April XX, 2009

Herbein + Company, Inc.
530 Pellis Road, Suite 7000
Greensburg, PA 15601

We are providing this letter in connection with your audit of the primary government financial statements of the City of Monessen (the "City") as of December 31, 2008 and for the year then ended for the purpose of expressing opinions as to whether the primary government financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned primary government financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of the date above, the following representations made to you during your audit.

1) The primary government financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity. They do not include component units, specifically the Redevelopment Authority or the Mon Valley Health and Welfare Authority.

2) We have made available to you all—

   a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

   b) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5) We understand that as part of your audit, you prepared the adjusting journal entries necessary to convert our cash basis records to the accrual basis of accounting and acknowledge that we have reviewed and approved those entries and accepted responsibility for them.

6) In regards to the depreciation calculation you prepared after we identified the year's capital asset activity and the cash to accrual conversion, we have:

   Made all management decisions and performed all management functions.

   Designated an individual with suitable skill, knowledge, or experience to oversee the services.

   Evaluated the adequacy and results of the services performed.

   Accepted responsibility for the results of the services.

7) We are in agreement with the adjusting journal entries you have proposed, and they have been posted.

8) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

9) We have no knowledge of any fraud or suspected fraud affecting the entity involving:

a) Management,

b) Employees who have significant roles in internal control, or

c) Others where the fraud could have a material effect on the financial statements.

10) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

11) We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.

12) We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefit Plans other than Pension Plans, as discussed in Note 14. The City is therefore unable to disclose the impact that adopting GASB Statement No. 45 will have on its financial position and the results of its operations when the Statement is adopted.

13) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

14) The following, if any, have been properly recorded or disclosed in the financial statements:

a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

b) Guarantees, whether written or oral, under which the City is contingently liable.

c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

15) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

16) There are no—

a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance. Council has adopted the proper ordinance to ensure that the capital reimbursements to the general fund are legal and not a violation of the budget.

b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies.*

c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

d) Reservations or designation of fund equity that were not properly authorized and approved.

17) As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

18) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

19) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

20) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

21) The financial statements properly classify all funds and activities.

22) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

23) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

24) Provisions for uncollectible receivables have been properly identified and recorded.

25) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

26) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

27) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

28) Deposits and investment securities are properly classified as to risk, and investments are properly valued.

29) Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

30) Required supplementary information (RSI) is measured and presented within prescribed guidelines.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed: _____
Title: Director of Accounts and Finance

Signed: _____
Title: City Clerk

DRAFT

CITY OF MONESSEN

WESTMORELAND COUNTY, PENNSYLVANIA

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

Year Ended December 31, 2008

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, 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, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues and expenses of the component unit that would have been presented as a major fund would have been reported as $689,862, $126,250, $563,612, $343,000 and $418,058, respectively. In addition, the assets, liabilities, fund balances, revenues and expenditures of the aggregate remaining fund information would have increased by $6,063, $0, $6,063, $176,890 and $3,019,229, respectively.

In addition, in our opinion, except for the effects of omitting blended component units as discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information for the primary government of the City as of December 31, 2008, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the City as of December 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The budgetary comparison schedule on pages 30 and 31 and pension information on page 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the primary government financial statements. The combining non-major fund financial statements and other supplementary information have been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, are fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Pittsburgh, Pennsylvania
July XX, 2009

CITY OF MONESSEN

STATEMENT OF NET ASSETS

DRAFT

December 31, 2008

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 446,356
Taxes receivable, net of allowance	736,814
Intergovernmental receivables	38,674
Loans receivable	750,373
Garbage fees	211,783
Other receivables	26,500
Prepaid expenses	128,474
TOTAL CURRENT ASSETS	2,338,974
CAPITAL ASSETS	
Land and land improvements, net of depreciation	240,404
Infrastructure, net of depreciation	460,944
Building and building improvements, net of depreciation	175,960
Fixtures and equipment, net of depreciation	132,167
Vehicles, net of depreciation	322,959
TOTAL CAPITAL ASSETS	1,332,434
TOTAL ASSETS	$ 3,671,408

See accompanying notes.

