
CITY OF JEANNETTE
FINANCIAL STATEMENTS
Year ended December 31, 2008

MALIN, BERGQUIST & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
351 HARVEY AVENUE, SUITE A
GREENSBURG, PA 15601-1911

CITY OF JEANNETTE

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INDEPENDENT AUDITORS' REPORT

To: City Council and Mayor
City of Jeannette

We have audited the accompanying primary government financial statements – cash basis of the governmental activities, each major fund and the aggregated remaining fund information of the City of Jeannette (City), as of December 31, 2008, 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 \$4,800,000 at December 31, 2008, and the Firemen's Pension assets are estimated to be in excess of \$575,000 at December 31, 2008.

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, 2008, 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.



Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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, 2008, 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 August 10, 2009 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, Bergquist & Company, LLP

Greensburg, Pennsylvania
August 10, 2009

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2008

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, 2008. 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, 2008.

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 decreased \$710,042 during fiscal year 2008 or 23%.
- Unrestricted net assets were \$632,285 at December 31, 2008. 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 2008 is 33.12 mills. There was no increase in the tax rate from 2007.
- At December 31, 2008, the City had \$2,310,000 of general obligation bonds outstanding. This represents a decrease of \$90,000 from the previous fiscal year.
- The total fund balance of the General Fund on December 31, 2008 was \$632,285. 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.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008
(continued)

- 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 a significant portion of their costs through user fees. The governmental activities of the City include general government, public safety, public works, culture and recreation, community development and debt service.

The government-wide financial statements include only the City itself. Financial statements of the City of Jeannette Municipal Authority (Authority), a component unit of the City, are available at the Authority's office. The government-wide financial statements can be found on pages 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 13 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, 2008

(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 \$2,331,590 as of December 31, 2008, a decrease of \$710,042 from 2007.

STATEMENT OF NET ASSETS

CASH BASIS

December 31, 2008

<u>Assets:</u>	
Cash and cash equivalents	\$ <u>2,331,590</u>
 <u>Net assets:</u>	
Restricted	\$ 1,699,305
Unrestricted	<u>632,285</u>
	\$ <u>2,331,590</u>

The balance of unrestricted net assets as of December 31, 2008 was \$632,285 and may be used to meet the government's ongoing obligations to its citizens and creditors. This was a decrease of \$306,495 from 2007.

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 \$710,042.

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

CHANGES IN NET ASSETS

CASH BASIS

NET (EXPENSES) REVENUES

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenues</u>
Primary Government:			
Government Activities:			
General government	\$ 1,195,813	\$ 255,233	\$ (940,580)
Public safety	2,037,226	290,250	(1,746,976)
Public works:			
Highways and streets	990,706	336,978	(653,728)
Sanitation	744,020	717,769	(26,251)
Culture and recreation	30,000	-	(30,000)
Community development	1,304,073	845,328	(458,745)
Debt principal and interest	230,263	-	(230,263)
Total government activities	\$ <u>6,532,101</u>	\$ <u>2,445,558</u>	\$ <u>(4,086,543)</u>

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2008

(continued)

General Revenues:

Taxes:

Real estate	2,197,006
Earned income	657,422
Other	291,182
Franchise fees	142,892
Interest	56,352
Payments in lieu of taxes	19,564
Miscellaneous	12,083
Total general revenues	<u>3,376,501</u>

Change in net assets	(710,042)
Net assets – beginning of year	3,041,632
Net assets – end of year	<u>\$ 2,331,590</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 \$632,285. Unreserved fund balances in the Capital Projects Fund, Community Development Fund and Liquid Fuels Fund were \$601,289, \$704,247, and \$393,769, respectively. These amounts represent an increase in fund balance in the Liquid Fuels Fund of \$57,492 and a decrease in the Community Development Fund and Capital Projects Fund of \$388,641, and \$72,398, 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 \$305,318 in additional cash-basis revenues and \$490,497 more in cash-basis expenditures. The net of these differences resulted in a deficit of revenues over expenditures in the amount of \$185,179.

