Here is an evaluation of the **2012 audit** for the City of Monessen, prepared by **Maher Duessel**, using the same format as before:

🔍 Interesting Aspects of the 2012 Audit

1. **Significant Internal Control Weaknesses**
    - The auditors cited **material weaknesses** in internal controls over financial reporting. Specifically, they noted numerous errors and misstatements that had to be corrected during the audit process.
    - The City's accounting staff did not prepare financial statements in accordance with GAAP without external assistance.
2. **Use of External Auditors for Basic Reporting**
    - The City relied on the audit firm not just to audit but also to **prepare its financial statements**—a sign that internal capacity was limited.
    - This arrangement was disclosed under "management is responsible" language, indicating the City could not independently produce audited-ready statements.
3. **Bank Reconciliation Issues**
    - Bank accounts were not being **reconciled timely or accurately**, contributing to misstatements in cash balances.
4. **General Ledger Adjustments**
    - The audit required **numerous adjustments** to correct improper classifications and omissions in the general ledger, including capital assets and liabilities.
5. **Lack of Grant Documentation**
    - As with the 2017 audit, the City lacked proper tracking and documentation for **federal and state grants**, risking noncompliance with terms and reporting requirements.

🚓 Police Medicare Withholdings

- The **2012 audit does not explicitly mention Medicare withholding issues for police officers**.
- This topic may not have been reviewed in depth or identified as a concern at the time. It’s possible the IRS compliance issue (discussed in the 2017 audit) either emerged later or was simply not caught in 2012.

☑ Key Recommendations in the Audit

- **Develop internal capability** to prepare financial statements in-house, or establish stronger review protocols if outside preparation continues.
- **Reconcile all bank accounts monthly** and ensure balances agree with the general ledger.
- **Implement grant tracking mechanisms** that include documentation, deadlines, and spending rules.
- **Establish formal internal controls** and written procedures for finance and administration.
- Train finance staff to improve GAAP compliance and reduce reliance on auditors for basic reporting functions.

City of Monessen

Financial Statements and
Required Supplementary
and Supplementary Information

Year Ended December 31, 2012
with Independent Auditor's Reports

CITY OF MONESSEN

YEAR ENDED DECEMBER 31, 2012

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CITY OF MONESSEN

YEAR ENDED DECEMBER 31, 2012

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YEAR ENDED DECEMBER 31, 2012

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Independent Auditor's Report

Honorable Mayor and Members
of City Council
City of Monessen

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Monessen (City), Pennsylvania, as of and for the year ended December 31, 2012, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation from the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, and the respective

changes in financial position, and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension information, and other postemployment benefit plan information, on pages i through vi, 47 through 49, 50 through 52, and 53 through 54 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor governmental fund financial statements and combining fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 financial statements, combining fiduciary fund financial statements, and 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 basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental fund financial statements, combining fiduciary fund financial statements, and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2013, 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* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
August 1, 2013

CITY OF MONESSEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

As management of the City of Monessen (City), Pennsylvania, we offer readers of the City's financial statements this narrative overview and analysis of the financial performance of the City for the fiscal year ended December 31, 2012. Please read this Management's Discussion and Analysis in conjunction with the financial statements which follow in order to obtain a thorough understanding of the City's financial condition at December 31, 2012.

FINANCIAL HIGHLIGHTS

- The City's net position, as presented, was $5,543,400 at December 31, 2012, a decrease of $1,265,394 from 2011.
- At the end of the current fiscal year, the City had total bonds and notes outstanding of $7,611,053.
- The real estate tax millage rate remained at 35.85 mills for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This overview is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also contains other required supplementary information and supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements report on the City's net position and how they have changed.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements indicate that the functions of the City are principally supported by taxes and intergovernmental revenue (*governmental activities.)* The City also participates in a function that is intended to recover all or a significant portion of its costs through user fees and charges (*business-type activities).* The governmental activities of the City encompass general government, public safety, public works, culture and recreation, and debt service activities. The business-type activities include the rental of the City's Eastgate building.

Fund Financial Statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City reports governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City maintained nine governmental funds during 2012. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund, Small Communities Projects Fund, Line Usage Fee Fund, and Capital Projects Fund which are considered major funds. The other governmental funds are the Liquid Fuels Fund, Canine Fund, Library Fund, Parks Fund, and Debt Service Fund. Data from these other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these other governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for some of its governmental funds. A budgetary comparison statement has been provided for major funds to demonstrate compliance with this budget.

The governmental financial statements can be found on pages 1 through 7 of this report.

Proprietary Funds - The City maintains one proprietary funds. An Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for its building rental operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail

The basic proprietary fund financial statements can be found on pages 8 through 10 of this report.

Fiduciary Funds - *Fiduciary funds* are used to account for assets held in a trustee capacity. The City's fiduciary fund consists of its pension funds.

Fiduciary funds are reported on the accrual basis of accounting whereas revenues are recorded when earned and expenses are recorded when a liability is incurred.

The fiduciary funds financial statements can be found on pages 11 through 12 of this report.

Notes to Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 13 through 46 of this report.

Required Supplementary Information - This section of the report contains certain pension information and other postemployment benefit information required by accounting principles generally accepted in the United States of America. This information can be found on pages 47 through 54 of this report.

Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also includes the combining statements referred to earlier in connection with the other governmental funds and fiduciary funds and the schedule of expenditures and federal awards. These can be found on pages 55 through 59 of this report.

FINANCIAL ANALYSIS OF THE CITY

As noted earlier, net position may serve over time as a useful indicator of a government agency's financial position. Net position increases when revenues exceed expenses. In the case of the City, assets exceeded liabilities by $5,543,400 at the close of the fiscal year.

A condensed summary of the City's net position at December 31, 2012 and 2011 is as follows.

	2012	2011	Variance
Assets			
Current assets	$ 1,629,961	$ 3,805,771	$ (2,175,81
Capital non-current assets	13,464,042	12,107,376	1,356,66
Non-current assets	766	-	76
Other assets	229,890	137,746	92,14
Total Assets	$ 15,324,659	$ 16,050,893	$ (726,23
Liabilities and Net Position			
Liabilities:			
Current and other liabilities	$ 884,281	$ 2,934,557	$ (2,050,27
Non-current liabilities	8,896,978	6,307,542	2,589,43
Total Liabilities	9,781,259	9,242,099	539,16
Net Position:			
Net investment in capital assets	6,004,127	6,819,590	(815,463
Restricted	98,448	380,156	(281,708
Unrestricted	(559,175)	(390,952)	(168,223
Total Net Position	5,543,400	6,808,794	(1,265,394
Total Liabilities and Net Position	$ 15,324,659	$ 16,050,893	$ (726,234

The decrease in assets is mainly due to a decrease in cash and cash equivalents and intergovernmental receivables.

The City has short-term obligations and they include accounts payables, unearned revenues, liabilities payable from restricted assets, other postemployment benefits and long-term liabilities that come due within one year. Decreases in current and other liabilities were mainly due to decreases in accounts payables and deferred revenue.

Non-current liabilities increased as a result of the 2012 bond issuance. Note 8 following the financial statements discusses the new debt.

