals of its Health and Welfare building and interest income on loans issued by the Redevelopment Authority. Operating expenses for the City's Enterprise Funds include costs of services and administration of the building and the Authority's loan program and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 are reported as separate columns in the fund financial statements.

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 proprietary fund and fiduciary fund financial statements. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these 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.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues and expenses or expenditures as appropriate. Resources are allocated to and accounted for in the individual funds based on the purposes for which they are to be spent.

The three types of funds presented in this report are as follows:

GOVERNMENTAL FUND TYPES - These fund types are used to account for most of the existing governmental functions. The focus is on determination of the financial position and changes in financial position (current financial resources) rather than income determination. The following are major governmental funds:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Line Usage Fee Fund:
This special revenue fund was established to account for line usage fees levied for repairing and maintaining sanitary sewer lines, as well as any capital grant to make capital improvements to the sewer system.

Capital Projects Fund:
This fund was established to account for financial resources to be used for major capital expenditures not financed by Enterprise Funds.

The City also uses the following nonmajor governmental funds: Liquid Fuels (to account for the City's Liquid Fuels grant 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), Parks Fund (to account for real estate taxes levied for parks and recreation projects and activities), and Debt Service (to account for the City's real estate taxes levied for payments for debt service).

PROPRIETARY FUND TYPES - These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

The City reports the following Enterprise Funds, which are both major funds:

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.

Mon Valley Health & Welfare:
This fund accounts for the rents received from tenants in the City's Eastgate building and the costs to maintain and operate the building.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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.

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 state also imposes limitations with respect to the amount of investments in certificates of deposit to the extent that such deposits may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan association's or savings bank's net assets. 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 would be reported in the government-wide financial statements as "internal balances."

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Capital 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.

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

Assets	Years
Land improvements	15 - 50
Infrastructure	50
Buildings	50
Building improvements	20
Office equipment	10 - 20
Computer equipment	5
Vehicles	5 - 10

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 in the fund statements only if they have matured as a result of resignations or retirements. The liability is accrued in the government-wide statements when it is incurred.

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, if any. Bond issue costs, if any, 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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Borough or through the external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable Fund Balance - amounts that cannot be spent because they are in a nonspendable form, or legally or contractually required to be maintained intact.

Restricted Fund Balance - Amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

Committed Fund Balance - Amounts that can be used only for a specific purpose determined by a formal action of the City's Council; the government's highest level of decision-making authority. The formal action to commit fund balance to a specific purpose must occur prior to the end of the reporting period, but the amount which will be subject to the constraint may be determined in the subsequent period. Committed funds may only be changed or lifted by the same formal action taken to commit them.

Assigned Fund Balance - Amounts that the City intends to use for a specific purpose. Assignments of fund balance are made by the City's Council.

Unassigned Fund Balance - Amounts that are not included within any other classification noted. Unassigned amounts are the portion of fund balance not obligated or specifically designated and are available for any purpose. Positive amounts are reported only in the General Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Restricted/Unrestricted 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.

Any expenditure incurred for a purpose in which restricted and unrestricted fund balance amounts are available are satisfied through restricted fund balance amounts before unrestricted fund balance amounts. When an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balances, the fund balance is consumed as follows: committed, assigned, and unassigned.

Revenues from Federal and State Sources

Revenues from federal and state agencies designated for payment of specific City expenditures are recognized 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

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 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - 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:

Excess deficiency of revenues under expenditures and other financing uses (budgetary basis)	$(627,470)
Adjustments to revenues for accruals	(16,992)
Adjustments to expenditures for accruals	705,621
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (GAAP Basis)	$ 61,159

Within 31 days subsequent to the legal adoption of the budget, the city clerk 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.

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.

Excess of Expenditures over Appropriations
For the year ended December 31, 2011, expenditures exceeded appropriations in the general operating fund. The excess expenditures were satisfied by use of existing fund balance.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The carrying amount of cash and investments at December 31, 2011 consist of the following:

	Primary Government	Blended Component Unit	Total
Demand deposit accounts	$1,074,871	$ 108,779	$1,183,650
Pooled cash and investments	15,792	-	15,792
Investments	5,626,592	-	5,626,592
			$6,826,034

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Cash

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, 2011, the carrying amount of the City's deposits was $1,183,650 and the bank balance was $1,865,667. Of the bank balance, $508,877 was covered by federal depository insurance and $1,356,790 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the City's name.

A portion of the City's deposits are in the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objective is to maintain a stable net asset value of $1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. The carrying amount and bank balance amount was $15,792.

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.

Investments

As of December 31, 2011, the City had the following nonpension investments:

Investment Type	Fair Market Value	0 - 1 Year Maturity
Fixed income notes	$ 303,732	$ 303,732
Money market funds	478,539	
	$ 782,271	

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.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Credit Risk

The City does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2011, the City's investments were rated as:

Investments	Standard & Poor's (Moody's & Fitch)
Fixed income notes	AAA
PLGIT	AAA

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in the fixed income notes represent 38.8 percent of the City's total investments and consist of three $100,000 notes.

