

CITY OF JEANNETTE
FINANCIAL STATEMENTS – CASH BASIS

Year ended December 31, 2009

MALIN, BERGQUIST & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

CITY OF JEANNETTE

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INDEPENDENT AUDITORS' REPORT

To: City Council and Mayor
City of Jeannette

We have audited the accompanying primary government financial statements – cash basis of the governmental activities, each major fund and the aggregated remaining fund information of the City of Jeannette (City), as of December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, the City prepares its financial statements on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above do not include the City's Police and Firemen's Pension Funds which should be included in order to conform with accounting principles generally accepted in the United States of America. The Police Pension net assets are estimated to be in excess of \$5,400,000 at December 31, 2009, and the Firemen's Pension net assets are estimated to be in excess of \$650,000 at December 31, 2009.

The financial statements referred to above include only the primary government of the City which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the City of Jeannette Municipal Authority, which accounting principles generally accepted in the United States of America, as applied to the City's cash basis of accounting, require this to be reported with the financial data of the City's primary government. As a result, the financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City, as of December 31, 2009, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. The City of Jeannette Municipal Authority's assets are estimated to be in excess of \$14,400,000 at December 31, 2009 and its liabilities are estimated to be in excess of \$9,100,000 at December 31, 2009.



In our opinion, except for the omission of the City's Police and Firemen's Pension Funds as discussed in the fourth paragraph and the omission of the City of Jeannette Municipal Authority's financial data as discussed in the fifth paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City, as of December 31, 2009, and the respective changes in the cash basis financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, the budget comparison on page 12 and the pension information on pages 25 through 27 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Jeannette taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Jeannette. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Malin, Bergquist & Company, LLP

Greensburg, Pennsylvania
March 2, 2011

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS **YEAR ENDED DECEMBER 31, 2009**

As management of the City of Jeannette (City), we offer our residents, elected officials, employees and other interested parties this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2009. For purposes of this discussion and analysis, "City" refers to the primary government only. The goal of this Management's Discussion and Analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in financial position, (4) identify any material deviations from the approved budget, and (5) identify individual fund issues or concerns.

City management encourages all readers to consider the information presented here in conjunction with the financial statements that we have furnished and the accompanying notes that follow in order to obtain a thorough understanding of the City's financial condition at December 31, 2009.

FINANCIAL HIGHLIGHTS

- The City is presenting primary government financial statements as financial data of the City's component unit; the City of Jeannette Municipal Authority is not presented.
- As described in the notes to the primary government financial statements (financial statements), the City prepares its financial statements on the cash basis of accounting.
- The City's net assets decreased \$406,279 during fiscal year 2009 or 17%.
- Unrestricted net assets were \$212,055 at December 31, 2009. These assets may be used to meet the City's ongoing obligations to residents and creditors.
- The City's real estate property tax rate for fiscal year 2009 is 32.62 mills.
- At December 31, 2009, the City had \$2,210,000 of general obligation bonds outstanding. This represents a decrease of \$100,000 from the previous fiscal year.
- The total fund balance of the General Fund on December 31, 2009 was \$212,055. This fund balance is unreserved and is available for spending at the City's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

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

The basic financial statements present two different views of the City through the use of government-wide financial statements and fund financial statements. In addition to these required elements, a section with combining statements provides details about the nonmajor government funds that are presented in a single column in the basic financial statements.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS **YEAR ENDED DECEMBER 31, 2009**

- (1) Government-Wide Financial Statements – The government-wide financial statements are designed to provide all interested parties with a broad overview of the City in a manner similar to a private-sector business.

- The Statement of Net Assets – This report presents information on all of the City's cash, cash equivalents and its cash-basis net assets. As described in the notes to the basic financial statements, the City's financial statements are on the cash basis of accounting. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The Statement of Activities – This report presents information showing how the government's net assets changed during the most recent fiscal year. This shows cash-basis expenses by functions/programs related to operating grants and how the deficit from each function/program is funded with general cash-basis revenues.

Both of the government-wide cash basis financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees. The governmental activities of the City include general government, public safety, public works, culture and recreation, community development and debt service.

The government-wide financial statements include only the City itself. Financial statements of the City of Jeannette Municipal Authority (Authority), a component unit of the City, are available at the Authority's office. The government-wide financial statements can be found on pages 9 and 10 of this report and do not include the financial position or results of the City of Jeannette Municipal Authority.

- (2) 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 governmental agencies, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into governmental funds and fiduciary funds.

The fund financial statements can be found on pages 9, 11 and 12 of this report.

- Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
- Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities.

The City maintains four individual governmental funds. 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, Capital Projects and the Community Development Fund, which are considered major funds, and the Liquid Fuels Fund, a nonmajor fund.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS **YEAR ENDED DECEMBER 31, 2009**

The City adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to determine compliance with actual revenues/expenditures to budgeted amounts.

- (3) Notes to the Primary Government Financial Statements – The notes to the financial statements 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 the financial statements can be found on pages 14 through 24 of this report.

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The required supplementary information can be found on pages 25 through 27 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets on the cash basis of accounting were \$1,925,311 as of December 31, 2009, a decrease of \$406,279 from 2008.

STATEMENT OF NET ASSETS **CASH BASIS** **December 31, 2009**

<u>Assets:</u>	
Cash and cash equivalents	<u>\$ 1,925,311</u>
<u>Net assets:</u>	
Restricted	\$ 1,713,256
Unrestricted	<u>212,055</u>
	<u>\$ 1,925,311</u>

The balance of unrestricted net assets as of December 31, 2009 was \$212,055 and may be used to meet the government's ongoing obligations to its citizens and creditors. This was a decrease of \$420,230 from 2008.

