

CITY OF JEANNETTE

FINANCIAL STATEMENTS

Year ended December 31, 2005

**DELUZIO, TEEMS & ANZOVINO
CERTIFIED PUBLIC ACCOUNTANTS
206 CLAY AVENUE
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CITY OF JEANNETTE

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Deluzio, Teems & Anzovino

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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, 2005, 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 principals 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 principals generally accepted in the United States of America. The Police Pension assets are estimated to be in excess of \$6 million at December 31, 2005 and the Firemen's Pension assets are estimated to be in excess of \$750,000 at December 31, 2005.

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 principals generally accepted in the United States of America, as applied to the City's cash basis of accounting, require 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, 2005, 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.

In our opinion, except for the omission of the City's Police and Firemen's Pension Funds as discussed in the fourth 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, 2005

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.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,*" GASB Statement No. 37, "*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus,*" and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures,*" as of and for the year ended December 31, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2006 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 read in conjunction with this report in considering the results of our audit.

The Management’s Discussion and Analysis and pension information on pages 3 through 7 and 22 through 24 respectively are not a required part of the financial statements but are supplementary information required by accounting principals 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.

A handwritten signature in cursive script that reads "Bluya, Trems & Company". The signature is written in dark ink and is positioned above the typed name and date.

Jeannette, Pennsylvania
July 5, 2006

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005

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, 2005. 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, 2005.

FINANCIAL HIGHLIGHTS

- The City is not presenting primary government financial statements as financial data of the City's component unit, the City of Jeannette Municipal Authority.
- As described in the notes to primary government financial statements (financial statements), the City prepares its financial statements on the cash basis of accounting.
- The City's net assets decreased \$161,615 during fiscal year 2005 or 7%.
- Unrestricted net assets were \$886,005 at December 31, 2005. 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 2005 is 33.12 mills. This represents an increase of 6.12 mills from 2004.
- At December 31, 2005, the City had \$2,575,000 of general obligation bonds outstanding. This represents a decrease of \$85,000 from the previous fiscal year.
- The total fund balance of the General Fund on December 31, 2005 was \$886,005. 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 non-major government funds that are presented in a single column in the basic financial statements.

(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 is on the cash basis of accounting. Over time, increases or decreases in net assets may serve as 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.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2005

(continued)

Both of the government-wide 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 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 8 and 9 of this report.

- (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 8, 10, and 11 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; therefore, these statements would have essentially matched.

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 non-major fund.

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 12 through 21 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 22 through 24 of this report.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2005

(continued)

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 \$2,198,578 as of December 31, 2005, a decrease of \$94,758 from 2004.

STATEMENT OF NET ASSETS

CASH BASIS

December 31, 2005

<u>Assets:</u>	
Cash and cash equivalents	<u>\$ 2,198,578</u>
 <u>Net assets:</u>	
Restricted	\$ 1,312,573
Unrestricted	<u>886,005</u>
	<u>\$ 2,198,578</u>

The balance of unrestricted net assets as of December 31, 2005 was \$886,005 and may be used to meet the government's ongoing obligations to its citizens and creditors. This was an increase of \$260,249 from 2004.

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 \$161,615.

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

CHANGES IN NET ASSETS
CASH BASIS
NET (EXPENSES) REVENUES

	Expenses	Program Revenues	Net (Expenses) Revenues
Primary Government:			
Government Activities:			
General government	\$ 1,203,259	\$ 262,711	\$ (940,548)
Public safety	1,797,839	272,321	(1,525,518)
Public works:			
Highways and streets	861,293	399,986	(461,307)
Sanitation	722,658	799,278	76,620
Culture and recreation	30,000	-	(30,000)
Community development	1,170,498	916,722	(253,776)
Debt principal and interest	322,388	-	(322,388)
Total government activities	\$ 6,107,935	\$ 2,651,018	\$ (3,456,917)

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005

(continued)

General Revenues:	
Taxes:	
Real estate	\$ 2,165,850
Earned income	572,801
Other	292,133
Franchise fees	126,776
Interest	50,240
Payments in lieu of taxes	23,912
Miscellaneous	63,589
Total general revenues	3,295,301
Change in net assets	(161,616)
Net assets – beginning of year	2,360,193
Net assets – end of year	\$ 2,198,577

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.

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, 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 \$886,005. Unreserved fund balances in the Capital Projects Fund, Community Development Fund, and Liquid Fuels Fund were \$655,971, \$603,729, and \$52,873, respectively. These amounts represent a decrease in fund balances in the Capital Projects Fund, Community Development Fund, and Liquid Fuels Fund of \$194,254, \$121,403, \$39,350, respectively, from 2004. 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 \$315,637 in additional cash-basis revenues and \$103,357 less in cash-basis expenditures. The net of these differences resulted in a surplus of revenues over expenditures in the amount of \$418,994.