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. As of December 31, 2011, the carrying amount of the City's investments was $782,271, and the entire balance was exposed to custodial credit risk.

Pension Trust Fund

The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, the Paid Firemen's and Monessen Employees' Pension Funds.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

As of December 31, 2011, the City had the following cash and investments in its pension trust funds:

Police

Cash or Investment Type	Fair Market Value
Cash and Cash Equivalents	$ 231,806
Equity Mutual Funds	1,791,546
Common Stock	140,576
Fixed Mutual Funds	1,018,915
Total Cash and Investments	$ 3,182,843

Fire Truck Drivers

Cash or Investment Type	Fair Market Value
Cash and Cash Equivalents	$ 13,256
Equity Mutual Funds	185,736
Common Stock	18,888
Fixed Mutual Funds	113,152
Total Cash and Investments	$ 331,032

Nonuniformed

Cash or Investment Type	Fair Market Value
Mutual Fund Investments	$ 1,330,446
Total Cash and Investments	$ 1,330,446

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations.

Investments held in mutual funds are not subject to credit risk.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Custodial Credit Risk
For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk.

Concentration of Credit Risk
The City places no limit on the amount the City may invest in any one issuer. There were no investments in any pension plan that constituted more than five percent of any of the pension plan net assets available for benefits at December 31, 2011. In addition, the plans did not have any investment transactions with related parties during the year.

Interest Rate Risk
The pension trust funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 4 - PROPERTY TAXES

Property taxes levied for 2011 and unpaid are recorded as receivables, net of estimated uncollectible amounts. The net receivables available to fund 2011 expenditures have not been recognized as revenue in 2011. 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 collectability.

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 percent of estimated market value beginning in year 1973. The last valuation was completed as of December 31, 1972. The nonexempt assessed value (land and building) upon which the 2011 levy was based was $62,265,580.

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 two percent discount awarded for payments made in March and April. A ten percent 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 $73,135.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities

	Beginning Balance	Additions	(Reclass) Disposals	Ending Balance
Capital assets not being depreciated:				
Construction in progress	$ 393,811	$ 7,328,895	$ (1,110,978)	$ 6,611,728
Capital assets being depreciated:				
Land improvements	704,052	-	1,110,978	1,815,030
Infrastructure	1,384,426	-	-	1,384,426
Buildings and improvements	1,145,223	-	-	1,145,223
Fixtures and equipment	695,439	100,000	-	795,439
Vehicles	705,052	87,567	-	792,619
Totals at Historical Cost	4,634,192	1,298,545	1,110,978	5,932,737
Less accumulated depreciation for:				
Land improvements	491,360	24,240	-	515,600
Infrastructure	72,202	53,924	-	126,126
Buildings and improvements	978,566	6,079	-	984,645
Fixtures and equipment	587,726	30,300	-	618,026
Vehicles	486,649	85,173	-	571,822
Total Accumulated Depreciation	2,616,503	199,716	-	2,816,219
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	2,017,689	(12,149)	1,110,978	3,116,518
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 2,411,500	$ 7,316,746	$ -	$ 9,728,246

Included in construction in progress at December 31, 2011 is $318,146 of capitalized interest.

NOTE 5 - CAPITAL ASSETS - CONTINUED

Business-Type Activities

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	$ 42,803	$ -	$ -	$ 42,803
Capital assets being depreciated:				
Buildings and improvements	1,815,921	-	-	1,815,921
Fixtures and equipment	104,423	-	-	104,423
Totals at Historical Cost	1,920,344		-	1,920,344
Less accumulated depreciation for:				
Buildings and improvements	158,840	74,188	-	233,028
Fixtures and equipment	35,741	17,870	-	53,611
Total Accumulated Depreciation	194,581	92,058	-	286,639
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	1,725,763	(92,058)	-	1,633,705
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	$ 1,768,566	$ (92,058)	$ -	$ 1,676,508

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

General government	$ 61,422
Public safety	52,096
Health and welfare	1,931
Public Works - sanitation	17,200
Public Works - highways, roads, and streets	42,576
Public Works - other	219
Culture and recreation	12,296
Conservation and development	11,976
Total Depreciation Expense - Governmental Activities	$ 199,716

NOTE 6 - LOANS RECEIVABLE

Loans receivable at December 31, 2011 consists of the following:

	Small Communities Projects	Proprietary
Rehabilitation Loans - Small Communities Projects	$ 702,622	$ -
Enterprise Development Zone Program Loans - Redevelopment Authority of the City of Monessen	-	259,370
Total	$ 702,622	$ 259,370

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 four percent 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 five percent 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. Loans in the Small Communities Projects Fund in the fund financial statements are offset by deferred revenue in the amount of $702,622 as the assets are not available.