At the end of the current year, the City is able to report a positive balance in net assets. The same situation held true for the prior fiscal year.

Governmental Activities – Governmental activities decreased the net assets by \$406,279.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009

Details of these decreases for the governmental activities are as follows:

CHANGES IN NET ASSETS
CASH BASIS
NET (EXPENSES) REVENUES

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenues</u>
Primary Government:			
Government Activities:			
General government	\$ 1,112,638	\$ 179,557	\$ (933,081)
Public safety	2,085,265	378,862	(1,706,403)
Public works:			
Highways and streets	1,136,734	433,433	(703,301)
Sanitation	707,877	707,877	-
Culture and recreation	30,000	-	(30,000)
Community development	1,070,588	1,144,537	73,949
Debt principal and interest	236,008	-	(236,008)
Total government activities	<u>\$ 6,379,110</u>	<u>\$ 2,844,266</u>	<u>(3,534,844)</u>
 General Revenues:			
Taxes:			
Real estate			\$ 2,018,494
Earned income			585,711
Other			294,198
Franchise fees			150,177
Interest			9,877
Payments in lieu of taxes			35,682
Miscellaneous			34,426
Total general revenues			<u>3,128,565</u>
 Change in net assets			(406,279)
Net assets - beginning of year			<u>2,331,590</u>
Net assets - end of year			<u>\$ 1,925,311</u>

The City continues to have significant challenges in ensuring it has sufficient revenues to meet its financial demands. City Council continues to assess ways to increase revenues and decrease expenditures.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE GOVERNMENT'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 available resources. Such information is useful in assessing the City's financial requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$212,055. Fund balances in the Capital Projects Fund, Community Development Fund and Liquid Fuels Fund were \$540,790, \$828,966, and \$343,500, respectively. These amounts represent an increase in fund balance in the Community Development Fund of \$124,719 and a decrease in the Capital Projects Fund and Liquid Fuels Fund of \$60,499 and \$50,269, respectively. These amounts represent funds available that may be used for activities within the scope of each fund. On the statement of net assets, these amounts are shown as restricted net assets, because, in terms of the government as a whole, they are restricted by bond covenants (Capital Projects Funds) and grantors (Community Development Fund and Liquid Fuels Fund).

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the General Fund budget and the actual revenues/expenditures totaled \$23,922 in additional cash-basis revenues and \$288,777 more in cash-basis expenditures. The net of these differences resulted in a deficit of revenues over expenditures in the amount of \$264,855.

DEBT

At the end of the current fiscal year, the City had an outstanding total debt of \$2,276,005, a decrease of \$119,817 from 2008. Of this amount, \$2,210,000 is comprised of General Obligation Bonds while \$66,005 relates to capital lease obligations. The City did not assume new debt in 2009.

A breakdown of the City's debt follows:

LONG-TERM DEBT
GENERAL OBLIGATION AND OTHER DEBT

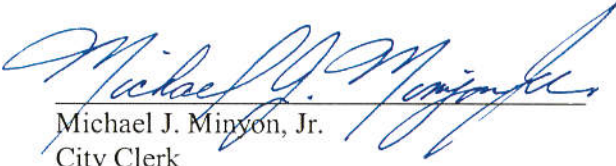
	Balance as of January 1, 2009	Payments/ Retirements	Balance as of December 31, 2009
General Obligation Bonds	\$ 2,310,000	\$ (100,000)	\$ 2,210,000
Capital Lease Obligation	85,822	(19,817)	66,005
Totals	<u>\$ 2,395,822</u>	<u>\$ (119,817)</u>	<u>\$ 2,276,005</u>

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the financial affairs of the City. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Office of the City Clerk, City of Jeannette, 110 South Second Street, Jeannette, PA 15644.



Michael J. Minyon, Jr.
City Clerk

CITY OF JEANNETTE
GOVERNMENTAL FUNDS BALANCE SHEET/ STATEMENT OF NET ASSETS - CASH BASIS
AS OF DECEMBER 31, 2009

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Community Development Fund</u>	<u>Non-Major Liquid Fuels Fund</u>	<u>Total Governmental Funds</u>	<u>Statement of Net Assets</u>
Cash and cash equivalents	\$ 212,055	\$ 540,790	\$ 828,966	\$ 343,500	\$ 1,925,311	\$ 1,925,311
Fund Balance/Net Assets						
Fund balance:						
Unreserved, reported in:						
General fund	\$ 212,055	\$ -	\$ -	\$ -	\$ 212,055	
Capital projects fund	-	540,790	-	-	540,790	
Special revenue funds	-	-	828,966	343,500	1,172,466	
Total fund balance	\$ 212,055	\$ 540,790	\$ 828,966	\$ 343,500	\$ 1,925,311	
Net assets:						
Restricted for:						
Capital projects						\$ 540,790
Community development						828,966
Liquid fuels tax projects						343,500
Unrestricted						212,055
Total net assets						\$ 1,925,311

The accompanying notes are an integral part of these financial statements.