DEBT

At the end of the current fiscal year, the City had an outstanding total debt of \$2,714,461, a decrease of \$161,758 from 2004. Of this amount, \$2,575,000 is comprised of General Obligation Bonds while \$139,461 relates to capital lease obligations. The City did not assume new debt in 2005.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2005

(continued)

A breakdown of the City's debt follows:

LONG-TERM DEBT
GENERAL OBLIGATION AND OTHER DEBT

	Balance as of January 1, 2005	Payments/ Retirements	Balance as of December 31, 2005
General Obligation Bonds	\$ 2,660,000	\$ (85,000)	\$ 2,575,000
Capital Lease Obligation	175,678	(36,217)	139,461
Totals	<u>\$ 2,835,678</u>	<u>\$ (121,217)</u>	<u>\$ 2,714,461</u>

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.

CITY OF JEANNETTE
GOVERNMENTAL FUNDS BALANCE SHEET/ STATEMENT OF NET ASSETS - CASH BASIS
YEAR ENDED DECEMBER 31, 2005

Assets	General Fund	Capital Projects Fund	Community Development Fund	Non-Major Liquid Fuels Fund	Total Governmental Funds	Statement of Net Assets
Cash and cash equivalents	\$ 886,005	\$ 655,971	\$ 603,729	\$ 52,873	\$ 2,198,578	\$ 2,198,578
Fund Balance/Net Assets						
Fund Balance:						
Unreserved, reported in:						
General Fund	\$ 778,411	\$ -	\$ -	\$ -	\$ 778,411	
Capital Projects Fund	-	655,971	-	-	655,971	
Special Revenue Funds	-	-	711,323	52,873	764,196	
Total Fund Balance	\$ 778,411	\$ 655,971	\$ 711,323	\$ 52,873	\$ 2,198,578	
Net Assets:						
Restricted for:						
Capital Projects						\$ 655,971
Community Development						711,323
Liquid Fuels Tax Projects						52,873
Unrestricted						778,411
Total Net Assets						\$ 2,198,578

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

CITY OF JEANNETTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
CASH BASIS - BUDGET AND ACTUAL GENERAL FUND
YEAR ENDED DECEMBER 31, 2005

	Budget	Actual	Variance
Revenues:			
Taxes	\$ 2,848,800	\$ 3,030,784	\$ 181,984
Licenses, permits and fees	151,625	193,490	41,865
Fines, forfeitures and penalties	68,000	77,573	9,573
Interest	7,500	22,038	14,538
Intergovernmental	464,600	487,200	22,600
Charges for service	144,250	921,292	777,042
Payments in lieu of taxes	20,000	23,912	3,912
Miscellaneous	50,750	63,589	12,839
Total revenues	3,755,525	4,819,878	1,064,353
Expenditures:			
General government	812,218	871,002	(58,784)
Public safety	1,928,279	1,797,839	130,440
Public works - highways and streets	649,336	582,487	66,849
Public works - sanitation	571,056	682,513	(111,457)
Culture and recreation	30,000	30,000	-
Community development	156,447	116,816	39,631
Miscellaneous	245,689	210,380	35,309
Debt service:			
Principal retirement	85,000	121,217	(36,217)
Interest	127,300	201,171	(73,871)
Total expenditures	4,605,325	4,613,425	(8,100)
Interfund transfers	185,000	53,797	(131,203)
Net Change in Fund Balance	\$ (664,800)	\$ 260,250	\$ 925,050