NOTE 7 - 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 and loans receivable that are not yet available are also deferred.

NOTE 7 - DEFERRED REVENUE - CONTINUED

Deferred revenue at December 31, 2011 consists of the following:

	General Fund	Small Communities Projects Fund
Real estate taxes	$ 731,345	$ -
Earned income taxes	164,008	-
Deferred grant funds	8,442	-
Delinquent garbage fees	282,691	-
2012 garbage fees collected in 2011	128,243	-
Loans receivable	-	702,622
Deferred grant revenue – section 108 loan	-	997,924
Total	$ 1,314,729	$ 1,700,546

Only the amounts related to deferred grant funds and 2012 garbage fees collected in 2011 have been reported as deferred revenue on the Statement of Net Assets.

NOTE 8 - LIABILITIES

In January 2011, the City borrowed $500,000 under a tax anticipation note for cash flow purposes at an interest rate of 2.72 percent. The note was repaid in 2011. In January 2012, another tax anticipation note of $500,000 was obtained with similar terms to be repaid by June 30, 2012. The City's short-term liabilities are summarized as follows:

Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
$ -	$ 500,000	$ 500,000	$ -

NOTE 8 - LIABILITIES - CONTINUED

The following is a summary of long-term liability transactions with respect to notes, bonds, and capital lease obligations for the year ended December 31, 2011 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. Loan proceeds were used to purchase a street sweeper.	$ 24,644	$ -	$ 12,014	$ 12,630	$ 12,630
General obligation note, interest at 3.62%, payable in annual installments of $49,283 through June 1, 2011. Note proceeds were used for acquiring, constructing, improving or renovating the building, facilities or physical plant and purchasing or obtaining equipment.	47,562	-	47,562	-	-
General obligation term loan, interest at 4.59%, payable in annual installments of $57,037 through October 17, 2013. Loan proceeds were used for emergency repairs and other capital projects.	156,528	-	49,825	106,703	52,141
General obligation note, interest at 4.02%, payable in annual installments of $56,188 through December 15, 2013. Note proceeds were used for cash flow purposes.	155,869	-	49,895	105,974	51,930

NOTE 8 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	New Loans	Principal Payments	Balance at End of Year	Due in One Year
Notes Payable - continued:					
General obligation term loan, interest at 4.00%, payable in annual installments of $7,830 through April 1, 2013. Loan proceeds were used to purchase a vehicle for the police department.	-	14,666	-	14,666	7,138
Bonds Payable:					
General obligation bonds, Series of 2010, with 5.50% interest payable through 2035. Bond proceeds were used for the purpose of providing funds for improvements to the fire department, police department, public library, and various other improvements, funding a capitalized interest account with respect to the bonds, and paying costs of issuance.	5,000,000	-	-	5,000,000	5,000
Capital Leases Payable:					
Vehicle capital lease, interest at 4.67%, payable in four annual installments of $17,555 through April 2014.	-	64,900	17,087	47,813	15,168
TOTAL	$ 5,384,603	$ 79,566	$ 176,383	$5,287,786	$ 144,007

NOTE 8 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term notes and bonds outstanding at December 31, 2011 are as follows:

	Principal	Interest
2012	$ 128,839	$ 217,237
2013	151,134	211,602
2014	150,000	205,838
2015	155,000	202,463
2016	165,000	198,432
2017 - 2021	885,000	910,193
2022 - 2026	1,060,000	724,782
2027 - 2031	1,295,000	473,970
2032 - 2035	1,250,000	148,800
	$ 5,239,973	$ 3,293,317

The annual requirements related to capital leases at December 31, 2011 are as follows:

Fiscal Year:	
2012	$ 17,555
2013	17,555
2014	17,555
Less amount representing interest	(4,852)
Present Value of Minimum Lease Payments	$ 47,813

The gross amount of assets in the Statement of Net Assets recorded under capital leases and the accumulated depreciation of vehicles at December 31, 2011 was $64,900 and $10,817, respectively. Depreciation expense on the related assets has been included in the City's depreciation expense.

Changes in the City's obligation for compensated absences during 2011 are as follows:

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due in One Year
Compensated absences	$ 187,650	$ -	$ 16,473	$ 171,177	$ -

All of the City's note, bond and lease obligations are paid by the Debt Service Fund except for interest on the tax anticipation note which is repaid by the General Fund. The General Fund also funds the compensated absences.

NOTE 9 - CITY OF MONESSEN RETIREMENT PLANS

Plan Description

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.