CITY OF JEANNETTE
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 1,112,638	\$ 123,686	\$ 55,871	\$ -	\$ (933,081)
Public safety	2,085,265	257,412	121,450	-	(1,706,403)
Public works - highway and streets	1,136,734	-	433,433	-	(703,301)
Public works - sanitation	707,877	690,412	17,465	-	-
Culture and recreation	30,000	-	-	-	(30,000)
Community development	1,070,588	115,720	1,028,817	-	73,949
Principal and interest paid on long-term debt	236,008	-	-	-	(236,008)
Total governmental activities	<u>\$ 6,379,110</u>	<u>\$ 1,187,230</u>	<u>\$ 1,657,036</u>	<u>\$ -</u>	<u>(3,534,844)</u>
General revenues:					
Taxes:					
Real estate					\$ 2,018,494
Earned income					585,711
Emergency and municipal service tax					134,922
Business privilege tax					70,997
Tax collected - county					32,331
Other					55,948
Franchise fees					150,177
Interest					9,877
Payments in lieu of taxes					35,682
Miscellaneous					34,426
Total general revenues					<u>3,128,565</u>
Change in net assets					(406,279)
Net assets:					
Beginning of year					<u>2,331,590</u>
End of year					<u>\$ 1,925,311</u>

The accompany notes are an integral part of these financial statements.

CITY OF JEANNETTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Capital Projects Fund	Community Development Fund	Nonmajor Liquid Fuels Fund	Total Governmental Funds
Revenues:					
Taxes	\$ 2,892,116	\$ -	\$ -	\$ -	\$ 2,892,116
Licenses, permits and fees	197,871	-	-	-	197,871
Fines, forfeitures and penalties	59,678	-	-	-	59,678
Interest	3,059	889	2,788	3,141	9,877
Intergovernmental	404,539	-	1,028,817	229,968	1,663,324
Charges for services	964,137	-	-	-	964,137
Payments in lieu of taxes	35,682	-	-	-	35,682
Program income	-	-	115,720	-	115,720
Miscellaneous	34,426	-	-	-	34,426
Total revenues	4,591,508	889	1,147,325	233,109	5,972,831
Expenditures:					
Current:					
General government	972,244	-	-	-	972,244
Public safety	2,085,265	-	-	-	2,085,265
Public works - highways and streets	853,356	-	-	283,378	1,136,734
Public works - sanitation	707,877	-	-	-	707,877
Culture and recreation	30,000	-	-	-	30,000
Community development	47,982	-	1,022,606	-	1,070,588
Insurance	63,827	-	-	-	63,827
Miscellaneous	15,179	-	-	-	15,179
Capital purchases	-	61,388	-	-	61,388
Debt service:					
Principal retirement	118,815	-	-	-	118,815
Interest	117,193	-	-	-	117,193
Total expenditures	5,011,738	61,388	1,022,606	283,378	6,379,110
Net change in fund balance	(420,230)	(60,499)	124,719	(50,269)	(406,279)
Fund balance:					
Beginning of year	632,285	601,289	704,247	393,769	2,331,590
End of year	\$ 212,055	\$ 540,790	\$ 828,966	\$ 343,500	\$ 1,925,311

The accompany notes are an integral part of these financial statements.

CITY OF JEANNETTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
CASH BASIS - BUDGET AND ACTUAL GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budget	Actual	Variance
Revenues:			
Taxes	\$ 3,009,200	\$ 2,892,116	\$ (117,084)
Licenses, permits and fees	169,680	197,871	28,191
Fines, forfeitures and penalties	60,000	59,678	(322)
Interest	24,000	3,059	(20,941)
Intergovernmental	481,363	404,539	(76,824)
Charges for service	760,093	964,137	204,044
Payments in lieu of taxes	30,000	35,682	5,682
Miscellaneous	33,250	34,426	1,176
	<hr/>	<hr/>	<hr/>
Total revenues	4,567,586	4,591,508	23,922
Expenditures:			
General government	1,045,072	972,244	72,828
Public safety	1,970,387	2,085,265	(114,878)
Public works - highways and streets	681,223	853,356	(172,133)
Public works - sanitation	602,156	707,877	(105,721)
Culture and recreation	30,000	30,000	-
Community development	129,000	47,982	81,018
Insurance	50,000	63,827	(13,827)
Miscellaneous	3,500	15,179	(11,679)
Debt service:			
Principal retirement	100,000	118,815	(18,815)
Interest	111,623	117,193	(5,570)
	<hr/>	<hr/>	<hr/>
Total expenditures	4,722,961	5,011,738	(288,777)
Net change in fund balance	\$ <u>(155,375)</u>	\$ <u>(420,230)</u>	\$ <u>(264,855)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF JEANNETTE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
AS OF DECEMBER 31, 2009

	<u>Fire Insurance Escrow Fund</u>
Assets	
Cash and cash equivalents	\$ 40,478
Total assets	\$ 40,478
Net Assets	
Held for fire damage payments	\$ 40,478
Total net assets	\$ 40,478

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Fire Insurance Escrow Fund</u>
Additions	
Interest income	\$ 80
Insurance proceeds	63,550
Total additions	63,630
Deductions	
Insurance funds disbursed	63,550
Change in net assets	80
Total net assets- beginning	40,398
Total net assets- ending	\$ 40,478

The accompanying notes are an integral part of these financial statements.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Jeannette, Pennsylvania (City), was incorporated and adopted its first Charter as a City in 1938. The City operates under a commission form of government and provides the following services as provided by its charter: police and fire, street, public works and sanitation, culture-recreation, health and social services, planning and zoning and general administrative services.