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	Governmental Activities
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 172,653
Accrued liabilities	59,109
Accrued interest payable	9,340
Current portion of notes payable	161,805
Current portion of leases payable	48,565
Deferred revenue	140,918
TOTAL CURRENT LIABILITIES	592,390
NONCURRENT LIABILITIES	
Notes payable	537,586
Leases payable	7,084
Compensated absences	219,403
TOTAL NONCURRENT LIABILITIES	764,073
TOTAL LIABILITIES	1,356,463
NET ASSETS	
Invested in capital assets, net of related debt	577,394
Restricted by enabling legislation	132,885
Unrestricted	1,604,666
TOTAL NET ASSETS	2,314,945
TOTAL LIABILITIES AND NET ASSETS	$ 3,671,408

CITY OF MONESSEN

STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:					
General government	$ 1,511,749	$ 502,827	$ 3,900	$ -	$ (1,005,022)
Public safety	1,187,056	198,031	193,563	8,818	(786,644)
Health and welfare	86,402	-	-	-	(86,402)
Public Works - sanitation	317,467	-	247,470	-	(69,997)
Public Works - highways, roads and streets	795,942	608,642	228,214	-	40,914
Public Works - other	2,644	-	-	-	(2,644)
Culture and recreation	241,059	4,140	-	-	(236,919)
Conservation and development	731,138	-	595,306	-	(135,832)
Interest on long-term debt	45,666	-	-	-	(45,666)
Total Governmental Activities	4,919,123	1,313,640	1,268,453	8,818	(2,328,212)
General Revenues:					
Real estate taxes					1,889,893
Earned income and other taxes					647,871
Unrestricted investment earnings					25,433
Miscellaneous income					15,688
Total General Revenues					2,578,885
Change in Net Assets					250,673
Net Assets - Beginning					2,064,272
Net Assets - Ending					$ 2,314,945

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See accompanying notes.

CITY OF MONESSEN

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2008

DRAFT

	General	Small Communities Projects	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 270,298	$ 26,468	$ 149,590	$ 446,356
Receivables, net of allowance where applicable:				
Taxes	736,814	-	-	736,814
Garbage fees	211,783	-	-	211,783
Loans receivable, recipients	-	750,373	-	750,373
Interfund receivable	10,153	-	-	10,153
Other	26,500	-	-	26,500
Intergovernmental receivables	-	38,674	-	38,674
Prepaid expenses	128,474	-	-	128,474
TOTAL ASSETS	$ 1,384,022	$ 815,515	$ 149,590	$ 2,349,127
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 135,216	$ 37,437	$ -	$ 172,653
Accrued liabilities	48,236	-	-	48,236
Escrow liabilities	10,873	-	-	10,873
Interfund payable	-	-	10,153	10,153
Deferred revenue	1,089,515	750,373	-	1,839,888
TOTAL LIABILITIES	1,283,840	787,810	10,153	2,081,803
FUND BALANCES				
Reserved for community projects	-	27,705	-	27,705
Reserved for capital projects	-	-	132,885	132,885
Reserved for canine expenditures	-	-	6,550	6,550
Reserved for debt service	-	-	2	2
Reserved for prepaid expenses	128,474	-	-	128,474
Unreserved, reported in:				
General Fund	(28,292)	-	-	(28,292)
TOTAL FUND BALANCES	100,182	27,705	139,437	267,324
TOTAL LIABILITIES AND FUND BALANCES	$ 1,384,022	$ 815,515	$ 149,590	$ 2,349,127

See accompanying notes.

CITY OF MONESSEN

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

DRAFT

December 31, 2008

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 267,324
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $3,691,147 and the accumulated depreciation is $2,358,713.		1,332,434
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.		1,698,970
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	$ (699,391)	
Accrued interest on notes	(9,340)	
Capital leases	(55,649)	
Compensated absences	(219,403)	(983,783)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 2,314,945

See accompanying notes.

CITY OF MONESSEN

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

DRAFT

Year Ended December 31, 2008

	General	Small Communities Projects	Non-major Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 2,098,966	$ -	$ 345,618	$ 2,444,584
Licenses and permits	230,556	-	-	230,556
Fines and forfeits	80,093	-	-	80,093
Interest, rents and royalties	14,033	7,414	3,986	25,433
Intergovernmental revenue	352,777	585,363	344,958	1,283,098
Charges for services	956,861	-	-	956,861
Miscellaneous revenue	9,817	821	5,050	15,688
TOTAL REVENUES	3,743,103	593,598	699,612	5,036,313
EXPENDITURES				
Current:				
General government	1,428,147	-	-	1,428,147
Public safety	1,162,295	-	2,463	1,164,758
Health and welfare	84,811	-	-	84,811
Public Works:				
Sanitation	306,042	-	-	306,042
Highways, roads and streets	781,443	-	-	781,443
Other	2,550	-	-	2,550
Culture and recreation	212,009	-	60,000	272,009
Conservation and development	93,085	650,917	-	744,002
Debt Service				
Principal	-	-	179,082	179,082
Interest	19,288	-	26,940	46,228
Capital Outlay	-	-	51,266	51,266
TOTAL EXPENDITURES	4,089,670	650,917	319,751	5,060,338
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(346,567)	(57,319)	379,861	(24,025)
OTHER FINANCING SOURCES (USES)				
Issuance of loan and capital lease	301,270	-	-	301,270
Operating transfers in	250,937	-	-	250,937
Operating transfers out	-	-	(250,937)	(250,937)
TOTAL OTHER FINANCING SOURCES (USES)	552,207	-	(250,937)	301,270
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	205,640	(57,319)	128,924	277,245
FUND BALANCES - BEGINNING	(105,458)	85,024	10,513	(9,921)
FUND BALANCES - ENDING	$ 100,182	$ 27,705	$ 139,437	$ 267,324