Funding Policy and Annual Pension Cost

PA Act 205 and city council ordinances assign the authority to establish and amend the benefit provisions of the plans. The City's annual pension cost for the current year and related information for each plan is as follows:

	Fire	Police	Employees
Contribution rates:			
City	Minimum Municipal Obligation Under PA Act 205		
Plan members	4% plus $1 per month	4.5% plus $1 per month	5%
Annual pension cost	$ 14,258	$ 281,340	$ 64,000
Contributions made	$ 14,258	$ 236,266	$ 62,556

Actuarial methods and assumptions. The following is information as of the most recent actuarial valuation:

	Fire	Police
Valuation date	01/01/11	01/01/11
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, closed
Remaining amortization period	10 years	9 years
Asset valuation method	Four-year smoothing	Four-year smoothing
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	5.0%
Includes inflation - at	3.0%	3.0%

NOTE 9 - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

Fiscal Year	Annual Required Contribution	Percentage Contributed
FIRE PENSION FUND		
2009	$ -	100%
2010	-	100%
2011	14,258	100%
POLICE PENSION FUND		
2009	$ 248,740	100%
2010	238,973	100%
2011	281,340	84%

Funded Status and Funding Progress. The funded status of each plan as of January 1, 2011, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Fire	$ 408,720	$ 446,300	$ 37,580	91.6%	$ -	0.0%
Police	3,353,874	4,693,620	1,339,746	71.5%	668,759	200.3%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2011:

	Interfund Receivables	Interfund Payables
Governmental Activities		
Major Funds		
General	$ -	$ 8,100
Nonmajor Governmental Funds	8,100	-
	$ 8,100	$ 8,100

Interfund receivables and payables are a result of timing differences between when a cost is incurred and when it is paid.

The City had operating transfers in and out for the following amounts at December 31, 2011:

	Operating Transfers In	Operating Transfers Out
Major Funds		
General	$ -	$ 5,618
Nonmajor Governmental Funds	5,619	1
	$ 5,619	$ 5,619

Transfers between these funds were necessary to reimburse the general fund for parks fund expenses paid by the general fund.

NOTE 11 - POST RETIREMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City provides certain healthcare benefits for employees who retire. Police employees who retire from the police pension plan with full normal retirement benefits (age 50 with 20 years of service) or with a Disability Retirement Benefit and Fire employees who retire from the fire pension plan with full normal retirement benefit (age 55 with 20 years of service), receive coverage for themselves, spouse, and eligible dependents of medical, dental, and vision coverage until the earlier of eligibility for equal or better medical coverage with another employer or until the retiree's death. At Medicare eligibility, coverage will be provided in the form of a Medicare supplement plan. For police employees, upon the death of the retiree, the City will continue to provide medical, dental, and vision coverage to the surviving spouse and dependent children for three years. For police and fire employees, a life insurance policy will remain in effect until death, with a benefit of $8,000 for police and $5,000 for fire. One police retiree who resides outside of Pennsylvania receives reimbursement for medical, dental, and/or vision expenses on a monthly basis as incurred up to a maximum of $367.56 per month. Nonuniformed employees who retire from the nonuniformed employees' pension plan will receive medical and dental coverage for the retiree, spouse, and eligible dependents, until the retiree's death. At Medicare eligibility, coverage will be in the form of a Medicare supplement plan. A life insurance policy will remain in full effect until death, with a benefit of $5,000. Benefit provisions are established through negotiation with the City and the unions representing the City's employees. A publicly available financial report is not issued and the City is implementing GASB Statement 45 prospectively.

Funding Policy

Contribution requirements also are negotiated between the City and union representatives. The required contribution is based on pay as you go financing. The City will pay 100 percent of premiums for the retiree's coverage, except as noted above.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC); an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 11 - POST RETIREMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	$ 517,601
Interest on net OPEB obligation	32,917
Adjustment to annual required contribution	(44,907)
Annual OPEB cost	505,611
Contributions made	(187,884)
Increase in net OPEB obligation	317,727
Net OPEB obligation - beginning of year	731,489
Net OPEB obligation - end of year	$ 1,049,216

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	$ 505,611	37.2%	$ 1,049,216
12/31/2010	511,380	31.2%	731,489
12/31/2009	517,601	26.7%	379,527

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $5,518,656 for the City and the actuarial value of assets was $0 for each plan, resulting in an unfunded actuarial accrued liability (UAAL) of $5,518,656 for the City.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

NOTE 11 - POST RETIREMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of five percent initially, increasing four percent the first year and decreasing one percent per year thereafter to an ultimate rate of five percent in 2015 and later. The unfunded actuarial accrued liability is being amortized based on level dollar, 30-year period.

NOTE 12 - 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 and there has been no reduction in insurance coverage.

The City had a 60-month lease for copy equipment for $387 per month, which expired in October 2011. Expense for 2011 was $3,868.

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

The City has approximately ten tenants in its Eastgate 8 building, each of whom have executed lease agreements with the City. Future rentals to be received under these agreements are as follows:

2012	$ 201,627
2013	140,635
2014	67,924
2015	35,032
2016	15,373
2017	7,350
	$ 467,941

The capital assets of the Mon Valley Health and Welfare Enterprise Fund represent the cost and carrying amount of the property held by the City for leasing.