The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The most significant of these accounting policies are as follows:

Reporting Entity

The primary government financial statements (financial statements) include only the financial activity of the City and do not include the City of Jeannette Municipal Authority (Authority), which is considered a component unit in accordance with the provisions of GASB Statement No. 14, "*Financial Reporting Entity*." The City is considered to be financially accountable for the Authority because City Council appoints the Authority's governing board and guarantees the Authority's debt (Note 8). Separate financial statements for the Authority are available upon request from its offices.

Government-Wide and Fund Financial Statements

The government-wide cash basis financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from services or privileges provided by a given function or segment, and 2) grants that are restricted to meeting the operational requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

Basis of Accounting/Measurement Focus

Basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and in the financial statements. The City has elected to present its financial statements on the cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, amounts are recognized when received or paid rather than when earned or when obligations are incurred. Inventories, principally supplies, are accounted for as expenditures when purchased. Encumbrance accounting, whereby fund balance is reserved for commitments related to unperformed contracts for goods and services, is not used by the City.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The City only uses governmental funds and fiduciary funds, although the latter are excluded from these financial statements.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they will be paid.

The City reports the following major governmental funds:

The *General Fund* is the principal operating fund of the City that is used to account for all financial transactions except those required to be accounted for in other funds.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities or acquisitions of equipment.

The *Community Development Fund* is used to account for various grants received from the Department of Community and Economic Development.

Additionally, the City reports the following nonmajor governmental funds:

The *Liquid Fuels Fund* accounts for state aid revenues (liquid fuels taxes) received from the Pennsylvania Department of Transportation for building, improving, lighting and maintaining roads and bridges within the City.

Fiduciary Funds

The *pension trust funds* are used to account for assets held by the City in a trustee capacity for future payment of retirement benefits to employees or former employees. The City has three separate pension plans: the Non-Uniformed Plan, the Police Plan and the Firefighter Plan. The pension trust funds for the Police Plan and Firefighter Plan are not included in the financial statements, as discussed in the "GAAP Departure" section below.

The City maintains a fire insurance escrow account for the future payment of insurance costs as a result of fire damages. A statement of fiduciary net assets and a statement of changes in fiduciary net assets have been presented to account for the activity in this account.

CITY OF JEANNETTE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GAAP Departure:

The City's financial statements for the year ended December 31, 2009 exclude the pension trust funds for the Police Plan and Fireman Plan. Both funds are audited separately.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Reserved

Reserved is used to denote that portion of fund balance that is not available for expenditure appropriation or is legally segregated for a specific purpose.

Unreserved

Unreserved is used to denote that portion of the fund balance that is available for appropriation.

Unreserved, Designated

Designated is used to denote that portion of the fund balance that the City Council has designated for a specific purpose.

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control in the General Fund of the City. The budget is adopted on the cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City must adopt the budget for the General Fund by December 31.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

Deposits and Investments

The City considers all short-term investments with a maturity of three months or less to be cash equivalents. Investments are carried at fair value based on quoted market prices.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The City allows non-uniformed employees to accumulate unused sick leave to a maximum of 125 days. Upon termination, unused sick leave of non-uniformed employees, up to the maximum, will be paid at the rate of \$50 per day. Police can accumulate one month of sick leave for each year of service. Upon normal retirement, unused sick leave will be paid at the rate of \$10 per day, up to a maximum of 12 weeks. Firemen can accumulate unused sick leave, up to a maximum of 42-24 hour days. Upon termination/retirement, unused sick leave of firemen will be paid at one-half of the shift rate. Earned vacation time is required to be used currently. As of December 31, 2009, the liability for accrued sick leave was \$88,982.

NOTE 2 – CASH AND CASH EQUIVALENTS

Pennsylvania statutes provide for investment of governmental funds (which exclude the Pension Trust Funds) into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes allow pooling of governmental funds for investment purposes.

The deposit and investment policy of the City adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the City.

The following is a summary of the City's deposits which are insured by the Federal Depository Insurance Company (Category 1) and not insured or collateralized in the City's name but 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 (Category 3).

	<u>Total Category 1</u>	<u>Total Category 3</u>	<u>Carrying Amount</u>
Deposits	\$ 504,019	\$ 484,297	\$ 988,316

Investments below are considered cash equivalents and are reported as such on the governmental funds balance sheet/statement of net assets - cash basis. The investments of the City have been categorized to indicate the level of risk assumed by the City, as follows: Category 1 - insured or registered, or securities held by the City or its agent in the City's name; Category 2 - uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; Category 3 - uninsured and unregistered, securities held by the counterparty or its trust department or agent, but not in the City's name.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

The carrying value and categorization of the investments of the City at December 31, 2009 were as follows:

	<u>Carrying Value</u>	<u>Total Category 3</u>
U.S. Government Money Market	\$ 540,790	\$ 540,790
PLGIT	<u>396,205</u>	<u>396,205</u>
Total	<u><u>\$ 936,995</u></u>	<u><u>\$ 936,995</u></u>

NOTE 3 – PROPERTY TAX LEVIES

Taxes are levied on March 1 and are due and payable on or before June 30. All unpaid taxes become delinquent July 1 of the same year. Any taxes still unpaid at December 31 of the same year are turned over to the Westmoreland County Tax Collector. City property tax revenues are recognized when received.

City real estate taxes were levied for general purposes at 32.62 mills on 100% of assessed valuation. The assessed valuation was approximately \$62.1 million for the 2009 levy.