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

DRAFT

Year Ended December 31, 2008

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 277,245
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	$ 130,441	
Less: Depreciation expense	(153,469)	(23,028)
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.		
Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net assets. Repayment of principal is not an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The effect of these transactions in the Statement of Activities is shown below:		133,483
Issuance of loans	(301,270)	
Principal payments on capital leases	66,626	
Repayment of note principal	112,455	(122,189)
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.		563

See accompanying notes.

CITY OF MONESSEN

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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, 2008

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.	(15,401)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 250,673

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

DRAFT

December 31, 2008

	Police Pension Fund	Fire Truck Drivers' Pension Fund	Non-uniformed Pension Fund	Total Pension Trust Funds
ASSETS				
Cash equivalents	$ 29,690	$ 2,551	$ -	$ 32,241
Mutual fund investments	2,447,351	385,860	1,251,837	4,085,048
Interest receivable	251	18	-	269
TOTAL ASSETS	$ 2,477,292	$ 388,429	$ 1,251,837	$ 4,117,558
NET ASSETS				
Held in trust for employee pension benefits	$ 2,477,292	$ 388,429	$ 1,251,837	$ 4,117,558
TOTAL NET ASSETS	$ 2,477,292	$ 388,429	$ 1,251,837	$ 4,117,558

See accompanying notes.

CITY OF MONESSEN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

DRAFT

Year Ended December 31, 2008

	Police Pension Fund	Fire Truck Drivers' Pension Fund	Non-uniformed Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions - employer	$ 258,683	$ -	$ 61,755	$ 320,438
Contributions - employee	26,685	-	38,598	65,283
Interest and dividends	122,788	22,169	10,949	155,906
Net decrease in fair value of investments	(1,106,929)	(204,631)	(483,135)	(1,794,695)
TOTAL ADDITIONS	(698,773)	(182,462)	(371,833)	(1,253,068)
DEDUCTIONS				
Administration	49,072	16,222	8,323	73,617
Benefits	276,493	54,557	-	331,050
TOTAL DEDUCTIONS	325,565	70,779	8,323	404,667
CHANGE IN NET ASSETS	(1,024,338)	(253,241)	(380,156)	(1,657,735)
NET ASSETS AT BEGINNING OF YEAR	3,501,630	641,670	1,631,993	5,775,293
NET ASSETS AT END OF YEAR	$ 2,477,292	$ 388,429	$ 1,251,837	$ 4,117,558

See accompanying notes.

CITY OF MONESSEN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

DRAFT

The City of Monessen, Westmoreland County, Pennsylvania, (the "City") was incorporated September 16, 1921, under the provisions of Third Class City Code, as amended. The City operates under a Council form of government and provides the following services: Public Safety, Highways and Streets, Sanitation, Health and Social Services, Culture and Recreation, Public Improvements, Planning and Zoning and General Administrative Services. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the government's operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City used guidance issued by 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.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Based on the foregoing criteria, the reporting entity has been defined to include all component units for which the City is financially accountable or for which there is another significant relationship. The criteria of GASB, Codification Section 2100, has been examined as to the relationship of the City to the Redevelopment Authority of the City of Monessen (the "Authority"), Monessen Civic Recreation Authority, the Mon Valley Health and Welfare Authority and the Mon Valley Refuse Disposal Authority. It has been determined that the Redevelopment Authority of the City of Monessen is a component unit of the City. The component unit would be blended as a Proprietary Fund for reporting purposes. However, the Redevelopment Authority's financial information has not been included in these primary government financial statements. The Mon Valley Health and Welfare Authority would also be a blended component unit. Its financial data has not been included in these primary government financial statements. Both entities issue separate financial statements that are available at the City's offices.