CITY OF JEANNETTE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008
(continued)

DEBT

At the end of the current fiscal year, the City had an outstanding total debt of \$2,395,822, a decrease of \$107,582 from 2007. Of this amount, \$2,310,000 is comprised of General Obligation Bonds while \$85,822 relates to capital lease obligations. The City did not assume new debt in 2008.

A breakdown of the City's debt follows:

LONG-TERM DEBT
GENERAL OBLIGATION AND OTHER DEBT

	Balance as of January 1, 2008	Payments/ Retirements	Balance as of December 31, 2008
General Obligation Bonds	\$ 2,400,000	\$ (90,000)	\$ 2,310,000
Capital Lease Obligation	103,404	(17,582)	85,822
Totals	\$ 2,503,404	\$ (107,582)	\$ 2,395,822

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
AS OF DECEMBER 31, 2008

Assets	General Fund	Capital Projects Fund	Community Development Fund	Non-Major		Total Governmental Funds	Statement of Net Assets
				Liquid Fuels Fund			
Cash and cash equivalents	\$ 632,285	\$ 601,289	\$ 704,247	\$ 393,769		\$ 2,331,590	\$ 2,331,590
Fund Balance/Net Assets							
Fund balance:							
Unreserved, reported in:							
General fund	\$ 632,285	\$ -	\$ -	\$ -		\$ 632,285	
Capital projects fund	-	601,289	-	-		601,289	
Special revenue funds	-	-	704,247	393,769		1,098,016	
Total fund balance	\$ 632,285	\$ 601,289	\$ 704,247	\$ 393,769		\$ 2,331,590	
Net assets:							
Restricted for:							
Capital projects							\$ 601,289
Community development							704,247
Liquid fuels tax projects							393,769
Unrestricted							632,285
Total net assets							\$ 2,331,590

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

CITY OF JEANNETTE
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

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	\$ 1,195,814	\$ 144,084	\$ 111,149	\$ -	\$ (940,581)
Public safety	2,037,226	158,939	131,311	-	(1,746,976)
Public works highway and streets	990,706	-	336,978	-	(653,728)
Public works sanitation	744,020	701,194	16,575	-	(26,251)
Culture and recreation	30,000	-	-	-	(30,000)
Community development	1,304,073	100,960	744,368	-	(458,745)
Principal and interest paid on long-term debt	230,263	-	-	-	(230,263)
Total governmental activities	\$ 6,532,101	\$ 1,105,177	\$ 1,340,381	\$ -	(4,086,543)
General revenues:					
Taxes:					
Real estate					2,197,006
Earned income					657,422
Emergency and municipal service tax					104,969
Business privilege tax					79,452
Tax collected - county					38,501
Other					68,260
Franchise fees					142,892
Interest					56,352
Payments in lieu of taxes					19,564
Miscellaneous					12,083
Total general revenues					3,376,501
Change in net assets					(710,042)
Net assets:					
Beginning of year					3,041,632
End of year					\$ 2,331,590