NOTE 4 – LONG-TERM DEBT

Changes in Long-Term Debt

Changes in the City's long-term debt during 2009 were as follows:

	<u>Balance at December 31, 2008</u>	<u>Payments</u>	<u>Balance at December 31, 2009</u>
General Obligation Bonds, 1998	\$ <u>2,310,000</u>	\$ <u>(100,000)</u>	\$ <u>2,210,000</u>

General Obligation Bond - Series 1998

In March 1998, the City issued a General Obligation Bond – Series 1998 (1998 bonds). The 1998 bond issue was to a) fund various capital projects and b) retire the City's General Obligation Bond – Series 1994 (1994 bonds). The interest rate ranges from 3.9% to 5.0% and is scheduled to mature in 2024. As part of the 1998 bond issue, funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 bonds. As a result, the 1994 bonds are considered to be defeased; and the liability for those bonds has been removed from the general long-term debt account group. At December 31, 2009, \$2,210,000 of bonds considered defeased are outstanding.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM DEBT (continued)

The debt service requirements are as follows for the City's outstanding bonds:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 105,000	\$ 106,959	\$ 211,959
2011	110,000	101,930	211,930
2012	110,000	96,650	206,650
2013	120,000	91,130	211,130
2014	120,000	85,250	205,250
Thereafter	1,645,000	444,875	2,089,875
	<u>\$ 2,210,000</u>	<u>\$ 926,794</u>	<u>\$ 3,136,794</u>

NOTE 5 – CAPITAL LEASES

The City has one capital lease obligation as of December 31, 2009. The capital lease for a fire truck has a total cost of \$184,525. This capital asset is not accounted for on the governmental funds balance sheet/statement of net assets (cash basis) due to the City reporting on the cash basis.

The following is a schedule of future minimum rental payments under these leases at December 31, 2009:

<u>Fiscal Year Ending December 31,</u>	<u>Balance</u>
2010	\$ 24,385
2011	24,385
2012	<u>24,385</u>
Total minimum lease payments	73,155
Less: amount representing interest	<u>(7,150)</u>
Present value of future minimum lease payments	<u>\$ 66,005</u>

NOTE 6 – PENSION PLAN

Plan Descriptions

The City administers three defined benefit pension plans covering full-time employees: the Non-Uniformed Pension Plan, the Police Pension Plan and the Firemen Pension Plan (Plans). The Plans operate under the authority of various City ordinances and provide retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living allowances are provided at the discretion of the Plans. The Non-Uniformed Pension Plan is an agent multiple-employer plan. The Police Pension Plan and the Firemen Pension Plan are single-employer plans. Plan provisions are established by City ordinance with the authority for City contributions required by Act 205 of the Commonwealth of Pennsylvania (Act 205).

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – PENSION PLAN (continued)

Plan Descriptions (continued)

All Plans receive bi-annual actuarial valuations. The Non-Uniformed Pension Plan is administered by the Pennsylvania Municipal Retirement System (PMRS) which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent. The PMRS issues a separate Comprehensive Annual Financial Report. That report may be obtained by writing to the Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165. Neither single-employer plan issues separate audited financial statements.

As of January 1, 2009, the date of the most recent actuarial valuations, participants in the pension plans were as follows:

<u>Participants</u>	<u>Non-Uniformed</u>	<u>Police</u>	<u>Fireman</u>
Active members	23	14	3
Retirees and beneficiaries receiving benefits	21	21	4
Terminated plan members with vested or deferred benefits	2	-	-

Contributions and Funding Policy

Act 205 requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under Act 205; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO that exceeds the Commonwealth of Pennsylvania allocation must be funded by the City.

In accordance with the Plan's governing resolution, members are required to contribute five percent of compensation to the plan. An additional contribution of \$1 per month is required by the Police and Firemen Plans.

The Plans may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the City in accordance with Act 205.

Administrative costs, including the investment manager, trustee and actuarial services, are charged to the plan and funded through investment earnings.

	<u>Non-Uniformed</u>	<u>Police</u>	<u>Fireman</u>
Annual pension cost	\$ 155,976	\$ 254,809	\$ 42,543
Contributions made	\$ 199,244	\$ 307,738	\$ 50,942

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – PENSION PLAN (continued)

Historical Trend Information

Historical trend information designed to provide information about the City's progress made in accumulating sufficient assets to pay benefits when due is presented below:

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Non-uniformed	12/31/2003	\$ 134,401	100%	-
	12/31/2004	\$ 131,113	100%	-
	12/31/2005	\$ 153,489	100%	-
	12/31/2006	\$ 151,405	100%	-
	12/31/2007	\$ 160,377	100%	-
	12/31/2008	\$ 160,015	100%	-
	12/31/2009	\$ 155,976	100%	-
Police	12/31/2003	\$ -	100%	-
	12/31/2004	\$ 115,284	100%	-
	12/31/2005	\$ 113,938	100%	-
	12/31/2006	\$ 129,377	100%	-
	12/31/2007	\$ 213,493	100%	-
	12/31/2008	\$ 217,836	100%	-
	12/31/2009	\$ 254,809	100%	-
Firemen	12/31/2003	\$ 5,327	100%	-
	12/31/2004	\$ 19,077	100%	-
	12/31/2005	\$ 19,942	100%	-
	12/31/2006	\$ 20,489	100%	-
	12/31/2007	\$ 24,103	100%	-
	12/31/2008	\$ 24,145	100%	-
	12/31/2009	\$ 42,543	100%	-