A condensed summary of the City's change in net position for the fiscal years ended December 31, 2012 and 2011 for all funds is as follows:

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for service	$ 1,682,306	$ 1,429,373	$ 264,948	$ 274,897	$ 1,947,254	$ 1,704,270
Operating grants and contributions	1,798,780	3,461,181	-	-	1,798,780	3,461,181
Capital grants and contributions	1,094,209	3,673,784	-	-	1,094,209	3,673,784
General revenues:						
Real estate taxes	2,142,283	1,770,121	-	-	2,142,283	1,770,121
Earned income and other taxes	656,305	689,342	-	-	656,305	689,342
Investment earnings	5,173	13,842	-	27	5,173	13,869
Miscellaneous income	68,699	39,920	318	-	69,017	39,920
Total revenues	7,447,755	11,077,563	265,266	274,924	7,713,021	11,352,487
Program expenses:						
General government	2,077,439	1,850,367	-	-	2,077,439	1,850,367
Public safety	1,471,206	1,501,184	-	-	1,471,206	1,501,184
Health and welfare	60,477	56,687	353,383	364,406	413,860	421,093
Public works - sanitation	672,546	437,648	-	-	672,546	437,648
Public works - roads	1,525,716	1,130,024	-	-	1,525,716	1,130,024
Public works - other	21,755	47,934	-	-	21,755	47,934
Culture and recreation	446,951	304,709	-	-	446,951	304,709
Conservation and development	2,157,704	2,797,379	-	-	2,157,704	2,797,379
Interest on long-term debt	191,238	30,394	-	-	191,238	30,394
Total expenses	8,625,032	8,156,326	353,383	364,406	8,978,415	8,520,732
Change in Net Position	(1,177,277)	2,921,237	(88,117)	(89,482)	(1,265,394)	2,831,755
Net position - beginning - restated for business type activites	5,094,155	2,172,918	1,714,639	1,804,121	6,808,794	3,977,039
Net position - ending	$ 3,916,878	$ 5,094,155	$ 1,626,522	$ 1,714,639	$ 5,543,400	$ 6,808,794

Overall, the City had a decline in revenue as less grants and contributions were received in 2012. Expenses increased in 2012 as a result of an increase in general government expenses and the increase in costs for road projects for Public works.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a

government agency's net resources available for spending at the end of the fiscal year.

As of the end of 2012, the City's governmental funds reported combined ending net position of $3,916,878. ($598,943) of this amount constitutes *unrestricted net position.*

BUDGETARY HIGHLIGHTS

During the year, actual General Fund revenues increased 9% over budgetary estimates, or by $344,436; expenditures were less than budgetary estimates by $216,609 or 5%. The net change in fund balance had a positive variance of $48,743 (actual versus budget) after calculating other financing sources (uses).

A detailed budgetary comparison statement for the General Fund can be found on page 47 of this report.

During the year, actual Line Usage Fee Fund revenues increased 158% over budgetary estimates, or by $439,892; expenditures were greater than budgetary estimates by $851,543 or 305%. The net change in fund balance had a negative variance of $411,651 (actual versus budget) after calculating other financing sources (uses). Revenue variances were the result of the City not including grant revenue in the budget as grant revenue was based on expenses incurred. Expenditure variances are the result of the City not including capital outlay expenses in the budget. A detailed budgetary comparison statement for the Line Usage Fee Fund can be found on page 48 of this report.

DEBT ADMINISTRATION

Long-Term Debt - At the end of the current fiscal year, the City had total bonds and loans outstanding of $7,611,053 (not inclusive of capital leases). More detailed information about the City's debt activity can be found in Note 8 to the financial statements.

CAPITAL ASSETS

During 2012, the City's roof project, library, and public safety building were completed. The Grand Boulevard Sanitary Sewer Line replacement continues to be in progress. Capital assets can be found in Note 5 to the financial statements.

ECONOMIC OUTLOOK

As is the case with most local governments, the City is struggling to continue to provide its citizens the same level of service that they have come to expect over the years. The City is keeping a close eye on the state of the economy and its effect on the City's budget. The majority of the City's tax base is residential. The City residents take pride in their community and maintain their neighborhoods. The City remains a very desirable place to live, work, and play.

The City Council and management continue to meet the ever increasing challenging of securing all monies due to the City and controlling expenditures in an effort to continue to provide outstanding service at a reasonable cost. The City offers many services, including the administration of police and fire protection, parks and recreation, public works, finance, and planning. The City community benefits from the coordination of these services and strong community leadership.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

City Clerk
City of Monessen
1 Wendell Ramey Lane, Suite 400
Monessen, PA 15062

CITY OF MONESSEN

STATEMENT OF NET POSITION

DECEMBER 31, 2012

Assets	Governmental Activities	Business-Type Activities	Total Primary Government
Current assets:			
Cash and cash equivalents	$ 440,284	$ 27,292	$ 467,576
Taxes receivable	759,360	-	759,360
Garbage fees, net of allowance of $341,918	-	-	-
Other receivables	34,452	18,959	53,411
Intergovernmental receivables	266,228	-	266,228
Prepaid expenses	83,386	-	83,386
Total current assets	1,583,710	46,251	1,629,961
Noncurrent assets:			
Net pension asset	766	-	766
Loans receivable, recipients, net of allowance of $656,521	-	-	-
Land and land improvements, net of depreciation	1,235,383	42,803	1,278,186
Infrastructure, net of depreciation	1,271,097	-	1,271,097
Building and building improvements, net of depreciation	4,627,700	1,510,076	6,137,776
Fixtures and equipment, net of depreciation	259,272	33,875	293,147
Vehicles, net of depreciation	438,964	-	438,964
Construction in progress	4,044,872	-	4,044,872
Total noncurrent assets	11,878,054	1,586,754	13,464,808
Other assets:			
Bond issue costs, net of amortization	229,890	-	229,890
Total Assets	$ 13,691,654	$ 1,633,005	$ 15,324,659

(Continued)

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

STATEMENT OF NET POSITION

DECEMBER 31, 2012
(Continued)

	Governmental Activities	Business-Type Activities	Total Primary Government
Liabilities and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	$ 449,440	$ 6,483	$ 455,923
Accrued liabilities	54,783	-	54,783
Escrow liabilities	19,783	-	19,783
Accrued interest payable	18,207	-	18,207
Current portion of long-term liabilities	151,053	-	151,053
Current portion of capital leases payable	15,925	-	15,925
Current portion of compensated absences	27,123	-	27,123
Deferred revenue	141,484	-	141,484
Total current liabilities	877,798	6,483	884,281
Noncurrent liabilities:			
Long-term liabilities	7,460,000	-	7,460,000
Capital leases payable	16,752	-	16,752
Bond discount, net of amortization	(129,337)	-	(129,337)
Compensated absences	196,654	-	196,654
Other postemployment benefits	1,352,909	-	1,352,909
Total noncurrent liabilities	8,896,978	-	8,896,978
Total Liabilities	9,774,776	6,483	9,781,259
Net Position:			
Net investment in capital assets	4,417,373	1,586,754	6,004,127
Restricted for:			
Capital projects	40,876	-	40,876
Small communities projects	25,347	-	25,347
Canine	11,897	-	11,897
Sewage lines	3,747	-	3,747
Library	20	-	20
Park	8,457	-	8,457
Debt service	8,104	-	8,104
Unrestricted	(598,943)	39,768	(559,175)
Total Net Position	3,916,878	1,626,522	5,543,400
Total Liabilities and Net Position	$ 13,691,654	$ 1,633,005	$ 15,324,659

(Concluded)

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and: Governmental Activities	Net (Expense) Revenue and: Business-Type Activities	Net (Expense) Revenue and: Total Primary Government
Governmental activities:							
General government	$ 2,077,439	$ 446,531	$ -	$ -	$ (1,630,908)	$ -	$ (1,630,908)
Public safety	1,471,206	192,787	191,659	-	(1,086,760)	-	(1,086,760)
Health and welfare	60,477	-	-	-	(60,477)	-	(60,477)
Public works - sanitation	672,546	650,384	-	446,561	424,399	-	424,399
Public works - highways, roads, and streets	1,525,716	328,519	200,551	-	(996,646)	-	(996,646)
Public works - other	21,755	-	-	-	(21,755)	-	(21,755)
Culture and recreation	446,951	3,500	-	647,648	204,197	-	204,197
Conservation and development	2,157,704	60,585	1,406,570	-	(690,549)	-	(690,549)
Interest	191,238	-	-	-	(191,238)	-	(191,238)
Total governmental activities	8,625,032	1,682,306	1,798,780	1,094,209	(4,049,737)	-	(4,049,737)
Business-type activities:							
Health and welfare	353,383	264,948	-	-	-	(88,435)	(88,435)
Total business-type activities	353,383	264,948	-	-	-	(88,435)	(88,435)
Total	$ 8,978,415	$ 1,947,254	$ 1,798,780	$ 1,094,209	(4,049,737)	(88,435)	(4,138,172)
General revenues:							
Real estate taxes					2,142,283	-	2,142,283
Earned income and other taxes					656,305	-	656,305
Interest and investment income					5,173	-	5,173
Miscellaneous income					68,699	318	69,017
Total general revenues					2,872,460	318	2,872,778
Change in Net Position					(1,177,277)	(88,117)	(1,265,394)
Net Position:							
Beginning of year - restated for business-type activities					5,094,155	1,714,639	6,808,794
Ending of year					$ 3,916,878	$ 1,626,522	$ 5,543,400

