

**CITY OF JEANNETTE**  
**FINANCIAL STATEMENTS**  
**Year ended December 31, 2006**

**DTA CERTIFIED PUBLIC ACCOUNTANTS**  
*a division of Malin, Bergquist & Company, LLP*  
**206 CLAY AVENUE**  
**JEANNETTE, PA 15644**

**132 SOUTH MAIN STREET**  
**GREENSBURG, PA 15601**

CITY OF JEANNETTE

TABLE OF CONTENTS

	<u>Page</u>
Independent auditors' report.....	1-2
Management's discussion and analysis.....	3-7
Governmental funds balance sheet/statement of net assets - cash basis.....	8
Statement of activities - cash basis.....	9
Statement of revenues, expenditures and changes in fund balance - cash basis.....	10-11
Notes to the financial statements.....	12-21
 <b>Required Supplementary Information</b>	
Schedules of funding progress.....	22
Schedules of contributions from employers and other contributing entities.....	23
Note to required supplementary pension schedules.....	24
 <b>Reports required by governmental auditing standards and the single audit act</b>	
Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards.....	25
Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.....	26-27
Schedule of expenditures of federal awards.....	28
Schedule of findings and questioned costs.....	29

# DTA Certified Public Accountants

a division of

Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

206 Clay Avenue • Jeannette, PA 15644-2117 • (724) 523-6585 • Fax (724) 523-8174 • contactus@ddtcpa.com

132 South Main Street • Greensburg, PA 15601-3102 • (724) 838-8322 • Fax (724) 853-6500 • contactus@ddtcpa.com

3605 McKnight East Drive • Pittsburgh, PA 15237-6400 • (412) 364-9395 • Fax (412) 364-2661 • mbpgh@malinbergquist.com

2402 West 8th Street • Erie, PA 16505-4428 • (814) 454-4008 • Fax (814) 454-4018 • mberie@malinbergquist.com

## 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, 2006 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 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 principles 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, 2006 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, 2006 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 September 19, 2007 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 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.

*Malin, Buggust & Company, LLP*

Jeannette, Pennsylvania  
September 19, 2007



## CITY OF JEANNETTE

### MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2006

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, 2006. 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, 2006.

#### **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 primary government financial statements (financial statements), the City prepares its financial statements on the cash basis of accounting.
- The City's net assets increased \$282,808 during fiscal year 2006 or 8%.
- Unrestricted net assets were \$903,441 at December 31, 2006. 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 2006 is 33.12 mills. There was no increase in the tax rate from 2005.
- At December 31, 2006, the City had \$2,490,000 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, 2006 was \$903,441. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2006

(continued)

(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.

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.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2006

(continued)

The required supplementary information can be found on pages 22 through 24 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 \$2,481,386 as of December 31, 2006, an increase of \$282,808 from 2005.

STATEMENT OF NET ASSETS

CASH BASIS

December 31, 2006

<u>Assets:</u>	
Cash and cash equivalents	\$ <u>2,481,386</u>
 <u>Net assets:</u>	
Restricted	\$ 1,577,945
Unrestricted	<u>903,441</u>
	<u>\$ 2,481,386</u>

The balance of unrestricted net assets as of December 31, 2006 was \$903,441 and may be used to meet the government's ongoing obligations to its citizens and creditors. This was an increase of \$17,436 from 2005.

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 increased the net assets by \$282,808.

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	\$ 832,379	\$ 184,684	\$ (647,695)
Public safety	1,823,510	274,347	(1,549,163)
Public works:			
Highways and streets	719,150	315,313	(403,837)
Sanitation	705,256	716,096	10,840
Culture and recreation	30,000	-	(30,000)
Community development	1,874,816	1,719,848	(154,968)
Debt principal and interest	234,341	-	(234,341)
Total government activities	<u>\$ 6,219,452</u>	<u>\$ 3,210,288</u>	<u>\$ (3,009,164)</u>

CITY OF JEANNETTE

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2006**

(continued)

General Revenues:

Taxes:

Real estate	\$ 2,150,959
Earned income	556,072
Other	322,110
Franchise fees	132,788
Interest	91,260
Payments in lieu of taxes	16,044
Miscellaneous	22,739
Total general revenues	<u>3,291,972</u>

Change in net assets	282,808
Net assets – beginning of year	<u>2,198,578</u>
Net assets – end of year	<u>\$ 2,481,386</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.