The Monessen Civic Recreation Authority was formed by the City of Monessen and the Monessen School District, both of which appoint members of the Authority Board. The City Council of Monessen allocates a portion of the City budget to the Recreation Authority each year. Its activities are not material to the City of Monessen's financial statements. During 2008, the City paid $5,000 to the Recreation Authority. The Mon Valley Refuse Disposal Authority was formed by the City of Monessen and the Borough of North Belle Vernon, both of which have voting members on the Authority Board. Four members are from Monessen and three members are from North Belle Vernon. However, the City cannot impose its will on the Refuse Authority, a financial benefit or burden does not exist and the Refuse Authority is not fiscally dependent on the City. During 2008, the City paid $306,042 to the Refuse Authority for services.

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

Government-Wide and Fund Financial Statements:
The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, would be reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Separate financial statements are provided for governmental 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Those revenues susceptible to accrual are charges for services and interest revenues associated with the current fiscal period and have been recognized as revenues of the current fiscal period. Fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash. The City has elected not to recognize tax revenue received in the subsequent period, even if received within 60 days and related to the year reported.

The City reports the following major Governmental Funds:

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

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City also uses the following non-major funds: Liquid Fuels (to account for the City's Liquid Fuels grant activity), Capital Reserve (to account for real estate taxes levied for the City's capital activity), Canine Fund (to account for contributions to support the City's police dog), Library (to account for real estate taxes levied for and grants to the Library) and Debt Service (to account for the City's real estate taxes levied for payments for debt service).

Additionally, the City reports the following Fiduciary Funds:

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

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).

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 of revenues over expenditures and other financing uses (budgetary basis)	$	556,793
Adjustments to revenues for accruals		(227,619)
Adjustments to expenditures for accruals		(123,534)
Excess of Revenues Over Expenditures and Other Financing Sources (GAAP Basis)	$	205,640

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.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Investments:
For funds other than Pension Trust Funds, State law allows the City to invest in obligations of the United States of America, the Commonwealth of Pennsylvania or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the City to invest in certificates of deposit of banks, savings and loan associations and savings banks, both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the FDIC or other like insurance and that deposits in excess of such insurance are collateralized by the depository. The law provides that the City's Pension Trust Funds may be invested in any form or type of investment or financial instrument when determined by the City to be prudent. Investments are reported at fair value based on quoted market prices.

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

Inventory and Prepaid Items:
The cost of inventory is recorded as an expenditure at the time individual inventory items are purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Fixed Assets:
Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected not to retroactively report infrastructure assets. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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	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.

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

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

Fund Equity:
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances, if any, are established to indicate tentative plans for future financial resource utilization. An amount of restricted net assets has been reported for future sewer improvements. The equity is restricted by enabling legislation enacted in 2008.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Use of Estimates:
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

NOTE 2 - CASH AND INVESTMENTS

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

Custodial Credit Risk - Deposits:
Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2008, $9,057 of the City's bank balance of $556,393 was exposed to custodial credit risk as it was uninsured and the collateral was held by the pledging bank's trust department and was not in the City's name. $70,381 was uninsured as it was invested in the Pennsylvania Local Government Investment Trust ("PLGIT"). PLGIT is not SEC registered but is subject to oversight by the Commonwealth of Pennsylvania.

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NOTE 2 - CASH AND INVESTMENTS - CONTINUED

Reconciliation to Financial Statements:		
Collateral held by pledging bank's trust department not in the City's name	$	9,057
Uninsured and uncollateralized - PLGIT		70,381
Plus: Insured amount		476,955
Less: Outstanding checks		(110,037)
Carrying Amount - Cash Balances	$	446,356

At December 31, 2008, the City had the following investments in its Fiduciary Funds:

Investments in cash equivalents	$	32,241
Investments in mutual funds		4,085,048
Carrying Amount - Investment Balances	$	4,117,289

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

Credit Risk:
The City has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2008, the City's investments had the following ratings by Morningstar: two stars - Bridgeway Aggressive Investors fund ($114,139) and the MFS Sector Rotational A fund ($115,277); three stars - AIM Trimark Endeavor A ($457), JP Morgan Mid Cap Value A fund ($258,715), Keeley Small Cap Value A ($72,795), PowerShares FTSE RAFI US 1000 ($111,338), Franklin Income A ($187,697), PIMCO Developing Local Markets ($172,493), and SunAmerica Strategic Bond A ($174,282); four stars - Stratton Small Cap Value ($73,045), MFS Emerging Markets Debt A ($59,586), Vanguard Convertible Securities ($102,782), Cohen & Steers International Realty ($113,152) and Highbridge Statistical Markets Neutral ($113,899); five stars - Chase Growth ($116,473), MFS Value A ($199,211), Thornburg International Value A ($339,151) and PIMCO Total Return A ($10,112). No rating was available for the remainder of the City's investments.