The City has entered into contracts for capital improvements related to the public safety building and library construction projects. At December 31, 2011, the commitment outstanding on the open contracts is $1,315,817. These commitments will be paid through the issuance of the general obligation bonds of 2012 subsequent to year-end. See Note 15 for further details.

Subsequent to December 31, 2011, the City entered into a demolition contract for $103,400 and two roadway rehabilitation contracts for a total of $345,944.

NOTE 13 - CONDUIT 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 turn 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, beginning in 2009, through August 1, 2027 and the loan bears interest at LIBOR plus 20 basis points. Interest is due semiannually each February 1 and August 1. The loan payments are due from the local developer. The balance at December 31, 2011 is $1.68 million.

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 - CONDUIT DEBT – CONTINUED

During 2011, the City, through its Small Communities Fund, was party to a conduit debt transaction in the amount of $3.49 million between the U.S. Department of Housing and Urban Development ("HUD") and a local business. In the transaction, HUD loaned $3.49 million to the City, which the City in turn loaned to the local business for use in rehabilitating a rail mill to be used as an aluminum recycling facility and purchasing new equipment. Principal payments are due in the amount of $174,000 each August 1, beginning in 2012 through 2029, and in the amount of $179,000 for August 1, 2030 and 2031. The loan bears interest at LIBOR plus 20 basis points. Interest is due quarterly each February 1, May 1, August 1, and November 1. The loan payments are due from the local business. The balance at December 31, 2011 is $3.49 million.

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 will also obtain a first priority interest in all machinery and equipment purchased with the loan. 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 14 - FUND BALANCE

Effective January 1, 2011, the City adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to be in conformity with generally accepted accounting principles.

The statement clarified the use of special revenue fund types and established a hierarchy for classifying fund balances into specifically defined classifications resulting in the City adopting a fund balance policy effective for the December 31, 2011 reporting period. Details of the City's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies.* Fund balance classifications for the year ended December 31, 2011 were as follows:

General Fund
The general fund has nonspendable fund balance of $101,112 for prepaid expenses, and unassigned fund balance of $(6,827).

Small Communities Projects Fund
The small communities projects fund has restricted fund balance of $1,450 consisting primarily of unspent grant funds.

NOTE 14 - FUND BALANCE - CONTINUED

Line Fee Fund
The capital reserve fund has a restricted fund balance of $380,156, consisting primarily of unspent line fees and state grant funds.

Capital Projects Fund
The capital projects fund has an unassigned fund balance of $(620,230), consisting of capital expenditures over the available resources in the fund. This negative balance will be covered through the issuance of a general obligation bond subsequent to year-end.

Nonmajor Funds
The liquid fuels fund has a restricted fund balance of $12, consisting primarily of unspent state grant funds restricted by state law.

The canine fund has a restricted fund balance of $6,141, consisting primarily of unspent donations contributed for the purpose of supporting the police dog program.

The library fund has a restricted fund balance of $77, consisting primarily of tax revenues restricted by Council's adoption of annual tax levy resolutions.

The parks fund has a restricted fund balance of $13,520, consisting primarily of tax revenues restricted by Council's adoption of annual tax levy resolutions.

The debt service fund has a restricted fund balance of $8,237, consisting primarily of tax revenues restricted by Council's adoption of annual tax levy resolutions.

NOTE 15 - SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through July 16, 2012, the date the financial statements were available to be issued.

On March 28, 2012, the City issued $2,500,000 General Obligation Bonds, Series of 2012 to complete the public safety building and library projects and fund other capital improvement projects.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended December 31, 2011

	GAAP Basis Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis
REVENUES			
Taxes	$ 2,114,698	$ (6,792)	$ 2,107,906
Licenses and permits	329,318	163	329,481
Fines and forfeits	63,391	-	63,391
Interest, rents, and royalties	140	-	140
Intergovernmental revenue	374,631	(43,629)	331,002
Charges for services	988,843	61,417	1,050,260
Miscellaneous revenue	25,180	5,833	31,013
TOTAL REVENUES	3,896,201	16,992	3,913,193
EXPENDITURES			
Current:			
General Government	1,457,511	91,508	1,549,019
Public safety	1,257,434	(25,193)	1,232,241
Health and welfare	47,219	48,944	96,163
Public Works:			
Sanitation	420,448	-	420,448
Highways, roads, and streets	573,327	181,663	754,990
Other	5,358	-	5,358
Culture and recreation	14,128	161,666	175,794
Conservation and development	47,312	335	47,647
Debt Service:			
Principal	-	-	-
Interest	6,687	500,000	506,687
Capital Outlay	-	-	-
TOTAL EXPENDITURES	3,829,424	958,923	4,788,347
EXCESS REVENUES OVER (UNDER) EXPENDITURES	66,777	(975,915)	(875,154)
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(5,618)	-	(5,618)
Operating transfers in	-	253,302	253,302
TOTAL OTHER FINANCING TOTAL OTHER FINANCING SOURCES (USES)	(5,618)	253,302	247,684
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ 61,159	$ (722,613)	$ (627,470)

See note to required supplementary information.