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, 2008

	General Fund	Capital Projects Fund	Community Development Fund	Non-Major Liquid Fuels Fund	Total Governmental Funds
Revenues:					
Taxes	\$ 3,139,321	\$ -	\$ -	\$ -	\$ 3,139,321
Licenses, permits and fees	201,012	-	-	-	201,012
Fines, forfeitures and penalties	61,911	-	-	-	61,911
Interest	17,562	17,079	13,413	8,298	56,352
Intergovernmental	365,222	-	744,368	237,079	1,346,669
Charges for services	884,184	-	-	-	884,184
Payments in lieu of taxes	19,564	-	-	-	19,564
Program income	-	-	100,960	-	100,960
Miscellaneous	12,086	-	-	-	12,086
Total revenues	4,700,862	17,079	858,741	245,377	5,822,059
Expenditures:					
Current:					
General government	1,026,839	-	-	-	1,026,839
Public safety	2,037,226	-	-	-	2,037,226
Public works - highways and streets	802,821	-	-	187,885	990,706
Public works - sanitation	744,020	-	-	-	744,020
Culture and recreation	30,000	-	-	-	30,000
Community development	56,691	-	1,247,382	-	1,304,073
Insurance	73,275	-	-	-	73,275
Miscellaneous	6,222	-	-	-	6,222
Capital purchases	-	89,477	-	-	89,477
Debt service:					
Principal retirement	108,815	-	-	-	108,815
Interest	121,448	-	-	-	121,448
Total expenditures	5,007,357	89,477	1,247,382	187,885	6,532,101
Net change in fund balance	(306,495)	(72,398)	(388,641)	57,492	(710,042)
Fund balance:					
Beginning of year	938,780	673,687	1,092,888	336,277	3,041,632
End of year	\$ 632,285	\$ 601,289	\$ 704,247	\$ 393,769	\$ 2,331,590

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
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budget	Actual	Variance
Revenues:			
Taxes	\$ 3,007,423	\$ 3,139,321	\$ 131,898
Licenses, permits and fees	174,680	201,012	26,332
Fines, forfeitures and penalties	62,000	61,911	(89)
Interest	24,000	17,562	(6,438)
Intergovernmental	355,791	365,222	9,431
Charges for service	718,900	884,184	165,284
Payments in lieu of taxes	32,000	19,564	(12,436)
Miscellaneous	20,750	12,086	(8,664)
Total revenues	4,395,544	4,700,862	305,318
Expenditures:			
General government	997,273	1,026,839	(29,566)
Public safety	1,852,666	2,037,226	(184,560)
Public works - highways and streets	660,484	802,821	(142,337)
Public works - sanitation	564,557	744,020	(179,463)
Culture and recreation	30,000	30,000	-
Community development	132,302	56,691	75,611
Insurance	70,200	73,275	(3,075)
Miscellaneous	3,500	6,222	(2,722)
Debt service:			
Principal retirement	90,000	108,815	(18,815)
Interest	115,878	121,448	(5,570)
Total expenditures	4,516,860	5,007,357	(490,497)
Net change in fund balance	\$ (121,316)	\$ (306,495)	\$ (185,179)

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

**CITY OF JEANNETTE
FIDUCIARY FUND**

**STATEMENT OF FIDUCIARY NET ASSETS
AS OF DECEMBER 31, 2008**

	Fire Insurance Escrow Fund
Assets	
Cash and cash equivalents	\$ 40,398
Total assets	\$ 40,398
Net Assets	
Held for fire damage payments	\$ 40,398
Total net assets	\$ 40,398

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Fire Insurance Escrow Fund
Additions	
Interest income	\$ 92
Insurance proceeds	22,320
Total additions	22,412
Change in net assets	22,412
Total net assets- beginning	17,986
Total net assets- ending	\$ 40,398

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 latter 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 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, 2008 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, 2008, the liability for accrued sick leave was \$88,564. The amount expected to be paid from current resources is not significant.

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. In accordance with GASB, 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 2009. The effect of implementation of these standards has not yet been calculated.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS
(continued)

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>504,248</u>	\$ <u>527,337</u>	\$ <u>1,031,585</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, 2008 were as follows:

	<u>Carrying Value</u>	<u>Total Category 3</u>
U.S. Government Money Market	\$ 698,717	\$ 698,717
PLGIT	<u>601,288</u>	<u>601,288</u>
	<u>\$1,300,005</u>	<u>\$1,300,005</u>

NOTE 3 – PROPERTY TAX LEVIES

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

City real estate taxes were levied for general purposes at 33.12 mills on 100% of assessed valuation. The assessed valuation was approximately \$62.3 million for the 2008 levy.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS
(continued)

NOTE 4 – LONG-TERM DEBT

Changes in Long-Term Debt

Changes in the City's long-term debt during 2008 were as follows:

	<u>Balance</u> <u>December 31, 2007</u>	<u>Payments</u>	<u>Balance</u> <u>December 31, 2008</u>
General Obligation Bonds, 1998	<u>\$2,400,000</u>	<u>\$(90,000)</u>	<u>\$2,310,000</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, 2008, \$2,310,000 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>
2009	\$ 100,000	\$ 111,623	\$ 211,623
2010	105,000	106,959	211,959
2011	110,000	101,930	211,930
2012	110,000	96,650	206,650
2013	120,000	91,130	211,130
After	<u>1,765,000</u>	<u>530,125</u>	<u>2,295,125</u>
	<u>\$2,310,000</u>	<u>\$1,038,417</u>	<u>\$3,348,417</u>

NOTE 5 – CAPITAL LEASES

The City has one capital lease obligation as of December 31, 2008. The capital lease for the fire truck has a total cost of \$184,525. This capital asset is not accounted for on the governmental funds balance sheet/statement of net assets (cash basis) due to the City reporting on the cash basis.

The following is a schedule of future minimum rental payments under these leases at December 31, 2008:

<u>Fiscal Year</u> <u>Ending December 31,</u>	<u>Balance</u>
2009	\$ 24,385
2010	24,385
2011	24,385
2012	24,385
Total minimum lease payments	97,540
Less: amount representing interest	<u>(11,718)</u>
Present value of future minimum lease payments	<u>\$ 85,822</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 the Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165. Neither single-employer plan issues separate audited financial statements.

As of January 1, 2007, 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	3
Retirees and beneficiaries receiving benefits	9	22	4
Terminated plan members with vested or deferred benefits	2	-	-

Contributions and Funding Policy

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

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

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

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

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 6 – PENSION PLAN (continued)

	Non-Uniformed	Police	Firemen
Annual pension cost	N/A	\$217,836	\$24,145
Contributions made	N/A	\$269,560	\$32,838

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	-
	12/31/2006	N/A	N/A	-
	12/31/2007	N/A	N/A	-
	12/31/2008	N/A	N/A	-
Police	12/31/2003	-	N/A	-
	12/31/2004	\$115,284	100%	-
	12/31/2005	\$113,938	100%	-
	12/31/2006	\$129,377	100%	-
	12/31/2007	\$213,493	100%	-
	12/31/2008	\$217,836	100%	-
Firemen	12/31/2003	\$ 5,327	100%	-
	12/31/2004	\$ 19,077	100%	-
	12/31/2005	\$ 19,942	78%	-
	12/31/2006	\$ 20,489	100%	-
	12/31/2007	\$ 24,103	100%	-
	12/31/2008	\$ 24,145	100%	-

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, 2008, six retirees benefited under this plan, and \$42,237 in premiums was paid on their behalf. All other retirees must reimburse the City 100% of the premiums paid on their behalf.

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

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 2008, the City made no contributions to the Authority. City management does not anticipate any contributions being required in the future.

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
2009	\$ 315,000	\$ 9,218	\$ 324,218
2010	325,000	10,485	335,485
2011	330,000	11,550	341,550
2012	350,000	12,520	362,520
2013	360,000	13,418	373,418
After	<u>1,785,000</u>	<u>72,649</u>	<u>1,857,649</u>
	<u>\$3,465,000</u>	<u>\$129,840</u>	<u>\$3,594,840</u>

The City also guarantees four PennVest Loans (2008 PennVest Loan, outstanding balance of approximately \$599,952 at December 31, 2008, 2006 PennVest Loan, outstanding balance of approximately \$100,257 at December 31, 2008, 2002 PennVest Loan, outstanding balance of approximately \$472,654 at December 31, 2008 and 1989 PennVest Loan, outstanding balance of approximately \$9,937 at December 31, 2008) of the Authority. Monthly payments of principal and interest on the 2008 PennVest Loan are \$19,455 through the first 5 years and \$21,316 thereafter, until 2028. Interest-only monthly payments are being made at a rate of 1.27% on the 2006 PennVest loan. Monthly payments of principal and interest to be made by the Authority are \$3,302 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, 2008:

	Balance at January 1, 2008	Payments	Additions	Balance at December 31, 2008
Loan #1	\$ 1,331	\$ -	\$ -	\$ 1,331
Loan #2	74,950	-	-	74,950
Loan #3	106,214	(42,067)	-	64,147
Loan #4	-	(721)	13,707	12,986
Loan #5	<u>-</u>	<u>(35,897)</u>	<u>256,000</u>	<u>220,103</u>
	<u>\$182,495</u>	<u>\$(78,685)</u>	<u>\$269,707</u>	<u>\$373,517</u>

CITY OF JEANNETTE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

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.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Several lawsuits 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 claims 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 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	-
1/1/2006	N/A	N/A	N/A	-	N/A	-
1/1/2007	N/A	N/A	N/A	-	N/A	-
1/1/2008	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%
1/1/2006	N/A	N/A	N/A	-	N/A	-
1/1/2007	\$ 6,332,222	\$ 7,709,913	\$ 1,377,691	82.13%	\$ 893,985	154.11%
1/1/2008	N/A	N/A	N/A	-	N/A	-
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%
1/1/2006	N/A	N/A	N/A	-	N/A	-
1/1/2007	\$ 774,173	\$ 938,845	\$ 164,672	82.46%	\$ 150,393	109.49%
1/1/2008	N/A	N/A	N/A	-	N/A	-

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%
2006	N/A	N/A	N/A	N/A	N/A	N/A
2007	N/A	N/A	213,493	100%	24,103	100%
2008	N/A	N/A	217,836	100%	24,145	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-uniform</u>	<u>Police</u>	<u>Firemen</u>
Actuarial valuation date	1/1/2003	1/1/2007	1/1/2007
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Asset valuation method	Fair Value	4-Year Smoothing	4-Year Smoothing
Remaining amortization period	13 Years	21 Years (aggregate)	40 Years (aggregate)
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**



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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, 2008, and have issued our report thereon dated August 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, referenced as 2008-01 and 2008-02, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-02 to be a material weakness.



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Compliance and Other Matters

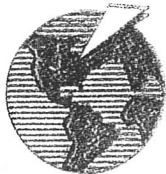
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination 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 August 10, 2009.

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

Greensburg, Pennsylvania
August 10, 2009



Malin, Bergquist & Company, LLP

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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, 2008. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City'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, 2008.

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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.



Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended for the information and use of the City Council, 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

Greensburg, Pennsylvania

August 10, 2009

CITY OF JEANNETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the general purpose financial statements of the City of Jeannette.
2. One material weakness and one significant deficiency relating to the audit of the financial statements are reported in the general purpose financial statements.
3. No instances of noncompliance material to the financial statements of the City of Jeannette are reported.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the general purpose financial statements.
5. The auditors' report on compliance for the major federal award programs for the City of Jeannette expresses an unqualified opinion on all major federal programs.
6. 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 14.239.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Jeannette was determined to be a high-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

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

Significant Deficiency:

2008-01: Segregation of Duties

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

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

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

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

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

Management Response: Management is aware of the lack of effective segregation duties in certain key accounting areas and has begun separating some duties as it relates to the cash receipts, cash disbursements and payroll functions. Management will continue to look to separate duties in these areas going forward in the most cost-effective manner.

CITY OF JEANNETTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008
(continued)

Material Weakness:

2008-02: Financial Reporting

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

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

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

Cause of Condition: There are currently no effective controls in place to properly monitor the financial activity within the City's various funds. Additionally, there is an overall lack of effective communication with those involved in the City's financial reporting process.

Recommendation: We recommend that the City implement certain controls to improve oversight of financial activity and to improve the effectiveness of the financial reporting process.

Management Response: Management is aware of the deficiencies in the City's oversight and financial reporting process and will be proactive in the coming year to implement internal controls that would improve this process.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None