Concentration of Credit Risk:
The City places no limit on the amount the City may invest in any one issuer. As of December 31, 2008, the City has no investments subject to concentration of credit risk.

Custodial Credit Risk:
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City's investments for the police and fire plans are held in an omnibus account in the name of the RSGroup Trust Company. AIG Valic is the custodian of the non-uniformed plan investments.

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NOTE 3 - PROPERTY TAXES

Property taxes levied for 2008 and unpaid are recorded as receivables, net of estimated uncollectible amounts. The net receivables available to fund 2008 expenditures have not been recognized as revenue in 2008. 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% of estimated market value beginning in year 1973. The last valuation was completed as of December 31, 1972. The non-exempt assessed value (land and building) upon which the 2008 levy was based was $59,882,110.

Real estate tax bills are rendered by the City in March of each year. Taxes are due by June 30 of each year with a 2% discount awarded for payments made in March and April. A 10% penalty is assessed for payments made subsequent to June 30. Taxes still uncollected as of January 1 of the following year become delinquent and are turned over to the County's Tax Claim Bureau by January 15. Delinquent taxes are then liened; however, an allowance for uncollectible taxes has been provided in the amount of $63,485.

NOTE 4 - CAPITAL ASSETS

	Beginning Balance	Additions	Disposals	Ending Balance
Land and land improvements	$ 704,052	$ -	$ -	$ 704,052
Infrastructure	402,993	93,346	-	496,339
Buildings and improvements	1,139,088	-	-	1,139,088
Fixtures and equipment	665,054	-	-	665,054
Vehicles	664,519	37,095	(15,000)	686,614
Totals at Historical Cost	3,575,706	130,441	(15,000)	3,691,147
Less accumulated depreciation for:				
Land improvements	449,793	13,855	-	463,648
Infrastructure	24,161	11,234	-	35,395
Buildings and improvements	952,966	10,162	-	963,128
Fixtures and equipment	485,654	47,233	-	532,887
Vehicles	307,670	70,985	(15,000)	363,655
Total Accumulated Depreciation	2,220,244	153,469	(15,000)	2,358,713
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	1,355,462	(23,028)	-	1,332,434
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 1,355,462	$ (23,028)	$ -	$ 1,332,434

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NOTE 4 - CAPITAL ASSETS - CONTINUED

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

General government	$	51,036
Public safety		44,809
Health and welfare		1,591
Public Works - sanitation		11,425
Public Works - highways, roads and streets		23,583
Public Works - other		94
Culture and recreation		13,170
Conservation and development		7,761
Total Depreciation Expense - Governmental Activities	$	153,469

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

NOTE 5 - LOANS RECEIVABLE, RECIPIENTS

Loans receivable, recipients, at December 31, 2008 consists of rehabilitation loans in the Small Communities Projects of $750,373. Loans granted through the Small Communities Projects Fund are for the rehabilitation of owner occupied properties in need of repair. Interest rates vary from interest free to 4% based on the recipient's income and family size. The loans have a twenty-year term and are collateralized by the recipient's property. Loans granted under the City of Monessen Enterprise Development Zone Program are to small businesses and industries. They can be used for the start-up of new businesses or to improve or expand the facilities of an existing business. The loans have a 5% interest rate and a five-year term that can be extended to ten years. The loans are collateralized by land, buildings and/or equipment. The loans are secured by mortgages on the properties or security interests in equipment and thus, management has determined that no allowance for loan losses is necessary. Loans in the Small Communities Projects Fund are offset by deferred revenue in the amount of $750,373 as the assets are not available.

NOTE 6 - DEFERRED REVENUE

The City receives lump sum distributions through various grant programs administered by the Pennsylvania Department of Community and Economic Development. The funds received are for operation of various programs as authorized by the grant contracts. The unexpended balance of these funds is recorded as deferred revenue. The deferred revenue will be recognized as it is expended throughout the term of the program. Tax and loans receivable that are not yet available are also deferred.

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NOTE 6 - DEFERRED REVENUE - CONTINUED

Deferred revenue at December 31, 2008 consists of the following:

General Fund:		
Real estate taxes	$	572,806
Earned income taxes		164,008
Deferred grant funds		23,652
Delinquent garbage fees		211,783
2009 garbage fees collected in 2008		117,266
Total	$	1,089,515

Only the amounts related to deferred grant funds and 2009 garbage fees collected in 2008 have been reported as deferred revenue on the Statement of Net Assets.