**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 \$903,441. Unreserved fund balances in the Capital Projects Fund, Community Development Fund, and Liquid Fuels Fund were \$646,441, \$698,758, and \$232,746, respectively. These amounts represent a decrease in fund balance in the Capital Projects Fund of \$9,530 and an increase in the Community Development Fund and Liquid Fuels Fund of \$95,029, and \$179,873, 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 \$275,823 in additional cash-basis revenues and \$139,226 more in cash-basis expenditures. The net of these differences resulted in a surplus of revenues over expenditures in the amount of \$136,597.

**DEBT**

At the end of the current fiscal year, the City had an outstanding total debt of \$2,612,500, a decrease of \$101,961 from 2005. Of this amount, \$2,490,000 is comprised of General Obligation Bonds while \$122,500 relates to capital lease obligations. The City did not assume new debt in 2006.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2006  
(continued)

A breakdown of the City's debt follows:

LONG-TERM DEBT  
GENERAL OBLIGATION AND OTHER DEBT

	Balance as of January 1, 2006	Payments/ Retirements	Balance as of December 31, 2006
General Obligation Bonds	\$ 2,575,000	\$ (85,000)	\$ 2,490,000
Capital Lease Obligation	139,461	(16,961)	122,500
Totals	<u>\$ 2,714,461</u>	<u>\$ (101,961)</u>	<u>\$ 2,612,500</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**  
**DECEMBER 31, 2006**

<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	\$ 903,441	\$ 646,441	\$ 698,758	\$ 232,746	\$ 2,481,386	\$ 2,481,386
<b>Fund Balance/Net Assets</b>						
Fund Balance:						
Unreserved, reported in:						
General Fund	\$ 903,441	\$ -	\$ -	\$ -	\$ 903,441	
Capital Projects Fund	-	646,441	-	-	646,441	
Special Revenue Funds	-	-	698,758	232,746	931,504	
<b>Total Fund Balance</b>	<b>\$ 903,441</b>	<b>\$ 646,441</b>	<b>\$ 698,758</b>	<b>\$ 232,746</b>	<b>\$ 2,481,386</b>	
Net Assets:						
Restricted for:						
Capital Projects						\$ 646,441
Community Development						698,758
Liquid Fuels Tax Projects						232,746
Unrestricted						903,441
<b>Total Net Assets</b>						<b>\$ 2,481,386</b>

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

**CITY OF JEANNETTE**  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
**DECEMBER 31, 2006**

Functions/Programs	<u>Expenses</u>	Program Revenues			Net (Expense)
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Change in Net Assets</u>
<b>Primary Government:</b>					
Governmental activities:					
General government	\$ 832,379	\$ 118,495	\$ 66,189	\$ -	\$ (647,695)
Public safety	1,823,510	155,297	119,050	-	(1,549,163)
Public works highway and streets	719,150	-	315,313	-	(403,837)
Public works sanitation	705,256	699,629	16,467	-	10,840
Culture and recreation	30,000	-	-	-	(30,000)
Community development	1,874,816	97,210	1,622,638	-	(154,968)
Principal and interest paid on long-term debt	234,341	-	-	-	(234,341)
	<u>\$ 6,219,452</u>	<u>\$ 1,070,631</u>	<u>\$ 2,139,657</u>	<u>\$ -</u>	<u>\$ (3,009,164)</u>
General revenues:					
Taxes:					
Real estate					\$ 2,150,959
Earned income					556,072
Emergency & municipal service tax					162,355
Business privilege tax					64,436
Tax collected - county					34,553
Other					60,766
Franchise fees					132,788
Interest					91,260
Payments in lieu of taxes					16,044
Miscellaneous					22,739
					<u>3,291,972</u>
					282,808
					<b>Change in net assets</b>
<b>Net Assets:</b>					
Beginning of year					<u>2,198,578</u>
End of year					<u>\$ 2,481,386</u>