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

BALANCE SHEET
GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	General Fund	Small Communities Projects Fund	Line Usage Fee Fund	Capital Projects Fund	Other Governmental Funds	Total
Assets						
Cash and cash equivalents	$ 328,241	$ 20,602	$ 8,989	$ 69,077	$ 13,375	$ 440,284
Receivables:						
Taxes	759,360	-	-	-	-	759,360
Garbage fees, net of allowance of $341,918	-	-	-	-	-	-
Loans receivable, recipients, net of allowance of $656,521	-	-	-	-	-	-
Interfund receivable	-	-	-	-	15,103	15,103
Other	34,452	-	-	-	-	34,452
Intergovernmental receivables	195,281	55,947	15,000	-	-	266,228
Prepaid expenses	83,386	-	-	-	-	83,386
Total Assets	$ 1,400,720	$ 76,549	$ 23,989	$ 69,077	$ 28,478	$ 1,598,813
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	$ 349,795	$ 51,202	$ 20,242	$ 28,201	$ -	$ 449,440
Accrued liabilities	54,783	-	-	-	-	54,783
Escrow liabilities	19,783	-	-	-	-	19,783
Interfund payable	15,103	-	-	-	-	15,103
Deferred revenue	899,760	-	-	-	-	899,760
Total Liabilities	1,339,224	51,202	20,242	28,201	-	1,438,869
Fund Balance:						
Non-spendable	83,386	-	-	-	-	83,386
Restricted for:						
Capital projects	-	-	-	40,876	-	40,876
Small communities projects	-	25,347	-	-	-	25,347
Canine	-	-	-	-	11,897	11,897
Sewer lines	-	-	3,747	-	-	3,747
Library	-	-	-	-	20	20
Park	-	-	-	-	8,457	8,457
Debt service	-	-	-	-	8,104	8,104
Unassigned	(21,890)	-	-	-	-	(21,890)
Total Fund Balance	61,496	25,347	3,747	40,876	28,478	159,944
Total Liabilities and Fund Balance	$ 1,400,720	$ 76,549	$ 23,989	$ 69,077	$ 28,478	$ 1,598,813

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

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

YEAR ENDED DECEMBER 31, 2012

Total Fund Balance - Governmental Funds		$ 159,944
Amounts reported for governmental activities in the statement of net position 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 assets is $14,877,782 and the accumulated depreciation is $3,000,494.		11,877,288
Taxes receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		758,276
Amount contributed in excess of the annual pension cost are not current financial resources and, therefore, not reported in the funds.		766
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	$ (7,611,053)	
Accrued interest on notes	(18,207)	
Capital leases	(32,677)	
Bond issue costs, net of amortization	229,890	
Bond discount, net of amortization	129,337	
Other postemployment benefits	(1,352,909)	
Compensated absences	(223,777)	(8,879,396)
Total Net Position - Governmental Activities		$ 3,916,878

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

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

YEAR ENDED DECEMBER 31, 2012

	General Fund	Small Communities Projects Fund	Line Usage Fee Fund	Capital Projects Fund	Other Governmental Funds	Total
Revenues:						
Taxes	$ 2,131,840	$ -	$ -	$ -	$ 566,682	$ 2,698,522
Licenses and permits	311,716	-	-	-	-	311,716
Fines and forfeits	68,062	-	-	-	-	68,062
Interest, rents, and royalties	48	3,342	-	1,730	53	5,173
Intergovernmental revenue	839,307	1,406,570	446,561	-	200,551	2,892,989
Charges for services	976,671	35,026	287,331	-	3,500	1,302,528
Miscellaneous revenue	53,962	-	-	-	14,737	68,699
Total revenues	4,381,606	1,444,938	733,892	1,730	785,523	7,347,689
Expenditures:						
Current:						
General government	1,482,444	-	-	86,551	-	1,568,995
Public safety	1,288,345	9,567	-	849,807	8,989	2,156,708
Health and welfare	45,202	-	-	-	-	45,202
Public works:						
Sanitation	440,733	-	-	-	-	440,733
Highways, roads, and streets	603,317	-	326,921	358,659	198,187	1,487,084
Culture and recreation	25,000	-	-	737,614	294,548	1,057,162
Conservation and development	11,134	1,411,474	-	10,719	-	1,433,327
Debt service:						
Principal	-	-	-	-	128,910	128,910
Interest	5,918	-	-	66,205	218,642	290,765
Bond issuance costs	-	-	-	101,379	-	101,379
Capital outlay	-	-	783,380	-	-	783,380
Total expenditures	3,902,093	1,421,041	1,110,301	2,210,934	849,276	9,493,645
Excess (Deficiency) of Revenues Over Expenditures	479,513	23,897	(376,409)	(2,209,204)	(63,753)	(2,145,956)
Other Financing Sources (Uses):						
Operating transfers in	-	-	-	448,058	64,244	512,302
Proceeds from long-term debt	-	-	-	2,500,000	-	2,500,000
Discount on bonds issued	-	-	-	(77,748)	-	(77,748)
Operating transfers out	(512,302)	-	-	-	-	(512,302)
Total financing sources (uses)	(512,302)	-	-	2,870,310	64,244	2,422,252
Net Change in Fund Balance	(32,789)	23,897	(376,409)	661,106	491	276,296
Fund Balance:						
Beginning of year	94,285	1,450	380,156	(620,230)	27,987	(116,352)
End of year	$ 61,496	$ 25,347	$ 3,747	$ 40,876	$ 28,478	$ 159,944

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

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

YEAR ENDED DECEMBER 31, 2012

Net Change in Fund Balance - Governmental Funds		$ 276,296
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 year:		
Capital outlays	$ 2,341,108	
Interest capitalized in construction in progress	120,533	
Less: loss on disposal	(1,812)	
Less: depreciation expense	(310,786)	2,149,043
The net pension asset is reflected on the statement of net position, but is not considered an asset that is available to pay current liabilities for the fund statements. The value of this item changed by this amount during the year.		766
Because some taxes, loans, and fees will not be collected for several months after the City of Monessen's year-end, they are not considered as "available" revenues in the governmental funds. Deferred revenues related to taxes, loans, and fees increased (decreased) by this amount during the year.		(1,049,256)
Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of 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 of long-term debt	(2,500,000)	
Principal payments on capital leases	15,136	
Repayment of note principal	128,920	
Bond issue costs	101,379	
Bond discount	77,748	
Amortization of bond discount	(9,235)	
Amortization of bond issuance costs	(5,041)	(2,191,093)
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 increase in interest accrued in the statement of activities is shown here.		(6,740)
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.		(52,600)
Postemployment benefits are recognized when they are paid on the fund statements. With the implementation of GASB Statement No. 45, an estimated liability for future benefits due is required. This amount represents the difference between the estimated annual cost and the amount paid.		(303,693)
Change in Net Position of Governmental Activities		$ (1,177,277)

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

STATEMENT OF NET POSITION
PROPRIETARY FUND

DECEMBER 31, 2012

	Mon Valley Health and Welfare Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 27,292
Other receivables	18,959
Total current assets	46,251
Noncurrent assets:	
Capital assets:	
Land	42,803
Building and building improvements	1,815,921
Equipment	104,423
Less: accumulated depreciation	(376,393)
Total capital assets	1,586,754
Total noncurrent assets	1,586,754
Total Assets	$ 1,633,005
Liabilities and Net Position	
Liabilities:	
Accounts payable	$ 6,483
Net Position:	
Net investment in capital assets	1,586,754
Unrestricted	39,768
Total Net Position	1,626,522
Total Liabilities and Net Position	$ 1,633,005

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS - PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2012