NOTE 7 - LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions with respect to notes and capital lease obligations for the year ended December 31, 2008 of the Governmental Funds:

	Balance at Beginning of Year	New Loans	Principal Payments	Balance at End of Year	Due in One Year
Notes Payable:					
General obligation term loan, interest at 5.15%, payable in annual installments of $13,283 through April 15, 2012. (A)	$ 58,000	$ -	$ 11,065	$ 46,935	$ 10,866
General obligation term loan, interest at 4.59%, payable in annual installments of $57,037 through October 17, 2013. (F)	293,339	-	43,573	249,766	45,573
General obligation note, interest at 3.62%, payable in annual installments of $49,283 through June 1, 2011. (B)	180,507	-	42,749	137,758	44,296
General obligation note, interest at 4.02%, payable in annual installments of $56,188 through December 15, 2013. (G)	-	250,000	-	250,000	46,138
General obligation note, interest at 4.75%, payable in annual installments of $15,642 through July 1, 2009. (H)	-	30,000	15,068	14,932	14,932

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NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

	Balance at Beginning of Year	New Loans	Principal Payments	Balance at End of Year	Due in One Year
Capital Leases Payable:					
Equipment capital lease, interest at 4.11%, payable in five annual installments of $19,762 through June 2008. (C)	18,968	-	18,968	-	-
Equipment capital lease, interest at 5.95%, payable in three annual installments of $7,503 through July 2010. (D)	-	21,270	7,504	13,767	6,683
Equipment capital lease, interest at 4.3%, payable in five annual installments of $43,682 through April 2009. (E)	82,037	-	40,155	41,882	41,882
TOTAL	$ 632,851	$ 301,270	$ 179,082	$ 755,040	$ 210,370

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

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

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

(D) During 2008, the City entered into a lease agreement with Ford Motor Company for a Ford Crown Victoria. The City will make three annual payments through 2010.

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

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

(G) During 2008, the City borrowed $250,000 from PNC Bank for cash flow purposes. The City will make five equal payments through 2013.

(H) During 2008, the City borrowed $30,000 from First Federal Savings Bank. The City will make two equal payments of $15,642.

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NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

No short-term debt was outstanding at January 1, 2008. During 2008, the City borrowed and repaid $500,000 under a tax anticipation note for cash flow purposes in 2008 at an interest rate of 3.89%. On January 2, 2009, another tax anticipation note of $500,000 was obtained with similar terms to be repaid by December 31, 2009.

The annual requirements to pay principal and interest on all long-term notes outstanding at December 31, 2008 are as follows:

	Principal	Interest
2009	$ 161,805	$ 29,627
2010	152,983	22,808
2011	159,351	16,442
2012	116,701	9,807
2013	108,551	4,674
	$ 699,391	$ 83,358

The annual requirements related to capital leases at December 31, 2008 are as follows:

Fiscal Year:	
2009	$ 51,185
2010	7,504
Minimum lease payments	58,689
Less amount representing interest	(3,040)
Present Value of Minimum Lease Payments	$ 55,649

The gross amount of assets in the Balance Sheet recorded under capital leases and the accumulated amortization of vehicles at December 31, 2008 was $242,712 and $103,880, respectively. Amortization expense on the related assets has been included in the City's depreciation expense.

Changes in the City's obligation for compensated absences during 2008 are as follows:

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due in One Year
Compensated absences	$204,002	$15,401	$ -	$219,403	$ -

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

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NOTE 8 - 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 Plan. 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	$ -	$ 258,683	$ 60,800
Contributions made	$ -	$ 258,683	$ 61,755

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

	Fire	Police
Valuation Date	01/01/07	01/01/07
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar, open	Level Dollar, closed
Remaining Amortization Period	17 Years	9 Years
Asset Valuation Method	4-Year Smoothing	4-Year Smoothing
Actuarial Assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5%	5%
Includes inflation - at	3%	3%

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NOTE 8 - CITY OF MONESSEN RETIREMENT PLANS - CONTINUED

Fiscal Year	Annual Required Contribution	Percentage Contributed
FIRE PENSION FUND	$ -	100%
2006	-	100%
2007	-	100%
2008		
POLICE PENSION FUND		
2006	288,149	100%
2007	287,370	100%
2008	258,683	100%