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**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	General Fund	Capital Projects Fund	Community Development Fund	Non-Major Liquid Fuels Fund	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 3,029,141	\$ -	\$ -	\$ -	\$ 3,029,141
Licenses, permits and fees	166,135	-	-	-	166,135
Fines, forfeitures and penalties	86,413	-	-	-	86,413
Interest	43,680	30,082	8,397	9,101	91,260
Intergovernmental	312,621	-	1,616,456	210,580	2,139,657
Charges for services	853,661	-	-	-	853,661
Payments in lieu of taxes	16,044	-	-	-	16,044
Program income	-	-	97,210	-	97,210
Miscellaneous	22,739	-	-	-	22,739
<b>Total revenues</b>	<b>4,530,434</b>	<b>30,082</b>	<b>1,722,063</b>	<b>219,681</b>	<b>6,502,260</b>
<b>Expenditures:</b>					
Current:					
General government	733,096	-	-	-	733,096
Public safety	1,823,510	-	-	-	1,823,510
Public works - highways and streets	585,169	-	-	39,808	624,977
Public works - sanitation	688,789	-	-	-	688,789
Culture and recreation	30,000	-	-	-	30,000
Community development	241,600	-	1,627,034	-	1,868,634
Insurance and miscellaneous	176,493	-	-	-	176,493
Capital purchases	-	39,612	-	-	39,612
Debt service:					-
Principal retirement	101,961	-	-	-	101,961
Interest	132,380	-	-	-	132,380
<b>Total expenditures</b>	<b>4,512,998</b>	<b>39,612</b>	<b>1,627,034</b>	<b>39,808</b>	<b>6,219,452</b>
<b>Other financing sources (uses)</b>					
Interfund transfers	-	-	-	-	-
<b>Net Change in Fund Balance</b>	<b>17,436</b>	<b>(9,530)</b>	<b>95,029</b>	<b>179,873</b>	<b>282,808</b>
<b>Fund Balance:</b>					
Beginning of year	886,005	655,971	603,729	52,873	2,198,578
End of year	<u>\$ 903,441</u>	<u>\$ 646,441</u>	<u>\$ 698,758</u>	<u>\$ 232,746</u>	<u>\$ 2,481,386</u>

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





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 latter are excluded from these financial statements.

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 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.

**GAAP Departure**

The City's financial statements for the year ended December 31, 2006 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.

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, 2006, the liability for accrued sick leave was \$79,575. 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.

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."

NOTES TO THE FINANCIAL STATEMENTS

(continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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>204,438</u>	\$ <u>737,688</u>	\$ <u>942,126</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.

CITY OF JEANNETTE

**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**NOTE 2 – CASH AND CASH EQUIVALENTS** (continued)

The carrying value and categorization of the investments of the City at December 31, 2006 were as follows:

	Carrying Value	Total Category 3	Total Uncategorized
U.S. Government Money Market	\$ 892,818	\$ 892,818	\$ -
PLGIT	646,441	-	646,441
	<u>\$1,539,259</u>	<u>\$ 892,818</u>	<u>\$ 646,441</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 million for the 2006 levy.

**NOTE 4 – LONG-TERM DEBT**

Changes in Long-Term Debt

Changes in the City's long-term debt during 2006 were as follows:

	Balance December 31, 2005	Payments	Balance December 31, 2006
General Obligation Bonds, 1998	<u>\$2,575,000</u>	<u>\$(85,000)</u>	<u>\$2,490,000</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, 2006, \$2,520,000 of bonds considered defeased are outstanding.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

**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>
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
2011	110,000	101,959	211,959
After	<u>1,995,000</u>	<u>717,876</u>	<u>2,712,876</u>
	<u>\$2,490,000</u>	<u>\$1,274,133</u>	<u>\$3,764,133</u>

**NOTE 5 – CAPITAL LEASES**

The City has two capital lease obligations as of December 31, 2006. 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, 2006:

<u>Fiscal Year</u> <u>Ending December 31,</u>	<u>Balance</u>
2007	\$ 24,385
2008	24,385
2009	24,385
2010	24,385
2011	24,385
After	<u>24,385</u>
Total minimum lease payments	146,310
Less: amount representing interest	<u>(23,810)</u>
Present value of future minimum lease payments	<u>\$122,500</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). 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.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

NOTE 6 – PENSION PLAN (continued)

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.