	Mon Valley Health and Welfare Fund
Operating Revenues:	
Rentals	$ 263,148
Telephone equipment rental	1,800
Miscellaneous	318
Total operating revenues	265,266
Operating Expenses:	
Personnel services	77,870
Occupancy	147,811
Communications and copying	13,338
Supplies and equipment	12,726
Contract services	1,697
Other operating expenses	10,187
Depreciation	89,754
Total operating expenses	353,383
Change in Net Position	(88,117)
Net Position:	
Beginning of year	1,714,639
End of year	$ 1,626,522

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2012

	Mon Valley Health and Welfare Fund
Cash Flows From Operating Activities:	
Cash received from tenants	$ 267,471
Cash payments to employees for services	(77,870)
Other operating payments	(196,908)
Net cash provided by (used in) operating activities	(7,307)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,307)
Cash and Cash Equivalents:	
Beginning of year	34,599
End of year	$ 27,292
Reconciliation of Change in Net Position to Net Cash Provided by (Used In) Operating Activities:	
Change in net position	$ (88,117)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:	
Depreciation	89,754
Changes in operating assets and liabilities:	
Accounts receivable	2,205
Prepaids	9,216
Accounts payable	(3,412)
Accrued expenses	(16,953)
Net cash provided by (used in) operating activities	$ (7,307)

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

DECEMBER 31, 2012

Assets		
Investments (at fair value):		
Money market funds	$	177,394
Mutual funds		5,090,024
Total Assets	$	5,267,418
Net Position Held in Trust for Pension Benefits and Other Purposes	$	5,267,418

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2012

Additions:		
Contributions:		
Employer	$	314,754
Employee		72,160
Total contributions		386,914
Investment income:		
Net appreciation (depreciation) in fair value of investment		385,974
Interest and dividends		120,635
Total investment income		506,609
Total additions		893,523
Deductions:		
Administration		62,452
Benefits		407,974
Total deductions		470,426
Change in Net Position		423,097
Net Position:		
Beginning of year		4,844,321
End of year	$	5,267,418

The notes to financial statements are an integral part of this statement.

CITY OF MONESSEN

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

1. OPERATIONS

The City of Monessen, Westmoreland County, Pennsylvania, (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in 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 any 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 include financial accountability and the nature and significance of the relationships.

The criterion of GASB, Codification Section 2100, has been examined as to the relationship of the City to the Redevelopment Authority of the City of Monessen (Authority), the Mon Valley Refuse Disposal Authority, and the Mon Valley Sewage Authority. Based on the foregoing criteria, the City has no component units for the year ending 2012. In 2011, the Authority was considered to be a component unit of the City. However, review of criteria indicated that the City has no control of the Authority budget or Authority employees and there is no financial burden or benefit, therefore, the Authority is not a component unit of the City. As a result, the beginning of year net position for business-type activities was restated. The following discloses the restatement of business-type activities as of the beginning of the calendar year:

Net position, beginning of year, as previously stated	$ 1,956,389
Decrease due to removal of component unit	(241,750)
Net position, beginning of year, as restated	$ 1,714,639

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

The proprietary fund distinguishes 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 fund is rentals of its Health and Welfare building. Operating expenses for the City's enterprise fund include costs of services and administration of the Health and Welfare building and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

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.

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 for the fund financial statements, even if received within 60 days and related to the year reported.

The City uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types" as follows:

The City reports the following major governmental funds:

The *General Fund* was 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 revenues used to finance the fundamental operations of the City are included in the General Fund. The General Fund is charged with all costs of operating the government for which a separate fund has not been established.

The *Small Communities Projects Fund* is a Special Revenue Fund that was established to account for the City's activities related to its federal Community Development Block Grant program.

The *Line Usage Fee Fund* is a Special Revenue Fund that 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.

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

The City reports the following major proprietary fund:

The Mon Valley Health and Welfare Fund accounts for the rents received from tenants in the City's Eastgate building and the costs to maintain and operate the building.

In addition, the City reports the following other governmental funds:

- The *Liquid Fuels Fund* accounts for the City's Liquid Fuels grant activity.
- The *Canine Fund* accounts for contributions to support the City's Police dog.
- The *Library Fund* accounts for real estate taxes levied for and grants to the Library.
- The *Parks Fund* accounts for real estate taxes levied for parks and recreation projects and activities.
- The *Debt Service Fund* accounts for the City's real estate taxes levied for payments for debt service.

The City reports the following fiduciary fund:

The Pension Trust Fund was established to provide pension benefits for City employees, and its principal revenue source for these funds is employer and employee contributions. This fund includes the Police, Fire Truck Drivers, and Non-uniformed Pension Funds.

Budgets and Budgetary Accounting

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.

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).

The City's fiscal year begins January 1 and ends December 31 of each year. The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. On or before the fifteen day of October of each year, the individual department directors submit to the fiscal director the proposed budget for their individual departments for the ensuing year.

2. On or before the 60th day prior to the end of the fiscal year, the fiscal director shall submit to the Council a proposed budget for the ensuing year.

3. The budget shall provide a complete financial plan for all City funds and activities for the ensuing year. The total of proposed expenditures shall not exceed the total of estimated income.

4. A general summary of the budget is advertised within 20 days of receipt. This summary includes a notice stating the times and places where the budget is available for public inspection, and the place and time, not less than seven days after the notice and at least fourteen days before adoption, for a public hearing on the budget.

5. After the public hearing, the Council may adopt the budget with or without amendment. In amending the budget, Council may add or increase programs or amounts and may delete or decrease any programs or amounts, except expenditures required by applicable law, for debt service, or for estimated cash deficit; but no amendment of the budget shall increase the authorized expenditures to any amount greater than the estimated income.

The legal level of control for expenditures (level at which expenditures cannot legally exceed appropriations) is the surplus or deficit of the fund as a whole. Any excess appropriations at the end of the fiscal year are not carried forward, but instead lapse.

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

	General Fund	Line Usage Fee Fund
Deficiency of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	$ (150,725)	$ (411,651)
Adjustments:		
To adjust revenues and other financing sources to the modified accrual basis	89,333	15,000
To adjust expenditures and other financing uses to the modified accrual basis	28,603	20,242
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	$ (32,789)	$ (376,409)

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.

A legally adopted budget is not prepared for the Capital Projects Fund.

Excess of Expenditures over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the line usage fee fund. The excess expenditures were satisfied by use of revenues in excess of budget as well as existing fund balance.

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. Investments are also exposed to various other risks such as interest rate and market risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such change could materially affect the amount reported on the statements of net position.

Interfund Activity in the Government-Wide Financial Statements

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.

Intergovernmental Receivables

Accounts receivable related to grant activity is recorded as intergovernmental receivables when billed.

Prepaid Expenses

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

Capital Assets of the Primary Government

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 assets lives are not capitalized. Major outlays for capital assets and improvements capitalized as projects are constructed.

The property, plant, and equipment are depreciated using the straight line method over the estimated useful lives:

Land improvements	15 - 50 years
Infrastructure	50 years
Buildings	50 years
Buildings improvements	20 years
Office equipment	10 - 20 years
Computer equipment	5 years
Vehicles	5 - 10 years

Compensated Absences

The City's vacation policy varies among City departments, but generally provides for accumulation of 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 financial statements only if they have matured as a result of resignations or retirements. The liability is accrued in the government-wide financial 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, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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.

Fund Balance

In the governmental fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed on the funds. These funds are as follows:

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact.

Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party, such as citizens, to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. There is no committed fund balance.

Assigned

Amounts in assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a City official delegated with that authority. There is no assigned fund balance.

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Position

Net position is classified into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Net position is restricted as described below:

Restriction	Amount
Capital projects	$ 40,876
Small communities projects expenses	25,347
Canine	11,897
Sewer lines	3,747
Library	20
Parks	8,457
Debt service	8,104
	$ 98,448

- Unrestricted - This component of net position consists of net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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.

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Adopted Pronouncements

GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* The statement codifies into the GASB standards guidance located in FASB and AICPA pronouncements.

GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of net position and related disclosures. The primary impact of this statement on the City's 2012 financial statements related to reporting the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources as net "position," rather than net "assets." As of December 31, 2012, the City had no items that qualified for reporting in the deferred inflow of resources or deferred outflow of resources categories.

Pending Pronouncements

GASB has issued Statement No. 61, *"The Financial Reporting Entity."* The objective of this statement is for financial reporting entity financial statements to be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement will become effective for the December 31, 2013 year-end.

GASB has issued Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* effective for periods beginning after December 15, 2012 (the Borough's December 31, 2013 financial statements). This statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

GASB has issued Statement No. 67, *"Financial Reporting for Pension Plans,"* effective for financial statements for periods beginning after June 15, 2013 (the City's December 31, 2014 financial statements), and has also issued Statement No. 68, *"Accounting and Financial Reporting for Pensions,"* effective for fiscal years beginning after June 15, 2014 (the City's December 31, 2015 financial statements). These statements revise existing guidance for the

financial reports of most pension plans, and establish new financial reporting requirements for most governments that provide their employees with pension benefits.

GASB has issued Statement No. 69, *"Government Combinations and Disposals of Government Operations,* effective for financial statements for periods beginning after December 15, 2013. This statement intends to improve accounting and financial reporting for combinations and disposals of government operations.

GASB has issued Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees,* effective for financial statements for periods beginning after June 15, 2013. This statement provides accounting and financial reporting guidance to local governments that offer nonexchange financial guarantees and for the governments that receive guarantees in their obligations.

The effect of implementation of these statements has not yet been determined.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The carrying amount of cash, cash equivalents, and investments at December 31, 2012 consist of the following:

Demand deposit accounts	$	249,191
Pooled cash and investments		169,343
Investments		49,042
	$	467,576

Cash – Custodial Credit Risk – Deposit

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, 2012, the carrying amount of the City's deposits was $249,191 and the bank balance was $399,493. Of the bank balance, $385,253 was covered by federal depository insurance and $14,240 was exposed to custodial credit risk which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

Investments

Pooled cash and investments

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 $169,343.

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.

As of December 31, 2012, the City had the following non-pension investments:

Investment Type	Fair Market Value	0 - 1 Year Maturity
Money market funds	$ 49,042	$ 49,042

Interest Rate Risk – Pooled Cash and Money Market

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 – Pooled Cash and Money Market

The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The City has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2012, investments in PLGIT have received an AAA rating from Standards & Poors.

Custodial Credit Risk – Pooled Cash and Money market

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, 2012, the carrying amount of the City's investments was $49,042, and the entire balance was exposed to custodial credit risk. The City's investments in PLGIT cannot be classified by risk category because the investment is not evidenced by securities that exist in physical or book entry form.

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 Fire Truck Drivers', and Non-uniformed Pension Funds.

As of December 31, 2012, the City had the following investments in its pension trust funds:

Police

Cash or Investment Type	Fair Market Value
Money market funds	$ 146,790
Equity mutual funds	2,464,304
Fixed mutual funds	870,516
	$ 3,481,610

Fire Truck Drivers'

Cash or Investment Type	Fair Market Value
Money market funds	$ 30,604
Equity mutual funds	209,871
Fixed mutual funds	76,989
	$ 317,464

Non-Uniformed

Cash of Investment Type	Fair Market Value
Mutual fund investments	$ 1,468,344

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.

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. The Pension Trust Funds' money market cash funds (which are included in cash and cash equivalents on the statement of fiduciary net assets) and investments in mutual funds are not exposed to 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 individual investments in any pension plan that constituted more than five percent of any of the pension plan net position available for benefits at December 31, 2012. 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.

4. PROPERTY TAXES

Property taxes levied for 2012 and unpaid are recorded as receivables, net of estimated uncollectible amounts. The net receivables available at December 31, 2012 have not been recognized as revenue in 2012. 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 2012 levy was based was $60,221,770.

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.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

Governmental Activities	Beginning Balance	Additions	Transfers/ Disposals	Ending Balance
Capital assets not being depreciated:				
Construction in progress	$ 6,611,728	$ 2,107,652	$ (4,674,508)	$ 4,044,872
Capital assets being depreciated:				
Land improvements	1,815,030	7,261	-	1,822,291
Infrastructure	1,384,426	69,525	-	1,453,951
Building and improvements	1,145,223	4,503,222	-	5,648,445
Fixtures and equipment	795,439	126,973	(118,328)	804,084
Vehicles	792,619	321,515	(9,995)	1,104,139
Total capital assets being depreciated	5,932,737	5,028,496	(128,323)	10,832,910
Less accumulated depreciation for:				
Land improvements	515,600	71,308	-	586,908
Infrastructure	126,126	56,728	-	182,854
Building and improvements	984,645	36,100	-	1,020,745
Fixtures and equipment	618,026	44,160	(117,374)	544,812
Vehicles	571,822	102,490	(9,137)	665,175
Total accumulated depreciation	2,816,219	310,786	(126,511)	3,000,494
Total capital assets being depreciated, net	3,116,518	4,717,710	(1,812)	7,832,416
Governmental activities, capital assets, net	$ 9,728,246	$ 6,825,362	$ (4,676,320)	$ 11,877,288

Included in construction in progress at December 31, 2012 is $120,533 of capitalized interest. Construction in progress relates to the Grand Boulevard sanitary sewer line replacement.

Business-Type Activities	Beginning Balance	Additions	Transfers/ 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
Total capital assets being depreciated	1,920,344	-	-	1,920,344
Less accumulated depreciation for:				
Buildings and improvements	233,028	72,817	-	305,845
Fixtures and equipment	53,611	16,937	-	70,548
Total accumulated depreciation	286,639	89,754	-	376,393
Total capital assets being depreciated, net	1,633,705	(89,754)	-	1,543,951
Business-type activities, capital assets, net	$ 1,676,508	$ (89,754)	$ -	$ 1,586,754

Depreciation expense was charged to functions/programs of the governmental activities as follows:

General government	$ 71,481
Public safety	96,343
Health and welfare	3,108
Public works - sanitation	18,647
Public works - highways, roads, and streets	31,079
Public works - other	21,755
Culture and recreation	46,618
Conservation and development	21,755
	$ 310,786

Depreciation expense was charged to functions/programs of the business-type activities in the amount of $89,754.

6. LOANS AND FEES RECEIVABLE

Loans and fees receivable at December 31, 2012 consist of the following:

	Communities Projects	General Fund
Rehabilitation Loans Outstanding - Small Communities Projects	$ 656,521	$ -
Garbage fees receivable	-	341,918
Allowance	(656,521)	(341,918)
Net loan receivable	$ -	$ -

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. Allowance was increased in 2012 as the City has not received payment for a significant portion of the loans for several years.

Garbage fees receivable represent delinquent garbage fees owed to the City by its residents. Allowance was increased in 2012 to be conservative based on past collection history.

7. DEFERRED REVENUE

Deferred revenue at December 31, 2012 consists of the following:

	General Fund
Real estate taxes	$ 758,276
2013 garbage fees collected in 2012	141,484
	$ 899,760

Only the amounts related to 2013 garbage fees collected in 2012 have been reported as deferred revenue on the statement of net position.

8. DEBT

In January 2012, the City borrowed $500,000 under a tax anticipation note for cash flow purposes at an interest rate of 2.63 percent. The note was repaid in 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	$ -

General obligation bonds are backed by the full faith and credit of the City.