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

CITY OF JEANNETTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - CASH BASIS
YEAR ENDED DECEMBER 31, 2005

	General Fund	Capital Projects Fund	Community Development Fund	Non-Major Liquid Fuels Fund	Total Governmental Funds
Revenues:					
Taxes	\$ 3,030,784	\$ -	\$ -	\$ -	\$ 3,030,784
Licenses, permits and fees	193,490	-	-	-	193,490
Fines, forfeitures and penalties	77,573	-	-	-	77,573
Interest	22,038	22,826	2,493	2,883	50,240
Intergovernmental	487,200	-	825,220	195,460	1,507,880
Charges for services	921,292	-	-	-	921,292
Payments in lieu of taxes	23,912	-	-	-	23,912
Program income	-	-	77,558	-	77,558
Miscellaneous	63,589	-	-	-	63,589
Total revenues	4,819,878	22,826	905,271	198,343	5,946,318
Expenditures:					
Current:					
General government	871,002	-	-	-	871,002
Public safety	1,797,839	-	-	-	1,797,839
Public works - highways and streets	582,487	-	-	237,693	820,180
Public works - sanitation	682,513	-	-	-	682,513
Culture and recreation	30,000	-	-	-	30,000
Community development	116,816	-	1,039,735	-	1,156,551
Insurance and miscellaneous	210,380	-	-	-	210,380
Capital purchases	-	217,080	-	-	217,080
Debt service:					
Principal retirement	121,217	-	-	-	121,217
Interest	201,171	-	-	-	201,171
Total expenditures	4,613,425	217,080	1,039,735	237,693	6,107,933
Other financing sources (uses)					
Interfund transfers	53,797	-	(53,797)	-	-
Net Change in Fund Balance	152,656	(194,254)	(80,667)	(39,350)	(161,615)
Fund Balance:					
Beginning of year	625,755	850,225	791,990	92,223	2,360,193
End of year	<u>\$ 778,411</u>	<u>\$ 655,971</u>	<u>\$ 711,323</u>	<u>\$ 52,873</u>	<u>\$ 2,198,578</u>

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

CITY OF JEANNETTE
STATEMENT OF ACTIVITIES - CASH BASIS
YEAR ENDED DECEMBER 31, 2005

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	\$ 1,203,259	\$ 183,375	\$ 79,336	\$ -	\$ (940,548)
Public safety	1,797,839	155,936	116,385	-	(1,525,518)
Public works highway and streets	861,293	-	399,986	-	(461,307)
Public works sanitation	722,658	759,133	40,145	-	76,620
Culture and recreation	30,000	-	-	-	(30,000)
Community development	1,170,498	77,558	839,164	-	(253,776)
Principal and interest paid on long-term debt	322,388	-	-	-	(322,388)
Total governmental activities	\$ 6,107,935	\$ 1,176,002	\$ 1,475,016	\$ -	(3,456,917)

General revenues:

Taxes:

Real estate	2,165,850
Earned income	572,801
Emergency and municipal service tax	140,384
Business privilege tax	52,901
Tax collected - county	34,754
Other	64,094
Franchise fees	126,776
Interest	50,240
Payments in lieu of taxes	23,912
Miscellaneous	63,589

Total general revenues 3,295,301

Change in net assets (161,616)

Net Assets:

Beginning of year	<u>2,360,193</u>
End of year	<u>\$ 2,198,577</u>

The accompanying notes are an integral part of the 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 from its offices.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the 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 properly 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 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.

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 later are excluded from these financial statements.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 difference between the governmental fund assets and liabilities is reported as fund balance.

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 acquisition 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 non-major 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 Firemen Plan. The pension trust funds for the Police Plan and Firemen Plan are not included in the financial statements, as discussed in the "GAAP Departure" section below.

GAAP Departure:

The City's financial statements for the year ended December 31, 2005 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.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 other than accounting principles generally accepted in the United States of America. Budgetary control for Special Revenue Funds is maintained through enforcement of the related grant provisions.

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.

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 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, 2005, the liability for accrued sick leave was \$92,759. The amount expected to be paid from current resources is not significant.

Adoption of Pronouncements

During 2004, the City adopted the provisions of GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*," GASB Statement No. 37, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*," and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*." These statements establish accounting and financial reporting standards for external financial reporting by state and local governments as well as specific standards for the financial statements, Management's Discussion and Analysis (MD&A), and certain required supplementary information (RSI) other than MD&A.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The most significant changes involve the financial statement presentation and reporting of net assets and the inclusion of the Management's Discussion and Analysis section. Net asset classifications are defined as follows:

- Restricted - this component of net assets consists of constraints placed on net asset use through external restrictions.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted."

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

Pending Pronouncements

In 2004, GASB issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*" and Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" These statements provide the accounting and reporting requirements for the benefit plans as well as require that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees. Currently, the City recognizes the cost of other postemployment benefits on a pay-as-you-go basis. For the purpose of the financial statements, GASB is proposing that governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in the same manner as they currently do for pensions. These standards may require an actuarial valuation to be performed.

These changes in accounting for GASB Statements No. 43 and 45 will be applicable in fiscal year 2008 (plans) and 2009 (employer accounting). The effect of implementation of these standards has not yet been calculated.

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.

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.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

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	\$ <u>204,407</u>	\$ <u>723,366</u>	\$ <u>927,773</u>

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 of 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.