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



CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

**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	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, 2006, seven retirees benefited under this plan, and \$43,890 in premiums was paid on their behalf. The future liability for these retirees is approximately \$153,102. 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
2007	\$ 147,527	\$ 10,601	\$ 158,128
2008	148,531	11,482	160,013
2009	36,118	13,515	49,633
2010	27,751	12,222	39,973
2011	28,633	11,339	39,972
After	<u>358,243</u>	<u>101,440</u>	<u>459,683</u>
	<u>\$ 746,803</u>	<u>\$ 160,599</u>	<u>\$ 907,402</u>

The City also guarantees two PennVest Loans (2002 PennVest Loan, outstanding balance of approximately \$499,000 at December 31, 2006; and 1989 PennVest Loan, outstanding balance of approximately \$249,000 at December 31, 2006) 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 – 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 is the loan activity at December 31, 2006:

	Balance at January 1, 2006	Payments	Additions	Balance at December 31, 2006
Loan #1	\$ 40,468	\$ (2,000)	\$ -	\$ 38,468
Loan #2	98,744	(26,420)	-	72,324
Loan #3	<u>186,890</u>	<u>(42,067)</u>	-	<u>144,823</u>
	<u>\$326,102</u>	<u>\$(70,487)</u>	<u>\$ -</u>	<u>\$255,615</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 since the claim would essentially be covered by insurance and the only cost to the City would be the payment of the insurance deductible.

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.

**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
<b>Non-Uniformed</b>						
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	-
<b>Police</b>						
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%
<b>Firemen</b>						
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><b>Non-Uniformed</b></u>	<u><b>Police</b></u>	<u><b>Firemen</b></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**



# DTA Certified Public Accountants

a division of

Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

206 Clay Avenue • Jeannette, PA 15644-2117 • (724) 523-6585 • Fax (724) 523-8174 • contactus@ddtcpa.com

132 South Main Street • Greensburg, PA 15601-3102 • (724) 838-8322 • Fax (724) 853-6500 • contactus@ddtcpa.com

3605 McKnight East Drive • Pittsburgh, PA 15237-6400 • (412) 364-9395 • Fax (412) 364-2661 • mbpgh@malinbergquist.com

2402 West 8th Street • Erie, PA 16505-4428 • (814) 454-4008 • Fax (814) 454-4018 • mberie@malinbergquist.com

## 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, 2006, and have issued our report thereon dated September 19, 2007. 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 September 19, 2007.

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.

*Malin, Bergquist & Company, LLP*

Jeannette, Pennsylvania  
September 19, 2007

# DTA Certified Public Accountants

a division of

Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

206 Clay Avenue • Jeannette, PA 15644-2117 • (724) 523-6585 • Fax (724) 523-8174 • contactus@ddtcpa.com

132 South Main Street • Greensburg, PA 15601-3102 • (724) 838-8322 • Fax (724) 853-6500 • contactus@ddtcpa.com

3605 McKnight East Drive • Pittsburgh, PA 15237-6400 • (412) 364-9395 • Fax (412) 364-2661 • mbpgh@malinbergquist.com

2402 West 8th Street • Erie, PA 16505-4428 • (814) 454-4008 • Fax (814) 454-4018 • mberie@malinbergquist.com

## 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, 2006. 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's 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, 2006.

### 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.

*Malin, Bergquist & Company, LLP*

Jeannette, Pennsylvania  
September 19, 2007

**CITY OF JEANNETTE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2006**

<u>Federal Grantor</u>	<u>CFDA #</u>	<u>Federal Expenditures</u>
US Department of Housing and Urban Development	14.228 Passed Through the PA Department of Community & Economic Development	\$ 881,371
US Department of Housing and Urban Development	14.339	<u>359,117</u>
Total expenditures of federal awards		<u>\$ 1,240,488</u>

**CITY OF JEANNETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2006**

**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 programs tested as major programs are the US HUD Program, CFDA 14.228, and the HOME Investment Partnership Program, CFDA 14.339.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Jeannette was determined to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None