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, 2012 of the government funds:

Notes Payable:		
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.	$	54,478
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.		54,050
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.		7,525
Capital Leases Payable:		
Vehicle capital lease, interest at 4.67%, payable in four annual installments of $17,555 through April 2014.		32,677
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.		4,995,000
General obligation bonds, Series of 2012, with up to 4% interest payable through 2040. Bond proceeds were used for the purpose of providing funds for improvements to the fire department, public library, and various other improvements, funding a capitalized interest account with respect to the bonds, and paying costs of issuance.		2,500,000
	$	7,643,730

The annual requirement to pay principal and interest on all long-term notes and bonds outstanding at December 31, 2012 is as follows:

	Principal	Interest
2013	$ 151,053	$ 309,684
2014	155,000	303,869
2015	160,000	300,494
2016	170,000	296,407
2017	175,000	291,394
2018 - 2022	975,000	1,364,475
2023 - 2027	1,185,000	1,154,092
2028 - 2032	1,470,000	871,727
2033 - 2037	1,845,000	506,075
2038 - 2040	1,325,000	106,851
	$ 7,611,053	$ 5,505,068

The annual requirements related to capital leases at December 31, 2012 is as follows:

2013	$ 17,555
2014	17,555
Less amount representing interest	(2,433)
Present value of minimum lease payments	$ 32,677

The gross amount of assets in the statement of net position recorded under capital leases and the accumulated depreciation of vehicles at December 31, 2012 was $64,900 and $23,797, 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 2012 are as follows:

Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due in One Year
$ 171,177	$ 52,600	$ -	$ 223,777	$ 27,123

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due in One Year
Governmental activities:					
Notes payable	$ 239,973	$ -	$ (123,920)	$ 116,053	$ 116,053
Bonds payable	5,000,000	2,500,000	(5,000)	7,495,000	35,000
Capital leases	47,813	-	(15,136)	32,677	15,925
Compensated absences	171,177	52,600	-	223,777	27,123
	$ 5,458,963	$ 2,552,600	$ (144,056)	$ 7,867,507	$ 194,101

All of the City's notes, bonds, 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.

9. 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 Police Pension Plan, Fire Truck Drivers' Pension Plan, and Non-uniformed 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.

CITY OF MONESSEN

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Summary of Significant Accounting Policies

Financial information of the City's retirement plans are presented on the accrual basis of accounting. Employer contributions to the plans are recognized when due as required by Act 205 and Act 600. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Investments of the plans are reported at fair value. The plans did not have any investment transactions with related parties during the year.

Significant Provisions of the Plans

Participation - Any individual employed by the City on a regular, full-time basis force is covered by the Plan from the participant's date of hire. At January 1, 2011, the date of the most recent valuation, participants in the Police Plan and Fire Truck Drivers' Plan were as follows:

	Police	Fire Truck Drivers'
Participants:		
Active	11	0
Retirement benefits	8	1
Disability benefits	1	0
Survivor benefits	11	2

Vesting – Participants are 100% vested after five years of service.

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:

	Police	Fire Truck Drivers'	Non-Uniformed
Contributions:			
City	Minimum Municipal Obligation Under PA Act 205		8%
Plan members	4.5% plus $1 per month	4% plus $1 per month	5%
Annual pension cost	$ 246,039	$ 16,425	$ 52,475
Contributions made	$ 245,854	$ 16,425	$ 52,475

CITY OF MONESSEN

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Actuarial Methods and Assumptions

The following is information as of the most recent actuarial valuation:

	Police	Fire Truck Drivers'
Valuation date	1/1/2011	1/1/2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, open
Remaining amortization period	9 years	10 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%

Administrative costs including investment, custodial trustee, and actuarial services are charged to the Plan and funded from investment earnings.

Net Pension Asset

The City's net pension asset (a negative net pension obligation (NPO)) for the Police Plan and Fire Truck Drivers' Plan as of December 31, 2012 is calculated as follows:

	Police	Fire Truck Drivers'
Annual required contribution	$ 245,854	$ 16,425
Interest on NPO	(62)	-
Adjustment to the ARC	247	-
Annual pension cost	246,039	16,425
Contribution made	(245,854)	(16,425)
Change in NPO	185	-
NPO, 12/31/2011	(951)	-
NPO, 12/31/2012	$ (766)	$ -

CITY OF MONESSEN

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The following is the annual required contributions and the percentage contributed:

Fiscal Year	Annual Required Contribution	Percentage Contributed	Net Pension Asset
Police:			
2010	$ 238,973	100%	$ 1,147
2011	281,340	100%	951
2012	245,854	100%	766
Fire Truck Drivers':			
2010	$ -	100%	$ -
2011	14,258	100%	-
2012	16,425	100%	-

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)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b)-(a)/(c)
Police:	$ 3,353,874	$ 4,693,620	$ (1,339,746)	71.46%	$ 668,759	-200.33%
Fire Truck Drivers':	$ 408,720	$ 446,300	$ (37,580)	91.58%	N/A	0.00%

The schedule of funding progress included as required supplementary information immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

As noted above, certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2011. The next actuarial valuation will be performed as of January 1, 2013 and will take into account subsequent changes in the market value of investments being held in the plan. While the exact impact is not known, it is expected that the market changes will impact the funding status of the plan and change the future funding requirements of the plan.

10. INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2012:

	Interfund Receivables	Interfund Payables
Governmental Activities:		
Major Funds:		
General Fund	$ -	$ 15,103
Other Governmental Funds	15,103	-
	$ 15,103	$ 15,103

Interfund receivables and payable 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, 2012:

	Operating Transfers In	Operating Transfers Out
Governmental Activities:		
Major Funds:		
General Fund	$ -	$ 512,302
Capital Projects Fund	448,058	-
Other Governmental Funds	64,244	-
	$ 512,302	$ 512,302

Transfers between these funds were necessary to reimburse the Capital Projects Fund and other governmental funds for General Fund expenses paid by the Capital Projects Fund and other governmental funds.

11. OTHER POSTEMPLOYEMENT BENEFITS

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. Non-uniformed employees who retire from the non-uniformed 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.

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 a hundred percent of premiums for the retiree's coverage, except as noted above.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment 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 No. 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.

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	$	527,281
Interest on net OPEB obligation		47,215
Adjustment to the ARC		(64,413)
Annual OPEB cost		510,083
Contribution made		206,390
Change in OPEB obligation		303,693
Net OPEB obligation, December 31, 2011		1,049,216
Net OPEB obligation December 31, 2012	$	1,352,909

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

Year Ending	Annual OPEB Cost	Percentage of OPEB Contributed	Net OPEB Obligation (Asset)
12/31/2012	$ 510,083	40.5%	$ 1,352,909
12/31/2011	505,611	37.2%	1,049,216
12/31/2010	511,380	31.2%	731,489

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $6,013,866 for the City and the actuarial value of assets was $0 for each plan, resulting in an unfunded actuarial accrued liability (UAAL) of $6,013,866 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.

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, 2012 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 three and a half percent initially, increasing four percent the first year, decreasing a half of percent per year for two years, and decreasing a quarter percent thereafter to an ultimate rate of five percent in 2019 and later. The unfunded actuarial accrued liability is being amortized based on level dollar, 30-year period.

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

2013	$	158,453
2014		95,825
2015		43,434
2016		15,570
2017		9,096
2018		4,376
	$	326,754

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.

13. CONDUIT DEBT

During 2007, the City, through its Small Communities Projects 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, and the City has no obligation. The balance at December 31, 2012 is $1,580,000.

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 of Pennsylvania's guarantee, the City assigned its rights in the local business' collateral to the Commonwealth of Pennsylvania.

In 2011, the City, through its Small Communities Projects Fund, was party to a conduit debt transaction in the amount of $3.49 million between 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, and the City has no obligation. The balance at December 31, 2012 is $3,316,000.

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 of Pennsylvania's guarantee, the City assigned its rights in the local business' collateral to the Commonwealth of Pennsylvania.

14. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan (plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The City does not contribute to the plan or match employees' contributions. Participation in the plan is optional. The funds are not available to employees until termination, retirement, death, or unforeseeable emergency. At December 31, 2012, all amounts of compensation deferred under the plan were held in trust solely for the benefit of the participants. Investments are managed by the plan's trustee under several investment options selected by the participant. Deferred compensation assets at December 31, 2012 totaled $52,162. Under the provisions of GASB Statement No. 32, *"Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,"* the plan is not required to be included in the City's financial statements.