The carrying value and categorization of the investments of the City at December 31, 2005 were as follows:

	<u>Carrying Value</u>	<u>Total Category 3</u>	<u>Total Uncategorized</u>
U.S. Government Money Market	\$ 614,833	\$ 614,833	\$ -
PLGIT	<u>655,971</u>	<u>-</u>	<u>655,971</u>
	<u>\$1,270,804</u>	<u>\$ 614,833</u>	<u>\$ 655,971</u>

The City's cash equivalent investments in the Pennsylvania Local Government Investment Trust (PLGIT) and collective pooled investment funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. All investments in PLGIT are subject to oversight by the Commonwealth of Pennsylvania (Commonwealth).

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 levied.

City real estate taxes were levied for general purposes at 33.12 mills on 100% of assessed valuation. The assessed valuation was \$63.5 million for the 2005 levy.

NOTE 4 – LONG-TERM DEBT

Changes in Long-Term Debt

Changes in the City's long-term debt during 2005 were as follows:

	<u>Balance December 31, 2004</u>	<u>Payments</u>	<u>Balance December 31, 2005</u>
General Obligation Bonds, 1998	<u>\$2,660,000</u>	<u>\$(85,000)</u>	<u>\$2,575,000</u>

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 4 – LONG-TERM DEBT (continued)

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, 2005, \$2,520,000 of bonds considered defeased are outstanding.

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>
2006	\$ 85,000	\$ 123,645	\$ 208,645
2007	90,000	119,838	209,838
2008	90,000	115,878	205,878
2009	100,000	111,623	211,623
2010	105,000	106,959	211,959
After	<u>2,105,000</u>	<u>819,835</u>	<u>2,924,835</u>
	<u>\$2,575,000</u>	<u>\$1,397,778</u>	<u>\$3,972,778</u>

NOTE 5 – CAPITAL LEASES

The City has two capital lease obligations as of December 31, 2005. The capital lease for the fire truck has a total cost of \$184,525 and the police vehicle has a total cost of \$60,390. These capital assets are 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, 2005:

<u>Fiscal Year</u> <u>Ending December 31,</u>	<u>Balance</u>
2006	\$ 24,385
2007	24,385
2008	24,385
2009	24,385
2010	24,385
After	<u>48,770</u>
Total minimum lease payments	170,695
Less: amount representing interest	<u>(31,234)</u>
Present value of future minimum lease payments	<u>\$139,461</u>

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

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). 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 employer 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 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, 2005, 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>Firemen</u>
Active members	29	14	4
Retirees and beneficiaries receiving benefits	9	21	3
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.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 6 – PENSION PLAN (continued)

	Non- Uniformed	Police	Firemen
Annual pension cost	N/A	\$115,214	\$25,458
Contributions made	N/A	\$113,968	\$19,942

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:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Non-Uniformed	12/31/2003	\$134,401	100%	\$ -
	12/31/2004	\$131,113	100%	-
	12/31/2005	N/A	N/A	-
Police	12/31/2003	-	N/A	-
	12/31/2004	\$134,960	86%	(a) -
	12/31/2005	\$115,214	99%	(a) -
Firemen	12/31/2003	\$ 5,327	100%	-
	12/31/2004	\$ 25,017	100%	-
	12/31/2005	\$ 25,458	78%	-

(a) = Net pension obligation is approximately \$20,000 and not deemed to be material.

N/A = Information not available.

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 the age of 65, when Medicare benefits begin. The employer's contributions are financed on a pay-as-you-go basis. As of December 31, 2005, four retirees benefited under this plan, and \$27,270 in premiums was paid on their behalf. The future liability for these retirees is approximately \$65,824. All other retirees must reimburse the City 100% of the premiums paid on their behalf.

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 2003 issue. During 2003, the City made no contributions to the Authority. City management does not anticipate any contributions being required in the future.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 8 – GUARANTEE OF DEBT (continued)

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

Year	Principal Amount	Interest Amount	Total
2006	\$ 295,000	\$ 149,725	\$ 444,725
2007	300,000	144,485	444,485
2008	315,000	137,953	452,953
2009	315,000	129,838	444,838
2010	325,000	120,620	445,620
After	<u>2,825,000</u>	<u>503,918</u>	<u>3,328,918</u>
	<u>\$4,375,000</u>	<u>\$1,186,539</u>	<u>\$5,561,539</u>

The City also guarantees two PennVest Loans (2002 PennVest Loan, outstanding balance of approximately \$528,000 at December 31, 2005 and 1989 PennVest Loan, outstanding balance of approximately \$365,000 at December 31, 2005) of the Authority. Monthly payments to be made by the Authority are \$3,017 for 2002 PennVest Loan through June 1, 2023 and \$10,160 for 1989 PennVest Loan through December 1, 2009.