Original Budget	Final Budget	Variance with Final Budget
$ 1,984,351	$ 1,984,351	$ 123,555
171,500	171,500	157,981
68,000	68,000	(4,609)
1,000	1,000	(860)
322,200	322,200	8,802
1,077,700	1,077,700	(27,440)
32,000	32,000	(987)
3,656,751	3,656,751	256,442
1,527,707	1,527,707	(21,312)
1,222,194	1,222,194	(10,047)
29,000	29,000	(67,163)
421,000	421,000	552
727,363	727,363	(27,627)
2,550	2,550	(2,808)
50,000	50,000	(125,794)
61,687	61,687	14,040
-	-	-
3,000	3,000	(503,687)
-	-	-
4,044,501	4,044,501	(743,846)
(387,750)	(387,750)	(487,404)
-	-	(5,618)
-	-	253,302
-	-	247,684
$ (387,750)	$ (387,750)	$ (239,720)

CITY OF MONESSEN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - PENSION TRUST FUNDS

December 31, 2011

I. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age 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 Pension Plan						
January 1, 2007	$ 3,055,743	$ 4,281,003	$ 1,225,260	71.4	$ 654,911	187%
January 1, 2009	2,974,633	4,404,911	1,430,278	67.5	631,214	227%
January 1, 2011	3,353,874	4,693,620	1,339,746	71.5	668,759	200%
Paid Fire Truck Drivers' Plan						
January 1, 2007	$ 609,514	$ 491,421	$ (118,093)	124.0	$ -	0%
January 1, 2009	466,428	469,148	2,720	99.4	-	0%
January 1, 2011	408,720	446,300	37,580	91.6	-	0%

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

II. Schedule of Employer Contributions

Plan	Year Ending	Annual Required Contribution	Percentage Contributed
Police Pension Plan	2007	$ 287,370	100%
	2008	258,683	100%
	2009	248,740	100%
	2010	238,973	100%
	2011	281,340	100%
Paid Fire Truck Drivers' Pension	2007	$ -	100%
	2008	-	100%
	2009	-	100%
	2010	-	100%
	2011	14,258	100%

See note to required supplementary information.

CITY OF MONESSEN

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS -
POST EMPLOYMENT BENEFIT PLAN

December 31, 2011

Schedule of Funding Progress

	Actuarial Valuation Date (a)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
Governmental Activities	1/1/2009	$ -	$ 5,518,656	$ 5,518,656	0.00%	$ 1,405,959	393%

Schedule of Employer Contributions

Year	Annual Required Contributions	Percentage Contributed
2011	$ 505,611	37.2%
2010	511,380	31.2%
2009	517,601	26.7%

See note to required supplementary information.

CITY OF MONESSEN

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2011

NOTE TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - 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 2011 in various departments. The total expenditures for the General Fund did exceed appropriations. The excesses were funded by revenues received that were greater than the budgeted amounts and prior year fund balances.

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 - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2011

	Special Revenue Funds			
	Liquid Fuels	Canine Fund	Library Fund	Parks Fund
ASSETS				
Cash and cash equivalents	$ 12	$ 6,141	$ 77	$ 14,669
Interfund receivables	-	-	-	-
TOTAL ASSETS	$ 12	$ 6,141	$ 77	$ 14,669
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ -	$ -	$ -	$ 1,149
FUND BALANCES				
Restricted fund balance	12	6,141	77	13,520
TOTAL LIABILITIES AND FUND BALANCES	$ 12	$ 6,141	$ 77	$ 14,669

Debt Service Fund	Nonmajor Governmental Funds Total
$ 137	$ 21,036
8,100	8,100
$ 8,237	$ 29,136
$ -	$ 1,149
8,237	27,987
$ 8,237	$ 29,136

CITY OF MONESSEN

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

Year Ended December 31, 2011

	Special Revenue Funds			
	Liquid Fuels	Canine Fund	Library Fund	Parks Fund
REVENUES				
Taxes	$ -	$ -	$ 55,000	$ 210,709
Interest, rents, and royalties	58	7	4	30
Intergovernmental revenue	207,300	-	-	-
Charges for services	-	-	-	6,410
Miscellaneous revenue	-	14,674	-	66
TOTAL REVENUES	207,358	14,681	55,004	217,215
EXPENDITURES				
Current:				
Public safety	-	13,091	-	-
Public Works:				
Highways, roads, and streets	207,345	-	-	-
Culture and recreation	-	-	55,000	222,760
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	207,345	13,091	55,000	222,760
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	13	1,590	4	(5,545)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	-	5,619
Interfund transfers out	(1)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1)	-	-	5,619
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	12	1,590	4	74
FUND BALANCES AT BEGINNING OF YEAR	-	4,551	73	13,446
FUND BALANCES AT END OF YEAR	$ 12	$ 6,141	$ 77	$ 13,520