NOTE 7 – POST-EMPLOYMENT HEALTH CARE

In addition to the pension benefits described above, the City provided health care benefits to Teamster and Police retirees in full until Medicare benefits begin. The employer's contributions are financed on a pay-as-you-go basis. As of December 31, 2009, six retirees benefited under this plan, and \$43,703 in premiums was paid on their behalf. All other retirees must reimburse the City 100% of the premiums paid on their behalf.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – GUARANTEE OF DEBT

The City guarantees the debt service payments of the Authority under its guaranteed Sewer Revenue Bonds, Refunding Series (original issue amount, \$2,600,000), and Refunding Series A of 2003 (original issue amount, \$2,460,000). The City had guaranteed the Authority's 1998 Bonds which were refunded with the Series A 2003 issue. During 2009, the City made no contributions to the Authority. City management does not anticipate any contributions being required in the near future.

Annual debt service payments under the terms of the Authority Bonds, Refunding Series and Refunding Series A of 2003 are as follows:

Year	Principal Amount	Interest Amount	Total
2010	\$ 325,000	\$ 120,620	\$ 445,620
2011	330,000	110,135	440,135
2012	350,000	98,585	448,585
2013	360,000	86,065	446,065
2014	370,000	72,648	442,648
Thereafter	1,415,000	136,485	1,551,485
	<u>\$ 3,150,000</u>	<u>\$ 624,538</u>	<u>\$ 3,774,538</u>

The City also guarantees three PennVest Loans (2008 PennVest Loan, outstanding balance of approximately \$4,104,919 at December 31, 2009, 2006 PennVest Loan, outstanding balance of approximately \$100,257 at December 31, 2009 and 2002 PennVest Loan, outstanding balance of approximately \$449,672 at December 31, 2009) of the Authority. Monthly payments of principal and interest on the 2008 PennVest Loan are \$19,455 through the first 5 years and \$21,316 thereafter, until 2028. Interest-only monthly payments are being made at a rate of 1.27% on the 2006 PennVest loan. Monthly payments of principal and interest to be made by the Authority are \$3,331 for the 2002 PennVest Loan through June 1, 2023.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – LOAN RECEIVABLE

The City's Community Development fund provides low interest loans to proprietors that use Jeannette as their place of business. These funds are repaid to the City at interest rates that range between 2 and 5% over various amortized periods.

The following represents the loan activity for the year ended December 31, 2009:

	Balance at January 1, 2009	Payments	Additions	Balance at December 31, 2009
Loan #1	\$ 1,331	\$ -	\$ -	\$ 1,331
Loan #2	74,950	-	-	74,950
Loan #3	64,147	(35,056)	-	29,091
Loan #4	12,986	(2,883)	-	10,103
Loan #5	220,103	(53,845)	-	166,258
	<u>\$ 373,517</u>	<u>\$ (91,784)</u>	<u>\$ -</u>	<u>\$ 281,733</u>

NOTE 10 – RISK MANAGEMENT

The risk of losses is covered by commercial insurance for the following areas: property and liability, workers' compensation and dishonesty. For insured areas, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverages for the current year.

On December 31, 1996, City Council authorized the City's participation, beginning in 1997, in the Penn Prime Workers' Compensation Trust, which is a group workers' compensation pool, established through the intergovernmental cooperation of Pennsylvania municipalities under the authority of the Pennsylvania Workers' Compensation Act and the Pennsylvania Intergovernmental Cooperation Law. The City's participation in this pool is deemed to control workers' compensation insurance costs and reduce annual premiums.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The City is currently engaged in the process of Eminent Domain proceedings with a local citizen. In September 2010, a Board of View Hearing was held whereat the plaintiff was awarded damages in excess of \$300,000. However, both parties filed an appeal to this award. It is the City's position that the amount of damages that the local citizen is entitled to is far less than the award amount, while it is the position of the plaintiff that his damages are in excess of the award amount. A trial in this matter will be scheduled sometime during the summer or fall of 2011. No provision would have been made in the financial statements for this lawsuit.

In addition, several lawsuits are pending against the City for which no provisions would have been made in the financial statements because the ultimate resolutions are not reasonably estimable. In the opinion of management and legal counsel, such matters are not material to the financial statements either individually or in the aggregate since the claims would essentially be covered by insurance; and the only cost to the City would be the payment of the insurance deductible.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

Certain revenues provided to the City by the federal government are subject to audit by respective grantor agencies. Potential reimbursements may be required as a result of such audits. No provision would have been made for potential reimbursements in the financial statements as material amounts are considered to be unlikely.

NOTE 12 – SUBSEQUENT EVENTS

In June, 2010, the City contracted with Delta Development Group, Inc. to assist the City in avoiding PA Act 47, which declares certain municipalities as financially distressed. As of the date of this report, the City has been able to avoid placement in Act 47 and continues to contract with Delta Development Group, Inc. to sustain fiscal stability.

In December 2010, the City obtained a \$500,000 Unit Debt Loan. The purpose was to assist with the City's pension fund contributions for police, fire and non-uniformed personnel. The loan was approved by the Pennsylvania Department of Community and Economic Development and will be repaid over a 10-year period. In addition, an increase of .15% was added to the earned income tax for both residents and nonresidents. This increase is to be used for the pension fund contributions.