NOTE 9 – LOANS 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 is the loan activity at December 31, 2005:

	Balance at December 31, 2004	Payments	Additions	Balance at December 31, 2005
Loan #1	\$ 4,523	\$ (4,523)	\$ -	\$ -
Loan #2	43,312	(2,844)	-	40,468
Loan #3	115,840	(17,096)	-	98,744
Loan #4	<u>-</u>	<u>(13,110)</u>	<u>200,000</u>	<u>186,890</u>
	<u>\$163,675</u>	<u>\$(37,573)</u>	<u>\$200,000</u>	<u>\$326,102</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 coverage 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.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 11 – COMMITMENTS AND CONTINGENCIES

One claim and lawsuit are pending against the City for which no provisions 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.

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 has been made for potential reimbursements in the financial statements as material amounts are considered to be unlikely.

NOTE 12 – BOND INTEREST

The amount of interest paid on the General Obligation Bond - Series 1998 was \$127,300. However, the financial statements are reporting \$191,864. During 2004, the bond company withdrew \$64,564 from the City's investment account to pay the Jeannette Municipal Authority's bond interest payment. The money was refunded in full in 2005.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JEANNETTE
SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
Non-Uniformed						
1/1/1999	N/A	N/A	N/A	-	N/A	-
1/1/2001	\$ 952,486	\$ 1,876,088	\$ (923,602)	50.77%	\$ 918,171	(100.59%)
1/1/2003	1,067,748	2,093,204	(1,025,456)	51.01%	883,697	(116.04%)
1/1/2005	N/A	N/A	N/A	-	N/A	-
Police						
1/1/1999	\$ 6,549,756	\$ 5,919,392	\$ (630,364)	110.65%	\$ 838,660	N/A
1/1/2001	7,478,411	6,475,586	(1,002,825)	115.49%	905,213	N/A
1/1/2003	6,473,445	6,838,079	275,636	94.67%	1,006,360	27.39%
1/1/2005	6,253,354	7,341,592	1,088,238	85.18%	861,259	126.35%
Firemen						
1/1/1999	\$ 886,658	\$ 718,475	(168,183)	123.41%	\$ 114,976	N/A
1/1/2001	940,815	752,271	(188,544)	125.06%	138,029	N/A
1/1/2003	802,151	820,610	18,459	97.75%	181,887	10.15%
1/1/2005	756,314	773,224	16,910	97.81%	178,089	9.50%

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

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	N/A	100%	-	N/A	-	N/A
2001	N/A	100%	33,922	100%	7,825	100%
2002	N/A	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	N/A	N/A	113,968	100%	19,942	100%

Note: Contributions include state pension aid

N/A - Information not available

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-uniformed</u>	<u>Police</u>	<u>Firemen</u>
Actuarial valuation date	1/1/2003	1/1/2005	1/1/2005
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
Amortization period	13 Years	10 Years	10 Years
Actuarial assumptions			
Investment rate of return	6.50%	7.50%	7.50%
Projected salary increases	5.20%	5.00%	5.00%
Underlying inflation rate	3.50%	3.00%	3.00%
Cost of living adjustment, if applicable	3.50%	n/a	n/a

n/a = not applicable

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

Deluzio, Teems & Anzovino

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2005, and have issued our report thereon dated July 5, 2006. 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

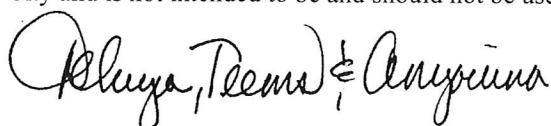
In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 July 5, 2006.

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



Jeannette, Pennsylvania
July 5, 2006

Deluzio, Teems & Anzovino

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND 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, 2005. The City's major federal program is identified in the schedule of expenditures of federal awards. 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 has complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the City Council, Mayor and management of the City, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bluzynski & Associates". The signature is written in dark ink and is positioned above the typed text of the location and date.

Jeannette, Pennsylvania
July 5, 2006

CITY OF JEANNETTE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

<u>Federal Grantor</u>	<u>CFDA #</u>	<u>Federal Expenditures</u>
US Department of Housing and Urban Development	14.228	\$ 613,443
US Department of Housing and Urban Development	14.339	<u>50,274</u>
Total expenditures of federal awards		<u><u>\$ 663,717</u></u>

CITY OF JEANNETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the general purpose financial statements of the City of Jeannette.
2. No reportable conditions 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.
4. No reportable conditions 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. Audit findings relative to the major federal award programs for the City of Jeannette are not reported in this Schedule.
7. The program tested as a major program is the US HUD Program, CFDA 14.228.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Jeannette was determined to be a non low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None