Debt Service Fund	Nonmajor Governmental Funds Total
$ 186,444	$ 452,153
46	145
-	207,300
-	6,410
-	14,740
186,490	680,748
-	13,091
-	207,345
-	277,760
132,108	132,108
60,969	60,969
193,077	691,273
(6,587)	(10,525)
-	5,619
-	(1)
-	5,618
(6,587)	(4,907)
14,824	32,894
$ 8,237	$ 27,987

CITY OF MONESSEN

COMBINING STATEMENT OF NET ASSETS -
FIDUCIARY FUNDS

December 31, 2011

	Police Pension Fund	Fire Truck Drivers Pension Fund	Nonuniformed Pension Fund	Total Trust Funds
ASSETS				
Cash and investments	$ 3,182,843	$ 331,032	$ 1,330,446	$ 4,844,321
TOTAL ASSETS	$ 3,182,843	$ 331,032	$ 1,330,446	$ 4,844,321
NET ASSETS				
Held in trust for employee pension benefits	$ 3,182,843	$ 331,032	$ 1,330,446	$ 4,844,321
TOTAL NET ASSETS	$ 3,182,843	$ 331,032	$ 1,330,446	$ 4,844,321

CITY OF MONESSEN

COMBINING STATEMENT OF CHANGES IN NET ASSETS -
FIDUCIARY FUNDS

Year Ended December 31, 2011

	Police Pension Fund	Fire Truck Drivers Pension Fund	Nonuniformed Pension Fund	Total Trust Funds
ADDITIONS				
Contributions - employer	$ 236,266	$ 14,258	$ 62,556	$ 313,080
Contributions - employee	27,779	-	40,818	68,597
Interest and dividends	85,480	9,524	10,046	105,050
Net increase (decrease) in fair value of investments	(226,737)	(25,257)	(50,219)	(302,213)
TOTAL ADDITIONS	122,788	(1,475)	63,201	184,514
DEDUCTIONS				
Administration	51,235	11,589	6,354	69,178
Benefits	250,203	54,557	6,231	310,991
TOTAL DEDUCTIONS	301,438	66,146	12,585	380,169
CHANGE IN NET ASSETS	(178,650)	(67,621)	50,616	(195,655)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	3,361,493	398,653	1,279,830	5,039,976
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	$ 3,182,843	$ 331,032	$ 1,330,446	$ 4,844,321

CITY OF MONESSEN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through the Commonwealth of Pennsylvania:			
Community Development Block Grant/State's program	I	14.228	C000036513
Community Development Block Grant/State's program	I	14.228	C000045883
Community Development Block Grant/State's program	I	14.228	C000049541
Community Development Block Grant/Section 108 Loan Guarantee Program	I	14.248	B-04-DC-42-0001-A
Passed through Westmoreland County			
HOME Program	I	14.239	Not provided
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
U.S. DEPARTMENT OF JUSTICE			
Passed through the City of New Kensington:			
ARRA - Edward Byrne Memorial Justice Assistance Grant Program (JAG)	I	16.804	2009-F-6345-PA-SB
U.S. DEPARTMENT OF AGRICULTURE			
Community Facilities Loans and Grants	D	10.776	Not provided
TOTAL FEDERAL AWARDS			

Source Codes:

D = Direct funding; I = Indirect funding

Grant Period	Total Award	Amount Received	Accrued or (Deferred) Revenue at 12/31/10	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at 12/31/11
08/20/08 - 08/19/13	$ 337,987	$ 9,036	$ -	$ 9,036	$ 9,036	$ -
08/07/09 - 08/06/14	342,457	19,719	7,351	12,851	12,851	483
08/24/10 - 08/23/15	366,761	144,835	11,433	140,495	140,495	7,093
09/19/11 - 08/31/13	3,490,000	3,490,000	-	2,484,500	2,484,500	(1,005,500)
01/01/11-12/31/11	2,000	2,000	-	2,000	2,000	-
		3,665,590	18,784	2,648,882	2,648,882	(997,924)
01/01/09 - 12/31/10	46,199	17,919	6,000	11,919	11,919	-
	50,000	-	-	50,000	50,000	50,000
		$ 3,683,509	$ 24,784	$ 2,710,801	$ 2,710,801	$ (947,924)

CITY OF MONESSEN

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

NOTE 1 - BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting which recognizes income in the period it is earned and expenses in the period they are incurred.

HERBEIN+COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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Report on 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, as of and for the year ended December 31, 2011, which collectively comprise the City of Monessen's basic financial statements and have issued our report thereon dated July 16, 2012. 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

Management of the City of Monessen is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Monessen's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Monessen's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Monessen's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis, A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. See 11-1 and 11-2. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Monessen'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 of Monessen in a separate letter dated July 16, 2012.