Funded Status and Funding Progress. The funded status of each plan as of January 1, 2007, 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	$ 609,514	$ 491,421	$ (118,093)	124.03%	$ -	0.00%
Police	3,055,743	4,281,003	1,225,260	71.38%	654,911	187%

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 9 - INTERFUND ACTIVITY

The City had operating transfers in and out for the following amounts for its governmental activities during the year ended December 31, 2008:

	Operating Transfers In	Operating Transfers Out
Major Funds:		
General	$ 250,937	$ -
Non-major Funds:	-	250,937
TOTAL	$ 250,937	$ 250,937

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NOTE 9 - INTERFUND ACTIVITY - CONTINUED

Transfers between funds are substantially for the purpose of reimbursement for expenditures, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. At December 31, 2008, the General Fund is owed $10,153 from the Debt Service Fund, a non-major fund, to fund the 2008 TAN interest expense paid by the General Fund.

NOTE 10 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The City provides certain healthcare benefits for employees who retire. Full-time employees may be eligible under their respective labor contracts for benefits if actively employed by the City immediately prior to retirement. The benefits cover the retiree, their spouse and any dependents and cease when an employee dies. The cost of post-employment benefits is not accrued but is recognized as an expenditure at the time paid. These post-retirement benefits paid totaled approximately $161,000 in fiscal 2008 for 24 eligible retirees.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

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.

As a result of volatility in the financial markets, the City has experienced an unrealized loss on investments in its pension funds after December 31, 2008.

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NOTE 11 - COMMITMENTS AND CONTINGENCIES - CONTINUED

It has been determined that there are environmental issues in the City's current location. There is a lead-based paint issue to be corrected as well as masonry repointing on the Building's exterior. The costs to correct the issues may be prohibitive and as a result, City Council has made a commitment to move its offices from the present site to another building owned by the City. The City is working to secure funding for this project and hopes to have a move completed by 2009.

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

NOTE 12 - CONDIUT DEBT

During 2007, the City, through its Small Communities Fund, was party to a conduit debt transaction in the amount of $2 million between the U.S. Department of Housing and Urban Development ("HUD") and a local business. In the transaction, HUD loaned $2 million to the City, which the City in turned loaned to the local business for use in its Riverfront Industrial Park project. Principal payments are due in the amount of $100,000 each August 1, beginning in 2009, through August 1, 2027 and the loan bears interest at LIBOR plus 20 basis points. Interest is due semi-annually each February 1 and August 1. The loan payments are due from the local developer. The balance at December 31, 2008 is $2 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 - MON VALLEY HEALTH AND WELFARE AUTHORITY

During 2008, the City Council voted to dissolve the Mon Valley Health and Welfare Authority (the "Authority"). As a result of the dissolution, the City will take possession of and responsibility for the Authority's two commercial office buildings. The City plans to relocate its offices to one of the buildings as well as continue to rent to unrelated tenants. The Authority will become part of the City's reporting entity in 2009 when all of the documents and the dissolution have been finalized.

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NOTE 14 - NEW ACCOUNTING STANDARDS

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefit Plans other than Pension Plans*, which are effective in future years. This statement requires the City to address estimated post-employment liabilities and their respective accounting treatment. The City is required to implement Statement No. 45 by the year ended December 31, 2009. The City has not yet determined the full impact that adoption of GASB Statement No. 45 will have on the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONESSEN

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

Year Ended December 31, 2008

	GAAP Basis Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Original Budget	Final Budget	Variance with Final Budget
REVENUES						
Taxes	$ 2,098,966	$ -	$ 2,098,966	$ 2,071,000	$ 2,071,000	$ 27,966
Licenses and permits	230,556	1,000	229,556	232,500	232,500	(2,944)
Fines and forfeits	80,093	-	80,093	86,000	86,000	(5,907)
Interest, rents and royalties	14,033	-	14,033	15,000	15,000	(967)
Intergovernmental revenue	352,777	(115,180)	467,957	395,400	395,400	72,557
Charges for services	956,861	(144,862)	1,101,723	911,600	911,600	190,123
Miscellaneous revenue	9,817	(30,000)	39,817	52,000	52,000	(12,183)
TOTAL REVENUES	3,743,103	(289,042)	4,032,145	3,763,500	3,763,500	268,645
EXPENDITURES						
Current:						
General Government	1,428,147	11,892	1,440,039	1,344,899	1,344,899	(95,140)
Public safety	1,162,295	(48,135)	1,114,160	1,212,393	1,212,393	98,233
Health and welfare	84,811	(5,019)	79,792	85,465	85,465	5,673
Public Works:						
Sanitation	306,042	-	306,042	320,000	320,000	13,958
Highways, roads and streets	781,443	(98,130)	683,313	619,993	619,993	(63,320)
Other	2,550	-	2,550	2,550	2,550	-
Culture and recreation	212,009	16,597	228,606	271,344	271,344	42,738
Conservation and development	93,085	(739)	92,346	131,056	131,056	38,710
Debt Service:						
Principal	-	-	-	-	-	-
Interest	19,288	-	19,288	-	-	(19,288)
Capital Outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	4,089,670	(123,534)	3,966,136	3,987,700	3,987,700	21,564
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(346,567)	412,576	66,009	(224,200)	(224,200)	290,209