In January 2010, a transfer of \$100,000 was made from the City's bond fund to the general fund. It appears that this transfer was used for general operating expenses, which may constitute an act of noncompliance with the bond agreement. It is the understanding of the City's legal counsel, through a meeting with the bond counsel, that the City is authorized to utilize bond funds for the payment, or reimbursement, of capital expenditures and that the bond counsel's position was that the transfer of funds was for appropriate capital expenditures and reimbursements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JEANNETTE
SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial		Actuarial		Excess of Assets		Excess as a Percentage of Covered Payroll	
	Value of Assets	Liability (AAL) - Entry Age	Over (Under) AAL	Funded Ratio	Covered Payroll	Payroll		
Non-Uniformed								
1/1/1999		N/A		N/A	N/A	N/A	N/A	
1/1/2001	\$	952,486	\$	1,876,088	\$	(923,602)	50.77% \$ 918,171	
1/1/2003	\$	1,067,748	\$	2,093,204	\$	(1,025,456)	51.01% \$ 883,697	
1/1/2005	\$	1,727,434	\$	2,696,911	\$	(969,477)	64.05% \$ 886,696	
1/1/2007	\$	1,992,115	\$	2,771,420	\$	(779,305)	71.88% \$ 834,758	
1/1/2009		N/A		N/A		N/A	N/A	
Police								
1/1/1999	\$	6,549,756	\$	5,919,392	\$	630,364	110.65% \$ 838,660	
1/1/2001	\$	7,478,411	\$	6,475,586	\$	1,002,825	115.49% \$ 905,213	
1/1/2003	\$	6,473,445	\$	6,749,081	\$	(275,636)	95.92% \$ 1,006,360	
1/1/2005	\$	6,253,354	\$	7,341,592	\$	(1,088,238)	85.18% \$ 861,259	
1/1/2007	\$	6,332,222	\$	7,709,913	\$	(1,377,691)	82.13% \$ 893,985	
1/1/2009	\$	5,794,711	\$	8,739,050	\$	(2,944,339)	66.31% \$ 1,042,985	
Firemen								
1/1/1999	\$	886,658	\$	718,475	\$	168,183	123.41% \$ 114,976	
1/1/2001	\$	940,815	\$	752,271	\$	188,544	125.06% \$ 138,029	
1/1/2003	\$	802,151	\$	820,610	\$	(18,459)	97.75% \$ 181,887	
1/1/2005	\$	756,314	\$	773,224	\$	(16,910)	97.81% \$ 178,089	
1/1/2007	\$	774,173	\$	938,845	\$	(164,672)	82.46% \$ 150,393	
1/1/2009	\$	695,460	\$	1,029,109	\$	(333,649)	67.58% \$ 176,661	

Source: Actuarial Reports. Valuation performed on a biennial basis.

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

N/A: Information not available

The accompanying notes are an integral part of these financial statements.

CITY OF JEANNETTE
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Calendar Year	Non-Uniformed		Police		Firemen	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
1999	N/A	N/A	\$ 30,746	100%	\$ -	N/A
2000	\$ 45,778	100%	\$ -	N/A	\$ -	N/A
2001	\$ 38,780	100%	\$ 33,922	100%	\$ 7,825	100%
2002	\$ 22,610	100%	\$ 33,033	165%	\$ 6,189	158%
2003	\$ 134,401	100%	\$ -	N/A	\$ 5,327	100%
2004	\$ 131,113	100%	\$ 115,284	100%	\$ 19,077	100%
2005	\$ 153,489	100%	\$ 113,968	100%	\$ 19,942	100%
2006	\$ 151,405	100%	\$ 129,377	100%	\$ 20,489	100%
2007	\$ 160,377	100%	\$ 213,493	100%	\$ 24,103	100%
2008	\$ 160,015	100%	\$ 217,836	100%	\$ 24,145	100%
2009	\$ 155,976	100%	\$ 254,809	100%	\$ 42,543	100%

Note: Contributions include state pension aid

N/A: Information not available

The accompanying notes are an integral part of these financial statements.

CITY OF JEANNETTE

NOTE TO REQUIRED SUPPLEMENTARY PENSION SCHEDULES

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

	<u>Non-uniform</u>	<u>Police</u>	<u>Firemen</u>
Actuarial valuation date	1/1/2007	1/1/2009	1/1/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Asset valuation method	Fair Value	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	7.90 Years	20 Years (aggregate)	26 Years
Actuarial assumptions			
Investment rate of return	6.00%	7.50%	7.50%
Projected salary increases	5.20%	5.00%	5.00%
Underlying inflation rate	n/a	3.00%	3.00%
Cost of living adjustment, if applicable	n/a	n/a	n/a

n/a = not applicable

**REPORTS REQUIRED BY GOVERNMENTAL AUDITING STANDARDS AND
THE SINGLE AUDIT ACT**



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

To: City Council and Mayor
City of Jeannette

We have audited the primary governmental financial statements – cash basis of the City of Jeannette (City), as of and for the year ended December 31, 2009, and have issued our report thereon dated March 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; and, therefore, there can be no assurances that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and a 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 deficiencies described in the accompanying schedule of findings and questioned costs, referenced as 2009-02, 2009-03 and 2009-04, to be material weaknesses.

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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, referenced as 2009-01, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of the City of Jeannette in a separate letter dated March 2, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses; and, accordingly, we express no opinion on them.

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

Malin, Bergquist & Company, LLP

Greensburg, Pennsylvania

March 2, 2011



Malin, Bergquist & Company, LLP

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

To: City Council and Mayor
City of Jeannette

Compliance

We have audited the compliance of the City of Jeannette (City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major federal program for the year ended December 31, 2009. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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.