The City of Monessen'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 of Monessen's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the mayor and city council members, 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.

Reading, Pennsylvania
July 16, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

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American Institute of Certified Public Accountants Private Companies Practice Section
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Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on 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 City of Monessen's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Monessen's major federal programs for the year ended December 31, 2011. The City of Monessen's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Monessen's management. Our responsibility is to express an opinion on the City of Monessen'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 of Monessen'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 of Monessen's compliance with those requirements.

In our opinion, the City of Monessen complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the City of Monessen is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Monessen'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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 of Monessen's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the management, the mayor and city council members, others within the entity, 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.

Reading, Pennsylvania
July 16, 2012

CITY OF MONESSEN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

Section I - 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
Significant deficiency(s) 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 deficiency(s) identified not considered to be material weaknesses?	____ yes __X__ none reported
Type of auditor's report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	____ yes __X__ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.248	Community Development Block Grant/ Section 108 Loan Guarantee Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	____ yes __X__ no

Section II - Financial Statement Findings

11-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Criteria
Financial reporting in accordance with U.S. 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 City maintains its financial records on the cash basis of accounting and does not record modified or full accrual journal entries prior to the audit in accordance with U.S. generally accepted accounting principles.

Effect
Numerous journal entries were posted as part of the audit to adjust the various funds to the modified and full accrual basis of accounting, as appropriate.

Recommendation
Financial records for all funds should be maintained in accordance with the basis of accounting required by U.S. generally accepted accounting principles.

Benefit
Maintaining financial records for all funds in accordance with U.S. generally accepted accounting principles provides for more consistent reporting to provide a more accurate assessment of financial needs. The city council can be proactive in responding to financial concerns and the information will also allow management to better monitor the operations of the City.

Management Response
See corrective action plan included in this reporting package.

Section II - Financial Statement Findings - continued

11-2 LACK OF SEGREGATION OF DUTIES

Criteria
The City receives funding from the Department of Housing and Urban Development (HUD) through the Community Development Block Grant Small Communities fund.

Condition/Cause
The Community Development Block Grant funds financial recordkeeping responsibilities are overseen by one City employee. This employee prepares disbursements, submits expenses through the IDIS system for reimbursement, records revenue, and reconciles bank statements.

Effect
The City does not have strong internal controls over the Community Development Block Grant Small Communities fund which allows for errors to be made and not be caught and corrected.

Recommendation
The City should have an employee other than the Small Communities employee prepare the bank reconciliations on a monthly basis. This other employee should also review and approve all reports representing funding reimbursement.

Benefit
The City will enhance controls over the Community Development Block Grant Small Communities fund by segregating the duties for the financial recordkeeping responsibilities.

Management Response
See corrective action plan included in this report package.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

10-2 LACK OF SEGREGATION OF DUTIES

Community Development Block Grant - CFDA 14.228

Criteria
The City receives funding from the Department of Housing and Urban Development (HUD) through the Community Development Block Grant Small Communities program.

Condition/Cause
The Community Development Block Grant funds financial recordkeeping responsibilities are overseen by one City employee. This employee prepares disbursements, submits expenses through the IDIS system for reimbursement, records revenue, and reconciles bank statements.

Effect
The City does not have strong internal controls over the Community Development Block Grant Small Communities program which allows for errors to be made and not be caught and corrected.

Recommendation
The City should have an employee other than the Small Communities employee prepare the bank reconciliations on a monthly basis. This other employee should also review and approve the reports that are submitted through the IDIS system for federal expense reimbursement.

Current Status
This is no longer a finding for federal program services.

City of Monessen

CORRECTIVE ACTION PLAN

December 31, 2011

Department of Housing and Urban Development

The City of Monessen respectfully submits the following corrective action plan for the year ended December 31, 2011.

Name and address of independent public accounting firm:

Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610

Audit period: Year Ended December 31, 2011

The findings from the December 31, 2011 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2011-1 Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles

Recommendation
Financial records for all funds should be maintained in accordance with the basis of accounting required by U.S. generally accepted accounting principles.

Action Taken
We concur with the recommendation; however, limited resources prevent us from preparing the accrual basis accounting entries. City Council and management are aware of the issue and are cognizant of this issue when making management decisions.

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2011-2 Lack of Segregation of Duties

Recommendation
The City should have an employee other than the Small Communities employee prepare the bank reconciliations on a monthly basis. This other employee should also review and approve all reports requesting funding reimbursement.

Action Taken
We concur with the recommendation and will be utilizing a part-time position to assist in adding more segregation to our office. This individual will be responsible for preparing the Small Communities bank reconciliation on a monthly basis. In addition, monthly financial reports including the bank reconciliation will be approved by City Council at council meetings.

If the Department of Housing and Urban Development has questions regarding this plan, please call Rosalie Nicksich at 724.684.9714.

Sincerely yours,

Rosalie Nicksich

Rosalie Nicksich, City Clerk
City of Monessen