Required Supplementary Information

CITY OF MONESSEN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)

GENERAL FUND

YEAR ENDED DECEMBER 31, 2012

	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Original and Final Budget	Variance
Revenues:					
Taxes	$ 2,131,840	$ (1,084)	$ 2,130,756	$ 2,017,637	$ 113,119
Licenses and permits	311,716	(34,452)	277,264	221,500	55,764
Fines and forfeits	68,062	-	68,062	86,000	(17,938)
Interest, rents, and royalties	48	-	48	-	48
Intergovernmental revenue	839,307	(195,281)	644,026	282,200	361,826
Charges for services	976,671	141,484	1,118,155	1,319,500	(201,345)
Miscellaneous revenue	53,962	-	53,962	21,000	32,962
Total revenues	4,381,606	(89,333)	4,292,273	3,947,837	344,436
Expenditures:					
Current:					
General government	1,482,444	76,512	1,558,956	1,549,990	8,966
Public safety	1,288,345	(29,209)	1,259,136	1,251,048	8,088
Health and welfare	45,202	(5,419)	39,783	44,080	(4,297)
Public works:					
Sanitation	440,733	75	440,808	441,089	(281)
Highways, roads, and streets	603,317	(13,356)	589,961	706,639	(116,678)
Culture and recreation	25,000	-	25,000	25,000	-
Conservation and development	11,134	-	11,134	124,459	(113,325)
Debt service:					
Interest	5,918	-	5,918	5,000	918
Total expenditures	3,902,093	28,603	3,930,696	4,147,305	(216,609)
Excess (Deficiency) of Revenues Over Expenditures	479,513	(117,936)	361,577	(199,468)	561,045
Other Financing Sources (Uses):					
Operating transfers out	(512,302)	-	(512,302)	-	(512,302)
Net Change in Fund Balance	(32,789)	$ (117,936)	$ (150,725)	$ (199,468)	$ 48,743
Fund Balance:					
Beginning of year	94,285				
End of year	$ 61,496				

See accompanying note to required budgetary comparison statements.

CITY OF MONESSEN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)

LINE USAGE FEE FUND

YEAR ENDED DECEMBER 31, 2012

	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Original and Final Budget	Variance
Revenues:					
Intergovernmental revenue	$ 446,561	$ (15,000)	$ 431,561	$ -	$ 431,561
Charges for services	287,331	-	287,331	279,000	8,331
Total revenues	733,892	(15,000)	718,892	279,000	439,892
Expenditures:					
Current:					
Public works:					
Highways, roads, and streets	326,921	-	326,921	279,000	47,921
Capital outlay	783,380	20,242	803,622	-	803,622
Total expenditures	1,110,301	20,242	1,130,543	279,000	851,543
Excess (Deficiency) of Revenues Over Expenditures	(376,409)	$ (35,242)	$ (411,651)	$ -	$ (411,651)
Fund Balance:					
Beginning of year	380,156				
End of year	$ 3,747				

See accompanying note to required budgetary comparison statements.

CITY OF MONESSEN

NOTE TO REQUIRED BUDGETARY COMPARISON STATEMENTS

YEAR ENDED DECEMBER 31, 2012

1. NOTE TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL

The budgetary comparison schedule for the General Fund and the Line Usage Fund has been prepared on the cash basis of accounting.

The General Fund had expenditures less than appropriation during 2012 in various departments.

The Line Usage Fee Fund had an excess of expenditures over appropriation during 2012. The total expenditures for the Line Usage Fee 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 and the Capital Projects Fund.

CITY OF MONESSEN

SCHEDULES OF FUNDING PROGRESS

PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a-b/c)
Police:						
1/1/2007	$ 3,055,743	$ 4,281,003	$ (1,225,260)	71.38%	$ 654,911	-187.09%
1/1/2009	2,974,633	4,404,911	(1,430,278)	67.53%	631,214	-226.59%
1/1/2011	3,353,874	4,693,620	(1,339,746)	71.46%	668,759	-200.33%
Fire Truck Driver's Plan:						
1/1/2007	$ 609,514	$ 491,421	$ 118,093	124.03%	N/A	0.00%
1/1/2009	466,428	469,148	(2,720)	99.42%	N/A	0.00%
1/1/2011	408,720	446,300	(37,580)	91.58%	N/A	0.00%

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

See accompanying note to required pension schedules.

CITY OF MONESSEN

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2012

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage Contributed
Police:		
12/31/2007	$ 287,370	100%
12/31/2008	258,683	100%
12/31/2009	248,740	100%
12/31/2010	238,973	100%
12/31/2011	281,340	100%
12/31/2012	245,854	100%
Fire Truck Drivers' Pension:		
12/31/2007	$ -	0%
12/31/2008	-	0%
12/31/2009	-	0%
12/31/2010	-	0%
12/31/2011	14,258	100%
12/31/2012	16,425	100%

See accompanying note to required pension schedules.

CITY OF MONESSEN

NOTE TO REQUIRED PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2012

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Police	Fire Truck Drivers'
Actuarial valuation date	1/1/2011	1/1/2011
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Open
Amortization period	9 years	10 years
Asset valuation method	4-year smoothing	4-year smoothing
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	5.00%	5.00%
Underlying inflation rate	3.00%	3.00%

CITY OF MONESSEN

SCHEDULE OF FUNDING PROGRESS

OTHER POSTEMPLOYMENT BENEFIT PLAN

YEAR ENDED DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)
1/1/2009	$ -	$ 5,518,656	$ (5,518,656)	0.00%
1/1/2012	-	6,013,866	(6,013,866)	0.00%

Note: Valuations are required every three years, since the City has less than 200 participants.

See accompanying note to required other postemployement benefit schedule.

CITY OF MONESSEN

NOTE TO OTHER POSTEMPLOYMENT BENEFIT SCHEDULE

YEAR ENDED DECEMBER 31, 2012

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Police and Non-Uniformed
Actuarial valuation date	01/01/12
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	30 years
Asset valuation method	N/A - the OPEB Plan is unfunded
Actuarial assumptions:	
Investment rate of return	4.5% per year (unfunded OPEB Plan)

Health care inflation rate:

Year	Medical/RX	Dental/Vision
2013	7.00%	3.00%
2014	6.50%	3.00%
2015	6.00%	3.00%
2016	5.75%	3.00%
2017	5.50%	3.00%
2018	5.25%	3.00%
2019 and later	5.00%	3.00%

Supplementary Information

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	Special Revenue Funds					Total Other Governmental Funds
	Liquid Fuels Fund	Canine Fund	Library Fund	Parks Fund	Debt Service Fund	
Assets						
Cash and cash equivalents	$ -	$ 11,897	$ 20	$ 1,454	$ 4	$ 13,375
Interfund receivables	-	-	-	7,003	8,100	15,103
Total Assets	$ -	$ 11,897	$ 20	$ 8,457	$ 8,104	$ 28,478
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -
Fund Balance:						
Restricted for:						
Canine	-	11,897	-	-	-	11,897
Library	-	-	20	-	-	20
Park	-	-	-	-	-	8,457
Debt service	-	-	-	8,457	8,104	8,104
Total Fund Balance	-	11,897	20	8,457	8,104	28,478
Total Liabilities and Fund Balance	$ -	$ 11,897	$ 20	$ 8,457	$ 8,104	$ 28,478

CITY OF MONESSEN

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
OTHER GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds					Total Other Governmental Funds
	Liquid Fuels Fund	Canine Fund	Library Fund	Parks Fund	Debt Service Fund	
Revenues:						
Taxes	$ -	$ -	$ 47,006	$ 221,972	$ 297,704	$ 566,682
Interest, rents, and royalties	43	8	2	-	-	53
Intergovernmental revenue	200,551	-	-	-	-	200,551
Charges for services	-	-	-	3,500	-	3,500
Miscellaneous revenue	-	14,737	-	-	-	14,737
Total revenues	200,594	14,745	47,008	225,472	297,704	785,523
Expenditures:						
Current:						
Public safety	-	8,989	-	-	-	8,989
Public works:						
Highways, roads, and streets	198,187	-	-	-	-	198,187
Culture and recreation	-	-	55,000	239,548	-	294,548
Debt Service:						
Principal	-	-	-	-	128,910	128,910
Interest	2,419	-	-	-	216,223	218,642
Total expenditures	200,606	8,989	55,000	239,548	345,133	849,276
Excess (Deficiency) of Revenues Over Expenditures	(12)	5,756	(7,992)	(14,076)	(47,429)	(63,753)
Other Financing Sources (Uses):						
Operating transfers in	-	-	7,935	9,013	47,296	64,244
Net Change in Fund Balance	(12)	5,756	(57)	(5,063)	(133)	491
Fund Balance:						
Beginning of year	12	6,141	77	13,520	8,237	27,987
End of year	$ -	$ 11,897	$ 20	$ 8,457	$ 8,104	$ 28,478

COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2012

Assets	Police Pension Fund	Fire Truck Drivers' Pension Fund	Non-Uniformed Pension Fund	Total
Investments (at fair value):				
Money market funds	$ 146,790	$ 30,604	$ -	$ 177,394
Mutual funds	3,334,820	286,860	1,468,344	5,090,024
Total Assets	$ 3,481,610	$ 317,464	$ 1,468,344	$ 5,267,418
Net Position Held in Trust for Pension Benefits and Other Purposes	$ 3,481,610	$ 317,464	$ 1,468,344	$ 5,267,418

CITY OF MONESSEN

COMBINING STATEMENT OF CHANGES IN FIDCUCIARY NET POSITION
FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Police Pension Fund	Fire Truck Drivers' Pension Fund	Non-Uniformed Pension Fund	Total
Additions:				
Contributions:				
Employer	$ 245,854	$ 16,425	52,475	$ 314,754
Employee	30,897	-	41,263	72,160
Total contributions	276,751	16,425	93,738	386,914
Investment income:				
Net appreciation (depreciation) in fair value of investment	214,288	22,405	149,281	385,974
Interest and dividends	100,777	9,805	10,053	120,635
Total investment income	315,065	32,210	159,334	506,609
Total additions	591,816	48,635	253,072	893,523
Deductions:				
Administration	48,214	7,646	6,592	62,452
Benefits	244,835	54,557	108,582	407,974
Total deductions	293,049	62,203	115,174	470,426
Change in Net Position	298,767	(13,568)	137,898	423,097
Net Position:				
Beginning of year	3,182,843	331,032	1,330,446	4,844,321
End of year	$ 3,481,610	$ 317,464	$ 1,468,344	$ 5,267,418

CITY OF MONESSEN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

Federal Grantor / Pass-Through Grantor / Project Title	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received For the Year	Accrued (Deferred) Revenue at January 1, 2012	Revenue Recognized	Expenditures	Adjustments	Accrued (Deferred) Revenue at December 31, 2012
U.S. Department of Housing and Urban Development										
Passed through the Commonwealth of Pennsylvania:										
Community Development Block Grant/State's Program	14.228	C000036513	8/20/08 - 8/19/13	$ 337,987	$ 20,331	$ -	$ 20,331	$ 20,331	$ -	$ -
Community Development Block Grant/State's Program	14.228	C000045883	8/07/09 - 8/06/14	342,457	128,744	483	128,261	128,261	-	-
Community Development Block Grant/State's Program	14.228	C000049541	8/24/10 - 8/23/15	366,761	197,418	7,093	210,700	210,700	-	20,375
Community Development Block Grant/State's Program	14.228	C000052829	10/11/12-10/10/17	300,000	-	-	30,827	30,827	-	30,827
Total 14.228					346,493	7,576	390,119	390,119	-	51,202
Community Development Block Grant/Section 108 Loan Guarantee Program	14.248	B-04-DC-42-0001-A	9/19/11 - 8/31/13	3,490,000	-	(1,005,500)	1,005,500	1,005,500	-	-
Passed through Westmoreland County:										
HOME Program	14.239	Not provided	1/1/12-12/31/12	10,951	10,951	-	-	10,951	-	-
Total U.S. Department of Housing and Urban Development					357,444	(997,924)	1,395,619	1,406,570	-	51,202
U.S. Department of Agriculture										
Community Facilities Loans and Grants	10.776	Not provided	1/1/09-12/31/10	50,000	50,000	50,000	-	-	-	-
Total Expenditures of Federal Awards					$ 407,444	$ (947,924)	$ 1,395,619	$ 1,406,570	$ -	$ 51,202

Note to Schedule of Expenditures of Federal Awards:

1. 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.

City of Monessen

Independent Auditor's Reports in Accordance
with OMB Circular A-133

Year Ended December 31, 2012

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Independent Auditor's 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*

Honorable Mayor and Members
of City Council
City of Monessen

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, 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 (City), Pennsylvania, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 1, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weaknesses and another deficiency that we consider to be a significant deficiency.

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 a 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2012-1 to be a material weakness.

A significant deficiency is a deficiency, or a 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2012-2 to be a significant deficiency.

Honorable Mayor and Members
of City Council
City of Monessen
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Pittsburgh, Pennsylvania
August 1, 2013

MaherDuessel
Certified Public Accountants

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Honorable Mayor and Members
of City Council
City of Monessen

Report on Compliance for Each Major Federal Program

We have audited the City of Monessen's (City), Pennsylvania, 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's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2012.

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Honorable Mayor and Members of City Council
City of Monessen
Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of finding and questioned costs as 2012-3 to be a significant deficiency.

The City's Response to Finding

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Pittsburgh, Pennsylvania
August 1, 2013

CITY OF MONESSEN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

   Material weakness(es) identified? ☒ yes ☐ no
   Significant deficiencies identified that are not considered to be material weakness(es)? ☒ yes ☐ none reported

3. Noncompliance material to financial statements noted? ☐ yes ☒ no

4. Internal control over major programs:

   Material weakness(es) identified? ☐ yes ☒ no
   Significant deficiencies identified that are not considered to be material weakness(es)? ☒ yes ☐ none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ yes ☒ no

7. Major Programs:

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

8. Dollar threshold used to distinguish between type A and type B programs: $300,000

9. Auditee qualified as low-risk auditee? ☐ yes ☒ no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

Finding 2012-1 Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America:

Statement of Condition/Cause

Under the auditing standard, *"Communicating Internal Control Related Matters Identified in an Audit,"* emphasis is placed on an organization's ability to produce its

financial statements in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities (GAAP). If an entity relies upon its auditors to assist them in producing GAAP financial statements, as has been, and continues to be, true for many smaller, local governmental entities, the auditor is required to communicate a significant deficiency or material weakness related to financial reporting.

The City of Monessen (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 accounting principles generally accepted in the United States of America. Material adjusting entries were required during the audit process to properly report financial statements on the modified and full accrual basis, as appropriate.

Criteria:

Financial reporting in accordance with accounting principles generally accepted in the United States of America requires financial information for government funds be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Effect:

Without the posting of adjustments to record activity in the modified or full accrual basis of accounting, financial statements will not be reported in accordance with accounting principles generally accepted in the United States of America.

Recommendation:

Financial records for all City funds should be maintained in accordance with the basis of accounting required by accounting principles generally accepted in the United States of America.

Views of Responsible Officials and Planned Corrective Action:

Management agrees. See separate corrective action plan for a full response.

Finding 2012-2 Lack of Segregation of Duties

Statement of 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.

Criteria:

The City is responsible for developing internal controls over the preparation of the financial statements to ensure financial statements are accurate and to prevent and detect fraud.

Effect:

The City does not have strong internal controls over the Community Development Block Grant funds which allows for errors and fraud to occur and not be detected in a timely fashion.

Recommendation:

To improve controls, we recommend that an individual independent of the cash disbursement and cash receipt process directly receive the unopened bank statements and cancelled checks for review or obtain on-line access to review this information. This review should also be documented on file.

Views of Responsible Officials and Planned Corrective Action:

Management agrees. See separate corrective action plan for a full response.

III. Findings and questioned costs for federal awards.

Finding 2012-3 Lack of Segregation of Duties

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. Finding 2012-2 discusses this finding in detail

CITY OF MONESSEN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2012

Finding 2011-1 Preparation of Financial Statements in Accordance in Accounting Principles Generally Accepted in the United States of America:

Condition: The City of Monessen (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 accounting principles generally accepted in the United States of America.

Progress: Finding continues; see **Finding 2012-1**

Finding 2011-2 Lack of Segregation of Duties

Condition: 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.

Progress: Finding continues; see **Finding 2012-2**