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

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

This report is intended for the information and use of the City Council, management of the City, others within the entity and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Malin, Bergquist & Company, LLP

Greensburg, Pennsylvania

March 2, 2011

CITY OF JEANNETTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2009

<u>Federal Grantor</u>	<u>CFDA #</u>	<u>Federal Expenditures</u>
US Department of Housing and Urban Development	14.228	\$ 163,700
US Department of Housing and Urban Development	14.239	<u>598,133</u>
Total expenditures of federal awards		<u>\$ 761,833</u>

Supplemental Disclosures

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Jeannette and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Schedule of Expenditures of Federal Awards is based upon information provided by the various funding sources to the City of Jeannette and other information available at the time this schedule was presented.

CITY OF JEANNETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the general purpose financial statements of the City of Jeannette.
2. Three material weaknesses and one significant deficiency relating to the audit of the financial statements are reported in the general purpose financial statements.
3. No instances of noncompliance material to the financial statements of the City of Jeannette are reported.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the general purpose financial statements.
5. The auditors' report on compliance for the major federal award programs for the City of Jeannette expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for the City of Jeannette reported in this Schedule.
7. The program tested as a major program is the US HUD Program, CFDA 14.239.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Jeannette did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

Significant Deficiency:

2009-01: Record Storage and Retrieval

Condition: During our audit, accounting records frequently could not be located or provided in a timely manner.

Criteria: All original information requested as part of the audit should be provided in a timely manner.

Effect: City employees spent nonproductive time searching for supporting documentation which contributed to significant delays in the ability to finalize the audit. This also could cause difficulties with federal, state and other auditing agencies.

Cause of Condition: Currently, the City does not have a clearly specified system for filing records nor is there an effective monitoring over the usage of these records by employees.

CITY OF JEANNETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Recommendation: We recommend that the City establish a policy to allow for a systematic manner of filing and monitoring the use of City documents which would enable a more efficient and effective document retrieval process.

Management Response: Management is aware of the difficulties encountered in retrieving certain documentation and is working toward developing a more efficient recordkeeping and retrieval process.

Material Weaknesses:

2009-02: Financial Reporting

Condition: Lack of effective controls in certain areas as it relates to the City's overall financial reporting process.

Criteria: Effective oversight and internal controls should exist to properly monitor the City's overall financial operations and reporting process and to identify and resolve any issues identified in a timely manner.

Effect: Due to the lack of controls over certain areas of the financial reporting process, there is an increased risk that errors, misstatements or fraudulent activity could occur without being properly identified.

Cause of Condition: There are currently limited effective controls in place to properly monitor the financial activity within the City's various funds. Additionally, there is an overall lack of effective communication with those involved in the City's financial reporting process.

Recommendation: We recommend that the City implement certain controls to improve oversight of financial activity and to improve the effectiveness of the financial reporting process. The City should also consider developing an accounting manual that would promote the consistent application of accounting policies and procedures.

Management Response: Management is aware of the deficiencies in the City's oversight and financial reporting process and has been proactive in developing internal controls that would improve this process.

2009-03: Segregation of Duties

Condition: Lack of adequate segregation of duties in several key accounting processes.

Criteria: Responsibilities for custody, accounting and control of the City's assets should be segregated.

Effect: Because of the lack of adequate segregation of duties in several key accounting processes, there is an increased risk of unauthorized or fraudulent transactions to occur, especially in the areas of cash disbursements and payroll. It also could lead to incomplete documentation and incorrect recording of transactions.

CITY OF JEANNETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Cause of Condition: There are no procedures currently in place to provide an adequate segregation of duties within several key accounting processes, especially in the areas of cash disbursements and payroll.

Recommendation: We recommend that the duties for processing accounts payable and cash disbursements and payroll duties be segregated in order to strengthen internal control in these areas.

Management Response: Management is aware of the lack of effective segregation of duties in certain key accounting areas and will continue to look to segregate duties in these areas going forward in the most cost-effective manner.

2009-04: Accounting Discipline

Condition: While conducting our audit, obtaining a complete and accurate general ledger was problematic, as was also the case for the production of supporting schedules for balances in the general ledger, including cash accounts.

Criteria: The general ledger provided should be complete and accurate, and all subsidiary ledgers and supporting schedules should be properly reconciled to the general ledger balances.

Effect: The lack of timely and inaccurate subsidiary ledgers and supporting schedules being provided during the audit contributed to significant delays in the ability to finalize the year-end financial statements and audit and led to significant audit adjustments. In addition, it was determined that there were several cash accounts not accurately recorded in the general ledger.

Cause of Conditions: Accurate subsidiary ledgers and other supporting schedules requested for certain general ledger accounts were not initially provided during the audit, and accounting personnel were unable to prepare reconciliations based on the information they were aware of.

Recommendation: We recommend that accounting personnel improve and/or acquire necessary skills concerning the preparation of supporting schedules for balances recorded in the general ledger. This training would lead to employees who are more efficient, effective and communicative with regard to accounting and financial matters. In addition, all financial activity of the City, including all cash accounts, should be communicated to the City Clerk in a timely manner.

Management Response: Management believes that the current personnel are capable of performing accounting functions and that with some additional training, would become more efficient in the performance of these functions. In addition, management is considering upgrading its accounting software to better meet the City's needs.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None