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CITY OF MONESSEN

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

Year Ended December 31, 2008

	GAAP Basis Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Original Budget	Final Budget	Variance with Final Budget
EXCESS REVENUES OVER (UNDER) EXPENDITURES - CONTINUED	(346,567)	412,576	66,009	(224,200)	(224,200)	290,209
OTHER FINANCING SOURCES (USES)						
Issuance of loan and capital lease	301,270	(51,270)	250,000	-	-	250,000
Operating transfers in	250,937	(10,153)	240,784	219,200	219,200	21,584
TOTAL OTHER FINANCING SOURCES (USES)	552,207	(61,423)	490,784	219,200	219,200	271,584
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ 205,640	$ 351,153	$ 556,793	$ (5,000)	$ (5,000)	$ 561,793

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CITY OF MONESSEN

REQUIRED SUPPLEMENTARY INFORMATION

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SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

December 31, 2008

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

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

II. Schedule of Employer Contributions

Plan	Year Ending	Annual Required Contribution	Percentage Contributed
Police Pension Plan:	2006	288,149	100%
	2007	287,370	100%
	2008	258,683	100%
Fire Truck Drivers' Pension:	2006	-	100%
	2007	-	100%
	2008	-	100%

CITY OF MONESSEN

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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December 31, 2008

NOTES 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 2008 in various departments. The total expenditures for the General Fund did not exceed appropriations.

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

CITY OF MONESSEN

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

December 31, 2008

	Special Revenue Funds				Debt Service Fund	Non-major Governmental Funds Total
	Liquid Fuels	Capital Reserve Fund	Canine Fund	Library Fund		
ASSETS						
Cash and cash equivalents	$ -	$ 132,885	$ 6,550	$ -	$ 10,155	$ 149,590
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Interfund payable	$ -	$ -	$ -	$ -	$ 10,153	$ 10,153
FUND BALANCES						
Reserved for capital projects	-	132,885	-	-	-	132,885
Reserved for canine expenditures	-	-	6,550	-	-	6,550
Reserved for debt service	-	-	-	-	2	2
TOTAL FUND BALANCES	-	132,885	6,550	-	2	139,437
TOTAL LIABILITIES AND FUND BALANCES	$ -	$ 132,885	$ 6,550	$ -	$ 10,155	$ 149,590

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CITY OF MONESSEN

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

Year Ended December 31, 2008

	Special Revenue Funds					
	Liquid Fuels	Capital Reserve Fund	Canine Fund	Library Fund	Debt Service Fund	Non-major Governmental Funds Total
REVENUES						
Taxes	$ -	$ 60,634	$ -	$ 59,946	$ 225,038	$ 345,618
Interest, rents and royalties	3,516	161	35	53	221	3,986
Intergovernmental revenue	219,539	125,419	-	-	-	344,958
Miscellaneous revenue	-	-	5,050	-	-	5,050
TOTAL REVENUES	223,055	186,214	5,085	59,999	225,259	699,612
EXPENDITURES						
Current:						
Public safety	-	-	2,463	-	-	2,463
Public Works:						
Highways, roads and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	60,000	-	60,000
Debt Service:						
Principal	-	-	-	-	179,082	179,082
Interest	-	-	-	-	26,940	26,940
Capital Outlay	-	42,181	-	-	9,085	51,266
TOTAL EXPENDITURES	-	42,181	2,463	60,000	215,107	319,751
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	223,055	144,033	2,622	(1)	10,152	379,861
OTHER FINANCING SOURCES (USES)						
Interfund transfers out	(223,055)	(17,729)	-	-	(10,153)	(250,937)
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	126,304	2,622	(1)	(1)	128,924
FUND BALANCES AT BEGINNING OF YEAR	-	6,581	3,928	1	3	10,513
FUND BALANCES AT END OF YEAR	$ -	$ 132,885	$ 6,550	$ -	$ 2	$ 139,437

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